Corporate social responsibility vs laissez-faire?

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A friend pointed me to this piece published by *Business Insider*. Apparently, here Nobel Laureate Joe Stiglitz* explains that fellow Nobel Laureate Milton Friedman has to be blamed for high inequality and weak growth. The piece reports a conversation with Stiglitz, but I would maintain it is by and large the result of journalistic simplification, as I'm sure Stiglitz would have more rigorous, and persuasive, arguments. The article reads as quite a milkshake of far wider debate on free markets vs interventionism.

I am, however, quite impressed by the fact that Stiglitz focuses his own criticism on Friedman's rebuttal of corporate social responsibility:

In his highly influential 1962 collection of essays [sic], "Capitalism and Freedom," Friedman proclaimed that in a free economy, "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud.

The idea that "the business of business is business" implies—or so says Stiglitz and/or Mr. Feloni, who summarizes Stiglitz's thoughts—a belief in the "invisible hand," meaning by it both a tendency towards equilibrium *and* the happy coincidence of private and public interests.

Leaving aside long-standing controversies on the real importance of the metaphor in Adam Smith's thought (for a summary of the previous installments, see this paper by Gavin Kennedy), is it really so? Does thinking that companies should focus on shareholder interest require a faith in unfettered competition, and vice versa?

I am not persuaded.

Misunderstanding Friedman

Friedman himself indeed wrote that in a free economy, "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits *so long as it stays within the rules of the game*."

Also, again in *Capitalism and Freedom*, Friedman indeed argued that:

It is the responsibility of the rest of us to establish a framework of law such that an individual in pursuing his own interest is, to quote Adam Smith again, 'led by an invisible hand to promote an end which was no part of his intention.'

He quoted Smith's invisible hand, but he placed the burden of allowing private interests to flourish, thereby profiting collective interests too, on the shoulders of the law. It is, in other words, *institutions* that make for the pursuit of profit to be beneficial to society at large or, on the contrary, detrimental to society at large. Heavy regulations and omnipotent functionaries are likely to give us crony capitalism, in which clearly a handful of beneficiaries tend to have a liberal access to the public purse.

We know that some influential people on the free market side are uneasy with the way in which Friedman phrased his own argument—for example, John Mackey, who has long argued for what he calls conscious capitalism. Personally, I regard these arguments more as a plea to understand the fact that the entrepreneurial experience has a richer texture than profit maximization than as a debunking of Friedman's reasoning.

But on the other hand, I think you can believe that the business of business is business without being particularly libertarian. In a way, the question is: if CEOs and entrepreneurs have a wider social responsibility, wider than making profits for stockholders, how shall they know what it is? Do they dispose of all the relevant information? They certainly make frequent mistakes even when they tend to focus on one goal (creating value for shareholders). God forbid what may happen when they need to take care of many.

The Separation of Business and Politics

If you go beyond platitudes (be nice to your employees, keep good relationships with your suppliers), answering this question is problematic and involves an unmistakable exercise of discretion. For one thing, if the CEO were prioritizing other goals over increasing shareholder value, he would *de facto* be imposing his own worldview and worries (whatever they are) on them. He would be playing a political, not a managerial role. In this sense, it doesn't change much if he does so by his own will or because it is so "nudged" by regulators. What matters is that you are using resources that are supplied to you for a certain end (generating a profit) for another.

Widening the scope of business responsibility seems to me to be largely different than applying general norms to a company's activity. In this case, we are fully consistent with Friedman's words: we may differ on what it takes to make private and collective interests compatible, but that's the game.

If, on the other hand, we want businesses to be "responsible" for other interests than their shareholders', we are, it seems to me, "privatizing" public concerns.

I've always thought that over-emphasizing corporate social responsibility was an unwilling admission on the part of the left of the government's inefficiency in fostering the goals dearer to it. So the burden gets shifted to private business.

In a sense, Friedman was simply stating the need for a separation of business and politics, not unlike the separation of state and church. Isn't that something which should be welcomed by people who care about transparency and fear lobbying and cronyism, whatever the source?

In the Feloni piece, Stiglitz does much more than this. He basically offers his own view of one century of economic (and, indeed, political) debate. I don't think the issue of business responsibility is a good focal point for that long a history.

* Note that Stiglitz discussed inequality with Russ Roberts in this 2012 EconTalk episode.

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