

## INTERPRETING FRIEDMAN'S VIEW OF BUSINESS

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The purpose of this edition of the journal is to take a shot at the functional specialty interpretation. It really is a shot in the dark, although I am in good company with the other contributors to this edition. I feel as though my beginning is very tentative. I have been trying to get a sense of what interpretation would mean as part of a functional specialist collaborative effort, and it is hard to imagine, in a way, because we are not there yet. So, this is an effort at a beginning, which involves my own uncertainty.

I have decided to focus this discussion on the famous article by Milton Friedman, "The Social Responsibility of Business is to Increase Its Profits."<sup>1</sup> This article was originally published in 1970 and has been reproduced in many sources since then. So the article is over 30 years old. However, the perspective that Friedman promotes in this article is one that is still very much a part of discussions about business, business ethics, and ethics and economics. It seems legitimate to me to try to get an insight into some of Friedman's insights and oversights.

The structure of the articles in this edition has its basis in Bernard Lonergan's discussion on hermeneutics in Chapter 17 of *Insight* and on interpretation in Chapter 7 of *Method in*

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<sup>1</sup> Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *The New York Times Magazine* (Sept. 13, 1970). This article has been reprinted in a number of sources. See Deborah C. Poff and Wilfrid J. Waluchow, eds., *Business Ethics in Canada*, 3rd ed. (Scarborough, ON: Prentice Hall Allyn and Bacon Canada, 1999) 43-47.

*Theology*. I will limit my references to these sources, although this discussion will need further theoretical reflection in light of Lonergan's broader vision.

### 1) Personal Context I

I am taking seriously the insights of Lonergan and of feminist scholars in beginning with my personal context. With this beginning, I am attempting to give you a sense of the vision and the viewer that will be guiding this effort to understand Friedman's perspective. I suppose this is a personal quest, in a way, in that I have been spending some time trying to understand Lonergan's view of the economic order and its processes. So it involves my academic pursuits. But also, perhaps more personally, I am trying to offer a perspective about ethics and economics that would help people to take control of these processes and would allow for a shift to improving the standard of living of many people.

I am starting to realize that a democratic control of the economy and a shift in the standard of living of the planet has to involve some very serious and, at times, tedious work to understand what economies are, what makes economies work well, and what makes economies fail. Without this work, we cannot solve the problems that we face, and we cannot recognize the difference between progress and decline, even when many lives have been destroyed.<sup>2</sup>

So the progress and decline of the economic order is part of this discussion. But for me, it is a matter of human lives being lived more fully. This is the theological angle to my

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<sup>2</sup> What I have in mind is the effects of IMF and World Bank structural adjustment programs in the "developing" countries of Africa, Asia, South and Central America, and elsewhere. However, this misguidedness is not so far from my home. In a recent conversation with my father, who is a fisher in Nova Scotia, he voiced his frustration about ongoing meetings with government bureaucrats and his fishing association. His feeling was that they were not interested in hearing from the people whose lives are directly affected by the decisions made by these department officials. See Michel Chossudovsky, *The Globalization of Poverty* (London: Zed Books; Halifax: Fernwood, 1998); Kevin Arsenault, "Babylon Revisited: CED and the Economic Injustice of Our Time," in *From Corporate Greed to Common Good: Canadian Churches and Community Economic Development*, ed. Murray MacAdam (Ottawa, ON: Novalis, 1998), 29-45.

perspective. Of course, Lonergan offers us much in this respect, and I cannot begin to address his insights into the supernatural solution to the problem of decline. However, it is part of my perspective that we are not alone in this effort to work toward progress. So, our part of the job is to understand and live out a massive collaborative shift in strategy. Here's a first step.

## 2) Content

Friedman writes his article in a frank style that can be understood as a reaction to what he considers to be a dangerous direction that business people and economists were taking in the 60's and 70's and have carried forth to some extent to the present. This direction is one of making and following through on the claim that businesses have some kind of social responsibility, beyond their basic purpose, which for Friedman is understood as profit-making. For Friedman, the ultimate danger of this direction of thinking in business and economics is the gradual handing-over of control of business and the economy to government. He claims that following this direction is giving in to "the intellectual forces that have been undermining the basis of a free society these past decades."<sup>3</sup> Friedman goes on to criticize the "analytical looseness and lack of rigor"<sup>4</sup> of the positions claiming this doctrine of the social responsibility of business. Friedman attempts in the rest of the article to bring some clarity to this doctrine by way of discussing what this doctrine means and who it implicates. In doing so, Friedman puts forth a precise vision of business and of society that is the real basis of his opposition.

Friedman attempts to illustrate the problems with the doctrine of the social responsibility of business by focussing on the role of corporate executives. For Friedman, corporate executives, in their roles, have responsibilities, and they are two-fold. First, the corporate executive is responsible to his/her employers, who are mainly boards of directors and major shareholders (Friedman uses the term "stockholders"). Second, the corporate executive is responsible to society, but in the

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<sup>3</sup> Friedman, 43.

<sup>4</sup> *Ibid*, 43.

restricted sense of following basic rules and laws.<sup>5</sup> Of course, outside of his/her role as corporate executive, that is as a person, he/she has other responsibilities, such as to family, community, and other voluntary arrangements. In these cases, the person acts as an individual making his/her choice about contributing to certain projects or activities, and using his/her own money and time. However, if the person, as corporate executive, acts out of a sense of social responsibility, then the person is not doing his/her primary responsibility in that role, which is serving the interests of his/her employer.

The choice by the corporate executive to act for social responsibility, for Friedman, is a choice to disregard the interests of his/her employers. Concern for the poor and for the environment, for example, are not the direct interests of the business. So, if the executive directs business decisions and policies in ways that benefit the poor and the environment, then he/she is making a decision that will affect the income and output of the business. For Friedman, in effect, the executive is spending someone else's money. "Insofar as his actions in accord with his 'social responsibility' reduce returns of stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money."<sup>6</sup> For Friedman, the executive should be making more money for these parties, especially the employer, rather than spending it.

What Friedman sees the executive doing when acting out of this sense of social responsibility is, in effect, taxing the employers, consumers, and workers, and distributing the taxation according to his/her concerns. This idea of effective taxation raises two issues for Friedman. First, taxation is meant to be a function of government, which makes its decisions based on the public interest and is elected by the public. Second, the executive is not an elected public servant, but a private employee. So an executive acting out of social responsibility is not doing his/her job as a private employee and, furthermore, is acting as though he/she were publicly

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<sup>5</sup> *Ibid.*, 44.

<sup>6</sup> *Ibid.*, 44.

sanctioned to do so.

For Friedman, the critique of the doctrine of social responsibility is based on the threat that it poses to what Friedman calls the “foundations of a free society.”<sup>7</sup> What is a matter of social responsibility is for private business to be left alone, so that it can operate without interference to do what it should do – make money by way of profits and jobs. This freedom allows a further freedom for individuals to make their own personal choices about social responsibility, that are separate from the choices that involve private business. If the public comes to a consensus about interests that are common, then these will be a matter for a democratically elected government to address. However, the external force of government must not interfere with the free market system so as to effectively control it. This, for Friedman, is the real threat of socialism, which he thinks grounds the doctrine of social responsibility. For Friedman, the free market system works because it allows cooperation without coercion. This reflects Friedman’s view of society: “Society is a collection of individuals and of the various groups they voluntarily form.”<sup>8</sup> Only in certain situations is there a need for a political mechanism to oversee or manage this otherwise free cooperation. But this intervention should be extremely limited; otherwise the freedom is gone.

So, for Friedman, the social responsibility of business is to increase its profits, and to follow a basic minimum of social laws and rules. He condemns those who would impose a taxation on stockholders, customers, or workers, by making choices to serve the broader public interest. He identifies as border-line frauds those business people who make advances to social responsibility in order to gain community or public favour in an effort to serve their own self-interest (even though he can only go so far with this criticism). And he challenges the short-sightedness of business people who seem willing to hand over the control of the economy and essentially of their businesses to government bureaucrats.

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<sup>7</sup> *Ibid.*, 47.

<sup>8</sup> *Ibid.*, 47.

### 3) Context

This discussion is being guided by the sketch of a method of interpretation outlined by Lonergan in chapter 17 of *Insight* (CWL 3, 603). However, the content and context indicated in this discussion is only a first effort, which does not come close to the rigorous standards that Lonergan's sketch offers. There Lonergan states that an interpreter must "work out a hypothetical pure formulation of Q's context and the content of Q's message" (602). The context that I will presently outline is limited and points toward a fuller context of Friedman's view. Such a full contextualization would look something like the effort by Frederick Lawrence in his "Editors' Introduction" to Lonergan's *Macroeconomic Dynamics: An Essay in Circulation Analysis* (CWL 15, xxv-lxxii). This introduction gives a fuller context of Lonergan's essays on economics, but also it gives a context for what is an important feature of Friedman's view. This key feature is the idea of self-interest and the context of economic and political liberalism. As Lawrence states, "Liberals try to solve the problems of individual and social autonomy by speaking about 'interest': pursuing one's own interest, enlightened self-interest, the public interest, and so on.... The implication of the term 'interest' is that pursuing one's interest is more in accord with the public interest than acting in the name of the common good.... Even liberals have to acknowledge that 'interest' needs to be 'enlightened' or 'rightly understood,'... This has tended to mean calculating how looking out for someone else's interest might be to one's advantage" (lxx) Although Friedman reacts to those "fraudulent" business people who use claims of social responsibility for their own advantage,<sup>9</sup> his view is firmly situated in the liberal economic and political traditions of viewing economics as the pursuit of self-interest and of society as a series of social contracts entered into freely by individuals in an effort to guarantee their own interests.<sup>10</sup>

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<sup>9</sup> Friedman, 47.

<sup>10</sup> A body of literature has developed around the discussion of self-interest and the contract theory of society in economics. Some of that literature has come from the Catholic Social Teaching tradition on the common good. See S. A. Cortright and Michael Naughton, eds., *Rethinking*

Loneragan gives a broader sense of the context of liberalism in his earlier work in economics, *For a New Political Economy* (CWL 21). There he indicates that the work of early political economists in the liberal tradition had its insights and its sense of the good, but their vision lacked a strong explanatory analysis and an ethical framework that could take them beyond narrow views of interest, of economic order, and of society. Loneragan admired the democratic spirit and creativity of early political economists, in contrast to the trends of socialism, communism, and fascism that he was seeing in the early 1930's, and to the tamer government intervention emerging with Keynes. "What, then, was the secret of the old political economists? How did they manage to create a new order through democracy? Obviously it was because they could speak to democracy. Because their whole doctrine could be synthesized in slogans. Because they could issue the imperatives of thrift, enterprise, laissez faire, intelligent self-interest. Because they could convince anyone who counted that their imperatives led to the best of all possible worlds" (4).

But for Loneragan, the old political economists promoted economic perspectives that were also mistaken. Loneragan states that for traditional economics, "the ultimate premises are not production and exchange but rather exchange and self-interest, or later, exchange and a vaguely defined psychological situation" (42). He's referring here to the focus on preferences, price theories, etc., which overlooked the actual functioning of the productive process. Loneragan is not alone in this criticism of traditional and mainstream economics. For instance, Nicholas Kaldor criticizes the misdirection of economics since Smith with its focus on equilibrium theory and prices.<sup>11</sup> Without an analysis of productive process, which Loneragan provides in his macroeconomic analysis by identifying two flows of productive activity and concomitant monetary flows, there is no explanatory basis for going beyond the notion that

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*the Purpose of Business: Interdisciplinary Essays from the Catholic Social Tradition* (Notre Dame, Ind.: U of Notre Dame P, 2002).

<sup>11</sup> Nicholas Kaldor, "The Irrelevance of Equilibrium Economics," *Economic Journal* 82 (1972): 1240-41.

the purpose of business is to pursue profit. In fact, there is no explanatory basis for understanding what profit is and how it functions in an economy.

I have to note now that the context that I am presenting as Friedman's includes views that Friedman would not accept as legitimate. This might seem to be a matter more suited to the functional specialty "dialectics." However, part of the function of interpretation is to hand on insights to historians of economics. In doing so, the interpreter is part of the cycle of collaboration that is the movement forward of the eight functional specialties. So, a broader view of theory and history is part of the context for the insights that the interpreter hands forward. As an interpreter, I am putting forth my understanding of Lonergan's insights, along with Friedman's insights, and that allows for a broader context for interpretation.

As Lonergan notes, the old political economy, with its insights and its errors, was corrected by mainstream economics.

Economics corrected political economy not by moving to the more general field, and so effecting the correction without losing the democratic spirit of the old movement, but by staying on the same level of generality and by making up for lost ground by going into the more particular fields of statistics, history, and a more refined analysis of psychological motivation and of the integration of decisions to exchange. (*CWL* 21, 7)

Friedman's view is grounded in this idea of the importance of the democratic spirit of the classical economists, but the democracy that Friedman promotes is one of individuals consenting to contractual relationships in order to satisfy interests. The shift to a "more general field" would involve an explanatory theory that would provide a very different view of what goes on in productive activity.

A more general field of economics would include a broader view of what happens in business. Friedman puts forth the image of a corporate manager who is an agent for the shareholders and whose job is to increase returns to

shareholders. However, others have identified the much broader role of cooperation and collaboration in business as serving not only the interests of the business, but also the interests of society.<sup>12</sup> Friedman's reaction to the "social responsibility" of business is based mainly on the pervasive liberal view of interests and the concern that any move by business toward social responsibility opens the door for the control of the economy by government, which he views as a support of socialism and a threat to democracy.<sup>13</sup> Lonergan is aware of this context and the reality of government interventions, but Lonergan has a different view of the problem.

The age of corporations begins. It reorganizes industry. It organizes labor. It reaches out to tame the individualism of small producers of basic materials for world markets, producers of wheat, of cotton, of coffee. It forms cooperatives to link in united fronts of monopolists and monopsonists little sellers and buyers of any description. Issues cease to be merely economic. They are also political in a stretch of legislation that began with the Factory Act and does not culminate even with Social Security. For such a growth of political interference has its premise in the inadequacy of competition and fluid prices to meet economic issues. It cannot but continue until it absorbs the whole sphere of economics or, alternatively, until economics finds a new charter. (CWL 21, 195)

For Lonergan, the "new charter" must involve the "more general field" that is an explanatory analysis of productive activity and the circulation of money. For Friedman, restriction of government interference allows the economy to work as an automatic mechanism driven by the laws of supply and demand, regulated by competition, and motivated by self-

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<sup>12</sup> Helen Alford, O.P. and Michael J. Naughton, "Beyond the Shareholder Model of the Firm: Working toward the Common Good of a Business," in *Rethinking the Purpose of Business*, 27-47.

<sup>13</sup> Friedman, 47.

interest.

#### 4) Personal Context II

Back to me! Obviously, it's been my view of Friedman's content and context that you've just read (influenced by the views of others, of course). But it is important to remind readers that you are relying on the interpreter's insights and more or less authentic subjectivity to get at, in this case, Friedman's view. In the collaborative process of functional specialization, I would be relying on all of the seven other groups of specialists, along with my own group, and they would be relying on me, in an effort to get a more comprehensive view across. It is a massively complex project that this journal is trying to initiate. This complexity is hinted at by Lonergan in the shift from chapter 17 of *Insight* on interpretation to the functional specialties. "See my own discussion of the truth of interpretation in *Insight*, ... and observe how ideas presented there recur here in quite different functional specialties. For instance, what there is termed a universal viewpoint, here is realized by advocating a distinct functional specialty named dialectic."<sup>14</sup> This gets at the function of functional specialization. It is a collaborative effort to reach the broadest and highest possible viewpoint in order to reach intelligent and reasonable understanding recurrently and to live out of that with a broader and higher view of what we are to do and to be.

The effort of the interpreter in functional specialization is to inform the next specialists, historians. The interpreter passes on the insights of a given economic theory or view and presents the context of these insights. So, there is the difficult problem of passing on the insights that may have arisen in a limited context. In a sense, the interpreter does not have to point out what are insights and what are oversights, as the historian will situate the view in broader conversations, highlighting its limitations. And those in dialectics will attempt to sort out positions and counterpositions. And so on.

So I find myself in the difficult position of passing on the insights of Friedman, but coming from a different context than

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<sup>14</sup> See *Method*, 153, note 1.

Friedman. My context involves my personal history and my effort to get insights into different approaches to the relationship of ethics and economics. Part of this effort has been my struggle with Lonergan's economics and his understanding of the structure of the good. Lonergan's work on ethics and his macroeconomic analysis fundamentally challenges the basic ideas that Friedman puts forth in his article, namely that the purpose of business is to make a profit, and the function of profit is a return for shareholders. For Lonergan, the function of profit must be understood as part of the dynamic relations between flows of productive activity and monetary flows. This involves a distinction between two kinds of productive activity – what Lonergan calls basic and surplus levels – as well as an understanding of the phases of these activities from constant activity to minor and major expansions. In this framework, the function of profit is understood as the return on entrepreneurial activity that improves the standard of living of the entire community, and this function plays out in the relations of the levels of productive activity and their phases. This is how Lonergan understands profit to function in his analysis as a “social dividend.”<sup>15</sup>

As for the purpose of business, Lonergan's work can be seen as part of the Catholic social tradition of the common good, but in a way that takes this tradition beyond its early classical limitations.<sup>16</sup> Lonergan's understanding is in contrast

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<sup>15</sup> For a discussion of the “social dividend,” see “The Cycle of Basic Income,” 133-144, “The Cycle of Pure Surplus Income,” 144-156, and Lawrence, “Editors' Introduction,” lxiv, *CWL* 15.

<sup>16</sup> Patrick H. Byrne, “Jane Jacobs and the Common Good,” in *Ethics in Making a Living: The Jane Jacobs Conference*, ed. Frederick Lawrence (Atlanta, GA: Scholars P, 1989), 170. Byrne states that the common good is difficult to pin down, as it's had different meanings in different contexts, but he notes that Jacobs' work, which is complementary to Lonergan's, offers a contribution to a dynamic understanding of the common good, in contrast to the static, classical understanding. Although Byrne states that the notion of the common good has disappeared from contemporary discussions given predominant views about individualism, there have been efforts to bring the common good back to the table. Some of the more familiar attempts have included the US Bishops' letter, *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy*

to the view of political and economic liberalism and its focus on “interest,” and to the collectivist views of the socialism of the early 20<sup>th</sup> century.<sup>17</sup> Lonergan’s understanding of the common good can be seen in his framework of the structure of the good, which is set in the broader context of the dynamics of history.<sup>18</sup> In Lonergan’s framework, business involves recurrent patterns of cooperation and intelligence, that function in the context of the broader patterns of productive activity and of community. Patterns of cooperation ensure that the interests of the parties involved are achieved, such as getting paid for work, having a healthy workplace, producing a quality product or service, etc. But while the initial focus may be on achieving interests, the real goal is achieving goods in common, building relationships and communities, and fostering values.<sup>19</sup> These patterns and values are as much a part of what businesses do and how businesses succeed as is increasing profit. In fact, there would be no profit to speak of if there were not complex patterns of cooperation operating. With a view of the purpose of business as producing quality products, building relationships and communities, and fostering values, we have moved quite far from the narrow view of business and the role of executives in terms of the profit motive.

Finally, regarding social responsibility and democracy, I agree with Friedman and Lonergan that the control of the economy by government bureaucracy is problematic. Although my sympathies are more with “left-leaning” political and economic analysis than with mainstream analysis, I find the

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(Washington, D.C.: U.S. Catholic Conference, NCCB, 1986); Herman E. Daly and John Cobb, Jr., *For the Common Good: Redirecting the Economy Toward Community, the Environment, and a Sustainable Future* (Boston, Mass.: Beacon P, 1989); and David Hollenbach, *The Common Good and Christian Ethics* (Cambridge, Eng: Cambridge UP, 2002).

<sup>17</sup> Again, see Lawrence, “Editors’ Introduction,” *CWL* 15, xxv-lxxii.

<sup>18</sup> Lonergan outlines his understanding of the “structure of the good,” and of progress and decline, in chapter 2 of *Method*, 47-55.

<sup>19</sup> For a helpful discussion of Lonergan’s understanding of the structure of the good in relation to business, with an overview of shareholder, stakeholder, and common good theories of the firm, see Kenneth R. Melchin, “What is ‘the Good’ of Business? Insights from the Work of Bernard Lonergan,” *Anglican Theological Review*, 86 (2004), forthcoming.

policy directions of both inadequate. The long-term project is to allow for the reorientation of education so that generations are taught about how businesses and economies work, so that the decisions of everyone contribute to real improvements of the economy, and ultimately to the well-being of all people and of the planet.<sup>20</sup>

My effort in this discussion has been to point toward the possibility of collaboration and to contribute to a conversation about ethics and economics. The massive complexity of this direction is undeniable. This discussion has focussed on one view among the many economic views that have emerged in recent history. And I have been able to do so only in a brief and descriptive manner. Even the complexity of Lonergan's macroeconomic analysis is far beyond this discussion. But I want to draw your attention to this direction, not only as a reorienting of economics, but as part of the redirection of history. We are aiming at making life better for everyone, which might seem naive and idealistic. However, I think this is ultimately the project of life, and it's a project in which we're not alone. The massive theoretical shift and collaborative efforts are in cooperation with the hope that gets us past the brutality of the limiting views and their consequences. That hope has its source within and beyond us.

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Comments on this article can be sent to  
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<sup>20</sup> For a discussion linking economics and ecology, see Herman E. Daly and John Cobb, Jr., *For the Common Good*.