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How Liberals Opened the Door to Libertarian Economics

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On September 13th, 1970, the New York Times Magazine published an essay by Milton Friedman entitled "The Social Responsibility of Business Is to Increase Its Profits," which turned out to be one of the most influential economic arguments of the century.

To mark its 50th anniversary, DealBook and the Times Magazine assembled experts including chief executives, Nobel Laureate economists and top think-tank leaders to debate and dissect the legacy of Friedman's ideas. Here, Kurt Andersen considers how a wonkish 3,000-word essay on economics altered a country's course — and its character.

Until the 1960s, when Milton Friedman was in his 50s, pretty much the only people who'd heard of him were other economists and a few of his fellow right-wingers. As a young University of Chicago professor in 1951, he was awarded one of the first John Bates Clark Medals that biennially anointed a young economist as a star of tomorrow, but his extreme free-market libertarianism remained outré. Only after the Republicans' right-wing 1964 presidential candidate, Barry Goldwater, recruited him as an adviser did Friedman become newsworthy, an intriguing weirdo suddenly vaulted into the vicinity of power.

The thrust of a 1964 Times primer on him was summed up in the quotes from a single anonymous economist: Friedman was "brilliant" and "enormously articulate," sure, but also an "utterly irresponsible" zealot who "doesn't give advice that anyone would follow." He thought unions were bad, business shouldn't be regulated, the Federal Reserve should be phased out, the proposed Medicare program would be a socialist nightmare. The New Deal, enacted when Friedman was in his 20s (and working for the F.D.R. administration), and out of which our well-functioning, prosperous postwar political economy grew, was, in his view, America's great wrong turn. Goldwater proposed stopping the "cancerous growth of the federal government," for starters, by means of a huge 25 percent cut in corporate and personal income taxes — a plan reportedly drafted for him by Friedman, whose ideas another Times article in 1964 called "radical" and possibly "more extreme on many issues than Senator Goldwater himself."

When Goldwater lost the presidency by a historic landslide to the social-democrat Democratic incumbent, Lyndon Johnson, the takeaway was that these Chicago-school dead-enders' anachronistic ideas had been definitively rejected by the American people.

But the great zeitgeist shift of the 1960s was dawning and would soon destigmatize libertarianism (and libertinism) of every variety, including Milton Friedman's. The decade of free speech and anything-goes outlandishness made his previously outlandish economic ideas seem worthy of discussion in respectable circles. Opening the gates to such a figure made liberal gatekeepers feel more exquisitely, magnanimously liberal. Newsweek hired Friedman as a columnist in 1966, and by the end of the decade he, along with John Kenneth Galbraith and Paul Samuelson, was one of America's small handful of celebrity economists.

Friedman laid out his basic libertarian case in 1962 in his book "Capitalism and Freedom" (which The Times chose not to review), but now the argument was distilled and supercharged into what I describe in my new book, "Evil Geniuses: The Unmaking of America," as a simple, righteous "cri de coeur for pure coldheartedness." In the essay, he was contemptuous of the "influential and prestigious" but squishy-minded business executives who'd come to believe — or pretended to believe — that they had any duty to decency or virtue or anything but making money and (grudgingly) obeying the law. They'd become the "unwitting puppets of the intellectual forces that have been undermining the basis of a free society," forced by America's new bleeding-heart-liberal mood to indulge "a suicidal impulse" by "preaching pure and unadulterated socialism." LOL, as nobody said then. Now, as then, the economic right reflexively, absurdly derides any moderately left policy idea — environmental regulation and Medicare in 1970, public-option health insurance and carbon taxes in 2020 — as scary, scary socialism.

In the real world, where successful businesses are operated somewhere in the broad range between break-even and absolute-maximum profitability, there was and is always leeway for being a bit unnecessarily fair and responsible — to accept slightly smaller profit margins to fulfill implicit obligations to employees, customers, communities, society at large, decency itself. But while economists still argue over Friedman's theories, his hot take 50 years ago for nonspecialists — the Friedman doctrine — turned a capitalist truism (profits are essential) into a simple-minded, unhinged, socially destructive monomania (only profits matter). In "A Christmas Carol," Scrooge is redeemed when he abandons his nasty profit-mad view of life — and his name became a synonym for miserliness. Likewise, a century later, in "It's a Wonderful Life," the banker Mr. Potter is the evil, unredeemable, un-American villain. Here was Milton Friedman telling businesspeople that they'd been tricked by the liberal elite, that Scrooge and Potter were heroes they ought to emulate.

As for government regulation, Friedman's doctrine included a heads-I-win-tails-you-lose Catch-22. Any virtuous act by businesses beyond what the law requires is simpering folly, he insists, yet according to him too almost any government attempt to regulate business is the beginning of the end of freedom and democracy. Friedman's was a reductio ad absurdum purification of what had become a well-tempered, successful, increasingly fair free-market system. His vision was to revert to a fundamentalist capitalism from which a century of systemic interventions and buffers by democratic government and norms would be removed.

Friedman was horrified by "the present climate of opinion, with its widespread aversion to 'capitalism,' 'profits,' the 'soulless corporation' and so on." Indeed, a survey-research firm that had been asking people every year if they thought "business tries to strike a fair balance between profits and the interests of the public" found the number who agreed had dropped to 33 percent in 1970 from 70 percent in 1968. (By the late '70s it had bottomed out at 15 percent.) The very same month that The New Yorker filled a whole issue with excerpts from a liberal professor's hurrah-for-revolution best seller, "The Greening of America," Friedman delivered his counterrevolutionary economic manifesto to 1.5 million Times subscribers. Yet its self-righteous, hyperbolic, screw-the-Establishment confrontationalism is also a product of that 1970 moment: While Friedman was reacting against the surging support for social justice, he did so in the spirit of the late 1960s. Two ascendant countercultures, the hippies and the economic libertarians, in 1970 one large and one still tiny, shared a new ultraindividualism as a prime directive: If it feels good, do it; follow your bliss; find your own truth; and do your own thing were just nice utopian flip sides of every man for himself. For businessmen who felt demonized by public opinion and besieged by tougher government regulation for the last few years, the militancy of the Friedman doctrine in The New York freaking Times a year after Woodstock was thrilling. And then, as now, to get what they were mainly after politically — superlow taxes, minimized regulation — they exploited the voter backlash against street protests by aggrieved, angry younger Americans.

Just as America reached Peak Left, the Friedman doctrine — and, a year later, a battle plan commissioned by the U.S. Chamber of Commerce, drafted by the corporate lawyer Lewis Powell, quoting Friedman, just before he joined the Supreme Court — became founding scripture for an economic crusade to discredit the New Deal consensus and rewrite the social contract. Democratic and liberal leaders, alas, didn't put up much of a fight. At the end of the 1970s, for instance, PBS commissioned a 10-episode series, "Free to Choose," starring Friedman and funded by General Motors, General Mills and PepsiCo. A spokesperson for the show promised it would explain to viewers like you "how we've become puppets of big government." And indeed, in that four-TV-channel era, Friedman used his noncommercial government-subsidized PBS platform to argue that the Food and Drug Administration, public schools, labor unions and federal taxes, among other bêtes noires, were bad for America. The series premiered in January 1980, just before the first Republican primaries, in which Ronald Reagan was a candidate. Of course, Reagan won the nomination and the presidency, after which Friedman patted himself on the back for his work with Goldwater and the epochal "move away from New Deal ideas." As Friedman put it in 1982, you need "ideas that are lying around" — his ideas — as ready "alternatives to existing policies," and then at a ripe moment "the politically impossible becomes politically inevitable."

Throughout big business and finance and much of conventional wisdom, the Friedman doctrine came to mean that the pursuit of absolutely maximum profit for your company and yourself trumped every other value or motive, greed-is-good definitively replacing concern for the common good. A result was an American economy and culture driven by selfishness, callousness and recklessness. Before long, a big Hollywood movie's most memorable scene was a kind of dramatization of the Friedman doctrine, Libertarian Economics for Dummies. "The point is, ladies and gentlemen," sexy Gordon Gekko told his ecstatic fellow stockholders, "that greed — for lack of a better word — is good. Greed is right. Greed works." And greed, he promised, would make America great again.

In 1976, Friedman became the first Chicago school economist to win a Nobel Prize. That same year, two members of the University of Rochester business-school faculty published a 55-page paper conceived as an operational elaboration of the Friedman doctrine. "Theory of the Firm" made righteous greed seem scientific, with equations and language of the manager's indifference curve is tangent to a line with slope equal to — u kind. Its big point was that if corporate executives are mere salarymen rather than owners of company stock, they'll overspend on "charitable contributions," get lax on "employee discipline," concern themselves too much about "personal relations ('love,' 'respect,' etc.) with employees" and "the attractiveness of the secretarial staff." It is one of the most-cited economics papers ever. The professors also wrote a shorter, more accessible follow-up that ditched the math and the pretense of scholarly neutrality: "big business has been cast in the role of villain" by "consumer advocates, environmentalists and the like," who want to spread "the cliché that corporations have 'too much' power."

"The modern understanding" of how corporate managers should run companies, an article in The Harvard Business Review declared in 2012, "has been defined to a large extent" by that original Friedman-doctrine-inspired paper from 1976. It went beyond doctrinal Friedmania that companies must absolutely maximize profit, now positing as a kind of mathematical fact that stock price, a much less objective measure, was the only meaningful corporate metric. Soon a Reagan-administration S.E.C. rule change effectively gave free rein to public companies, for the first time since the New Deal, to buy up shares of their own stock on the open market in order to jack up the price. U.S. executive pay, meanwhile, shifted from consisting mainly of salary and bonus to mainly stock and stock options. Astonishingly, stock buybacks eventually consumed most of the earnings of S&P 500 companies, as they still do. So here we are with a re-engineered system in which just the richest 10th of us have 84 percent of all stock shares owned by Americans, and a ravaged economy in which the stock market is close to an all-time high.

After victory, Friedman never stopped preaching his doctrine. At age 86 in 1998, he addressed a conference in San Jose, organized by the Cato Institute, Charles Koch's libertarian think tank, called "Washington, D.C. vs. Silicon Valley." Several months earlier the government had brought its final epic antitrust case, United States v. Microsoft, trying to prevent the latest computer monopolist from crushing smaller competitors in its quest to dominate the new internet. Back in the 1930s and 1940s, Friedman told his Silicon Valley audience, "I was a great supporter of antitrust laws," because they seemed like "one of the few desirable things that the government could do to promote more competition." However, his "views about the antitrust laws have changed greatly over time," he claimed, the disingenuousness turned up to 11, because government didn't enforce them aggressively enough, so now "we would be better off … if we could get rid of them." He told the venture capitalists and entrepreneurs that rooting for Microsoft to lose in court, as most of them undoubtedly were, "is a case that seems to me to illustrate the suicidal impulse of the business community."

That's right — 28 years after the Friedman doctrine began the paradigm shift that made U.S. big business more powerful than ever, he was still insisting, as he had in his essay, that businesspeople with any willingness to pay a price to make society more fair were indulging "a suicidal impulse." Which wasn't just untrue, but by then more like the opposite of true: After the New Deal saved U.S. capitalism from its own excesses and helped enable decades of ultraprosperity and increasing equality, the full Friedmanization of our economy for the last four decades has generated such greed-driven extremes of inequality, insecurity and immobility that the system is now on a path that looks crazily self-destructive.

Among some of the big winners, maybe that's finally beginning to become obvious. The Business Roundtable, the de facto capitalist politburo formed by the C.E.O.s of America's largest corporations in 1972, issued a new "Statement on the Purpose of a Corporation" in 2019 that effectively disavowed the Friedman doctrine. Going forward, they promised, they would "share a fundamental commitment" not just to investors looking for quick profits but "to all of our stakeholders," which "starts with compensating [employees] fairly" and "foster[ing] diversity and inclusion," and "supporting the communities in which we work," and "protect[ing] the environment by embracing sustainable practices."

Maybe it was just lip service, but Milton Friedman would be very, very disappointed.