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Original Paper

Friedman Doctrine: Maximizing Profits is Neither Good for Society Nor Even for the Shareholders

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Abstract

This paper is an attempt at a critique of Milton Friedman's article titled: "A Friedman doctrine—The Social Responsibility of Business is to Increase Its Profits" published in the New York Times Magazine fifty years ago. The publication of this doctrine sparked a revolution. Ronald Reagan found it a powerful platform from which to launch his radical free-market agenda. The event marked a turning point when America embarked on a journey towards unfettered capitalism.

Encouraged by the Friedman doctrine American CEOs chose a path toward profit maximization/maximizing shareholder value: a mindset that favored risk aversion and a short-term focus on cost reduction vs. long-term need for innovation, quality and customer satisfaction. And it is this historic psychological shift that has contributed so much to America's industrial decline.

Economic inequality in America has been going up persistently since 1974, squeezing the middle class. America's income inequality has now widened so much that it rivals the highest level recorded in 1928 that led to the Great Depression of 1929.

Friedman's essay has three major flaws. First, it is offered as a doctrine not a theorem. Second, it is grounded in the moral philosophy of self-interest—and greed. Third, it does not distinguish between short-term and long-term shareholders.

Friedman's theory of profit maximization is too difficult, too unrealistic--and immoral.

Based on an extensive analysis, we have come to the conclusion that profit maximization is neither good for society nor even for the shareholders.

Keywords

Social compact for stakeholder governance, profitability and market share key business objectives, profit a constraint not a business objective, profit maximization too difficult, too unrealistic, and immoral, full-cost pricing, satisfactory profits, price a strategic not a tactical variable

1. Introduction

In an article published in *The New York Times Magazine* fifty years ago Milton Friedman (1970), Professor of Economics at the University of Chicago—who later won a Nobel Prize--declared that the *social* responsibility of a business is "to increase its *profits*" and "to make as much money as possible" (*italics* added).

In the 1962 edition of his book *Capitalism and Freedom* (2002), he asserted that a company had *no* "social responsibility" to the public or society, but *only* to its shareholders (Tett, 2019; Note 1).

He forcefully alleged that "social responsibility" is a "fundamentally *subversive* doctrine," and its advocates in a *free*-enterprise system are "preaching pure and unadulterated *socialism*" (Friedman, 1970; *italics* added).

1.1 The Friedman Doctrine Sparked a Revolution

And it is this doctrine that has *guided* businesses and economists for the last *fifty* years (Wolf, 2020).

Gillian Tett (2019) reports, that the essay sparked a wide *revolution*. Ronald Reagan and Margaret Thatcher found the Friedman doctrine as a powerful *platform* from which to launch their radical *free-market* agenda. Economists, such as Eugene Fama, declared that *free* markets were the *only* valid path of growth and value. Likewise, law professors, such as Lucian Bebchuk, affirmed that corporate boards had *no* right to ever overrule investors *even* if they had a short-term focus.

The publication of the Friedman doctrine represented a *turning* point. This is when economists and business leaders in America embarked on a path toward *unfettered* capitalism.

1.2 The Friedman Doctrine has led to America's Economic Decline

Encouraged by the Friedman doctrine, American CEOs set themselves on a journey toward *profit* maximization--or its counterpart maximizing *shareholder* value. This new mind-set encouraged *risk aversion* and *short-run* behavior: an accountant's *short cut* to profits, with a focus on *cost reduction* rather than *long-term* concerns about innovation, quality, and customer satisfaction (Hamel & Prahalad, 1994, chap. 1). And it was this momentous philosophical shift—from substance to *shadow*—that has contributed so much to the American industrial decline (Hayes & Abernathy, 2007).

Lower quality and *lack* of innovation played a key role in the virtual *disappearance* of U.S. companies from the consumer electronics industry, and their *loss* of world dominance in such markets as automobiles, steel and tires (Datta, 1997).

Economic *inequality* in America has been going up persistently since 1974, squeezing the middle class. America's income inequality has now *widened* so much that it rivals the *highest* level recorded in 1928 that led to the Great Depression of 1929 (Datta, 2011).

Finally, a relentless drive toward *deregulation* led to a massive *meltdown* of the financial markets in 2008: the *worst* financial disaster since the Great Depression of 1929 (Datta, 2010c).

1.3 Major Change in Structure and Philosophy of the Corporate World

According to Martin Lipton, a partner in the *law* firm of Wachtell, Lipton, Rosen & Katz (WLRK), that starting with the 1960s, the fundamental *structure*--and philosophy--of the corporate world has gone through a *dramatic* change (Lipton, 2020, p. 23).

So, before we analyze the Friedman doctrine, we need to examine the *history* of stakeholder theory, shareholder theory, and the rise of the pension and mutual funds. In addition, we need to look at the implications of the *medieval mechanistic* scientific ideology of mainstream Economics.

1.4 An Outline of the Paper's Topics

This is a long paper, and so to make it easy for the readers to navigate through it, we have divided it into *three sections* as follows:

Section I: Stakeholder and Shareholder Theory

2. Berle and Means' Stakeholder Theory of the Corporation

In 1932—three years after the *Great Depression*--Berle and Means first published their book *The Modern Corporation and Private Property* (1968). They documented *two powerful* movements: (1)

"The growing *concentration* of industry and, (2) The *separation* of ownership *and* control (McCraw, 1990).

What gave their work its *strength* was its "presentation in extended *analytical* form, through an ingenious mixture of *statistics*, highly technical *legal* argument, and *philosophical* speculation" (*ibid*, *italics* added).

Berle and Means contended that industry has become *concentrated*; that ownership has been *separated* from control.

They asserted that the American corporation has "*ceased* to be a private business device," and has become a "major *social* institution" (*ibid, italics* added).

These two trends severely *undercut* Adam Smith's--the patron saint of *free* markets, and Friedman's idol--precept of the *invisible hand* that governed, as if by magic, the workings of a market populated only by *small* individual owners during Adam Smith's time around the latter part of the eighteenth century.

Berle and Means (*ibid*) further point out that the traditional "owners"--the nineteenth century *entrepreneurs*-- had been displaced by a *faceless* horde of investors: who had "exchanged control for *liquidity*," and who were concerned *only* with *short-term* profit (McCraw, 1990; Datta, 1997, *italics* added). Berle and Means, therefore, asserted that the claims of shareholders' ownership, their *passive* property rights, and the claims of management control must *yield* before the larger interests of *society*. As such, they advocated a *pluralistic* view of the large *publicly-owned* corporation in which top management is charged with "*balancing* a variety of claims by various groups in the community and assigning to each a portion of the income stream on the basis of *public* policy rather than private cupidity" (McCraw, 1990; Datta, 1997, *italics* added).

The legal scholar Jerome Frank compared the book to Adam Smith's *Wealth of Nations*, and the historian Charles Beard to *The Federalist*. The *Nation's* reviewer called it "epoch-making," and *The New Republic* called it "epoch-shattering" (McCraw, 1990; *italics* added)

McCraw (1990) believes that Berle and Means' contribution has affected *not* just a single discipline but *all* of the social sciences. It is a *classic* that falls in the category of such works, as Veblen's *The Theory of the Leisure Class,* Tawney's *Religion and the Rise of Capitalism*, and Weber's t*he Protestant Ethic and the Spirit of Capitalism.*

Like these classics*, The Modern Corporation and Private Property* "spoke *directly* to the very nature of *capitalism*. It *etched two* powerful ideas--industrial *concentration* and the *separation* of ownership and control--into the thoughts of a *broad* body of intellectuals, and thereby gained a *permanent* place in the life of the mind" (*ibid, italics* added).

Shortly before he died in 2005, Peter Drucker was celebrated by *Business Week* as "the man who invented management" (Note 2). Drucker (1991) too, thinks that Berle and Means' work is "arguably the *most* influential book in U.S. business history" (p. 114, *italics* added; also, Datta, 1997).

Ralph Cordiner, then CEO of General Electric, made a call for a *similar* philosophy. He said that the top management of a large publicly-held corporation was a "trustee" of the enterprise whose responsibility was to manage the corporation "in the best-balanced interest of shareholders, customers, employees, suppliers, and plant community cities" (Drucker, 1991, p. 108, *italics* added). Cordiner's slogan soon became quite popular, and many American corporations incorporated it in their "corporate philosophy" statements (Drucker, 1987, p. 16).

Another critic of the shareholder theory, who was ahead of his time, was Prof. Freeman (1998), who, too, called for a *stakeholder* theory of the modern corporation.

3. The Pension and the Mutual Fund Revolution

Pearlstein (2013) of *Washington Post* wrote an article titled: "*How the cult of shareholder value wrecked American business.*" He said that by the mid-1980s companies with *lagging* stock prices became the targets for *hostile takeovers* by *rivals* or corporate *raiders* using newfangled "junk" bonds to finance their purchases. He then went on to say:

- "The mere *threat* of possible takeover imbued corporate executives and directors with a *new* focus on *profits* and *share prices*, *tossing aside* old inhibitions against laying off workers, cutting wages, closing plants, spinning off divisions and *outsourcing* production overseas" (*italics* added).

Peter Drucker (1991), too, reports that the *most* powerful *setback* to Cordiner-style management was the emergence of the *hostile-takeover* movement of the 1980s. As a result, the "survivors have been *forced* to change drastically how they manage, or at least to change their rhetoric." Drucker declares that "n*o* top management I know now claims to run its business as a 'trustee' for the 'best balanced interest' of 'stakeholders.'"

Today, adds Drucker, "nearly *all* CEOs of large U.S. companies proclaim that they run their enterprises 'in the interests of the shareholders,' and 'to maximize shareholder value'" (*ibid*, pp. 108-109, *italics* added; also, Datta, 1997).

According to Drucker (1991), the *pension funds* have been the major driving force behind this change. The rise of this new class of investors has been the result of a quiet *revolution* that has taken place in American business: the *shift* in ownership of the large *publicly-held* corporation *to* representatives of the employee class, that is, *pension* funds and *mutual* funds. In 1991, adds Drucker, these institutional investors controlled about 40 percent of publicly-traded common stock of the U.S. firms. The U.S. security laws, with their emphasis on *liquidity*, require institutional investors to *diversify* their portfolios. As a result, the ownership of company stockholdings is increasingly becoming *fragmented* (*ibid*). With a focus on *liquidity* the trustees of institutional funds therefore tend to act more as *short-term* investors than long-term owners (Bhide, 1994; also, Datta, 1997).

3.1 "Maximizing Shareholder value" has Little Staying Power

For most people maximizing shareholder value in reality means *higher* share prices *within* six months *or* a year. Drucker (1991) asserts that such short-run capital gains are the *wrong* objective: for *both* the corporation as well as the majority of its shareholders. "As a theory of corporate performance, then, 'maximizing shareholder value' has *little* staying power" (*italics* added).

Jack Welch, CEO of General Electric, has said that "on the face of it, shareholder value is the *dumbes*t idea in the world" (Denning, 2013; *italics* added).

4. Stakeholders' Welfare Justifiable on the Basis of Theory of Property

Donaldson and Preston (1995) suggest that, ironically, the stakeholder model can be justified on the grounds of the theory of *property*. The model defines stakeholders with regard to *their* legitimate interest in the corporation, rather than the other way around. The traditional view is that a focus on property rights *justifies* recognizing the dominance of shareholders' interests. However, Donaldson and Preston present the argument that the current thinking regarding the philosophy of property runs in a *counter* direction. They conclude that the "contemporary theoretical concept of property clearly does *not* ascribe unlimited rights to owners, and hence does *not* support the popular claim that the responsibility of managers is to act *solely* as agents for the shareowners" (pp. 83-84, *italics* added; Datta, 1997).

5. Delaware Law: Board of Directors Manage a Corporation to Benefit All Stakeholders

Back in the 1970s Martin Lipton was a "*lone* voice crying out in the wilderness—*decades* before anyone else"--"how *short-term* shareholder primacy would become a *destructive* force in society at large" (Georgescu, 2020).

Lipton (2020, p. 24) says he has *supported stakeholder* governance theory for *over* 40 years. He points out that in Delaware—which is the corporate *capital* of America--it is *consistent* with *Delaware* law that corporate "boards *may* exercise their *judgment* to manage for the benefit of *all* of its stakeholders over the *long term*. That it is the *corporation*, qua corporation, that commands the *fiduciary* duty of its board of directors" (*italics* added).

In a *Harvard Law School* forum on corporate governance, Horvath and Hastings (2019) *confirm* Lipton's position in this matter. They say that a "*fundamental* precept of *Delaware* law is that the *board of directors*—and *no* one else—is tasked with managing the business and affairs of a corporation. In that role, directors have *broad* discretion to exercise their business *judgment* and are presumed to act in the *corporation's* best interests."

6. A Social Compact of Stakeholder Governance

6.1 The Business Roundtable

Prof. Eric Posner (2019, Note 3) reports that in 2019 the *Business Roundtable* (BRT), a group that represents CEOs of large corporations, declared that it had *changed* its mind about the "purpose of a corporation." That purpose is *no* longer to maximize profits for shareholders, *but* to benefit other "stakeholders" *as well*, including employees, customers, and citizens (*italics* added). Prof. Posner says that Friedman was *wrong* about his "shareholder theory" because it "provides corporations with too much room to *violate* consumers' rights and trust" (*italics* added, Note 4).

Wartzman and Tank (2019) report that the latest research--based on the Drucker Institute's measure of corporate effectiveness--says that "there is a lot of truth to both of these notions."

The "181 CEOs who signed the BRT statement stack up quite well….in delivering value to a broad range of stakeholders" (*ibid*).

Jamie Dimon, CEO of JPMorgan Chase & Co.—and BRT's chairman--said the new statement on the "purpose of a corporation" "more accurately reflects how our CEOs and their companies operate," and at the same time it "will help to set a new standard for corporate leadership" (*ibid*).

6.2 A Proposed Social Compact of Corporate Governance

A social compact means a *voluntary* agreement among the members of a society to *cooperate* for common benefits. It is *not* a legal document, but a broader social *framework* for the board of directors to conduct the affairs of the corporation for the benefit of *all* stakeholders.

We could not have chosen a better ambassador outlining a social compact for stakeholder governance than Martin Lipton for whom "*stakeholder* primacy is mostly about *preserving and growing markets*. If society collapses, so do markets" (Georgescu, 2020).

Lipton (2020, pp. 22-25) says he has *supported* stakeholder governance for *two* reasons:

- First, to "*empower* boards of directors to *reject* opportunistic takeover bids by corporate *raiders*, and later to *combat* short-termism and ensure that directors maintain the *flexibility* to invest for sustainable *long-term* growth and innovation."
- Second, "corporations and their boards—consistent with Delaware law—*may* exercise their business judgment to manage for the benefit of the *corporation* and *all* of its stakeholders over the *long term*.

Lipton (*ibid*) then presents a *social compact* about the formulation of corporate *purpose* and *objective* in these words:

- *"The purpose of a corporation is to conduct a lawful, ethical, profitable and sustainable business in order to ensure its success and grow its value over the long term. This requires consideration of all the stakeholders that are critical to its success (shareholders, employees, customers, suppliers and communities), as determined by the corporation and its board of directors using their business judgment and with regular engagement with shareholders, who are essential partners in supporting the corporation's pursuit of its purpose. Fulfilling this purpose in such manner is fully consistent with the fiduciary duties of the board of directors and the stewardship obligations of shareholders."*

He suggests that this statement of corporate purpose is *broad* enough to apply to every business, but at the same time provides *clear* guideposts for action and engagement. The basic objective of *sustainable* profitability recognizes that the purpose of *for-profit* corporations *does* include creation of value for *investors*. The requirement of *lawful* and *ethical* conduct ensures generally recognized standards of corporate *social* compliance. Furthermore, the broader mandate to take into account *all* corporate stakeholders, including communities, is *not* limited to local communities, but comprises *society* and the *economy* at large and directs boards to use their business *judgment* within the scope of this *broader* responsibility (*ibid*).

The requirement of regular *shareholder* engagement acknowledges *accountability* to investors, but also the *shared* responsibility of shareholders for responsible *long-term* corporate stewardship. In essence, this is *The New Paradigm* for corporate governance issued in 2016 by the *World Economic Forum* (*ibid*).

Finally, Lipton believes, that *most i*mportant of all, *The New Paradigm* will *avert* the need for legislation regulating corporations and institutional investors and asset managers that would quickly lead to *state corporatism* (*ibid*).

6.3 How to Resolve the Conflicts between the Interests of Stakeholders?

The stakeholder model is obviously much more complex than the shareholder model which offers a very simple solution to the problem. However, to *reconcile* the interests of various stakeholders requires *judgment* (Mintzberg, 2004, p. 154): but that is of-course an *essential* everyday part of being a *manager*, as we have indicated in section 16.

Section II: Key Business Objectives

7. Profitability and Market Share Key Business Objectives

Profitability and market share are generally regarded as the *most* important business objectives (Datta, 1997). Profitability is defined as a rate of return on investment (ROI). It is important to point out that *profit* as a measure of performance in Friedman's scheme of things is only a *partial* measure. On the other hand, profitability is a far *superior* measure of financial performance.

7.1 Importance of Market Share in Long-term Success

Drucker (1992, pp. 8, 10) argues that in today's global competition the goal of an enterprise should be maximization of *market share*, *not* the traditional short-run "profit maximization." The Japanese, according to Drucker, understand very well that in a global market, what matters is the *total* return over the *lifetime* of the investment—a very long period indeed. But, such a return over time depends upon "monopolizing market share."

According to Buzzell, Gale, and Sultan (1976), it is now *widely* recognized that one of the *major* determinants of business profitability is *market share*. They say that most corporate executives and consultants now recognize this relationship. They report that this fact is clearly *demonstrated* by a project undertaken by the Marketing Science Institute on the *Profit Impact of Market Strategies* (PIMS).

8. Drucker's Framework for Defining Business Purpose and Key Objectives

8.1 Purpose of a Business is to Create a Customer

In his classic book, *The Practice of Management*, first published more than 66 years ago in 1954, Drucker (1961, pp. 29-30; also, Datta, 1997) made a statement that was rather *startling* at that time. He said that the purpose of a business is to *create* a customer. He presented the following arguments about what the purpose of a business *should* be:

- "If we want to know what a business is we have to *start* with its purpose. And its purpose must lie *outside* of the business itself. In fact, it must lie in *society* since a business enterprise is an *organ* of society. There is only *one* valid definition of business purpose: to create a customer."
- "It is the customer who determines *what* a business is.... What the customer thinks he is buying, what he considers 'value,' is *decisive*—it determines what a business is, what it produces and whether it will prosper."
- "The customer is the *foundation* of a business and keeps it in existence. He alone gives employment. And it is to supply the consumer that *society* entrusts wealth-producing resources to the enterprise" (*italics* added).

One important point that Drucker is making deserves attention. And that is that the purpose of a business must lie *within* society. And *contrast* that with Friedman's doctrine that is offered in a societal *vacuum,* as we have shown later in section 17.3.

Drucker also recognizes *marketing* as the *first* entrepreneurial function, and *innovation* as the second.

8.2 Drucker's Key Objectives of a Business

Drucker (1987, 1991) argues that the major *shortcoming* of the stakeholder theory was that it did *not* address the issue of management *accountability*. So, he says the *objective* of a business should be to:

- "Maximize the *wealth-producing* capacity of the enterprise." This objective *integrates* short-term and long-term results, and *ties* together the *operational* needs of a business with its *financial* results (1991, pp. 1-2; also, Datta, 1997).

Drucker (1991) identifies *four* major objectives to *operationalize* this idea:

- Market standing (market share)
- Innovation
- Productivity, and
- Human Resource Development

9. Igor Ansoff's Practical System of Objectives

According to Ansoff (1988, p. 35; Note 5), the *central* objective of a business is p*rofitability*: Maximize the R*ate of Return* on *Investment*—*ROI.*

He suggests that in order to ensure its survival and success, a firm must *optimize* the *efficiency* of its resource *conversion* process. Ansoff has selected the *average* rate of return on *stockholder equity* (*ROI*) over the company's *time horizon* as a measure of this *long-term* goal (*ibid,* p. 33).

Ansoff (1988, p. 36) divides the time horizon in *two* periods: (1) The *proximate* period extends to the planning horizon (*three* to *five* years), and (2) The *long-term* period from the planning *to* the time horizon which can be very long.

It is important to understand how *salient* this distinction really is. Ansoff argues that while efforts to forecast or measure ROI over the *planning horizon can* be made with *reasonable* accuracy, accurate forecasts and measurements *cannot* be made for the *long-term* period (*ibid*).

Ansoff (1988, p. 39), therefore, suggests that *instead* of making *futile* efforts to measure long-term ROI directly, it is *better* to do it *indirectly* by focusing on *those* characteristics--the *real* drivers--that help achieve the *ultimate* goal of optimizing a firm's ROI over the *long haul*.

9.1 Long-term Objectives

Ansoff (*ibid*, p. 39) has therefore proposed a *practical* system of objectives that include *seven* such *indirect* or *proxy* goals:

- To maintain current market share
- To increase market share
- Growth in earnings to provide resources for reinvestment
- Growth in earnings per share to attract new capital
- Addition of new products and product lines
- Increase in customer population
- Absence of excessive seasonal and cyclical fluctuations in sales and earnings.

9.2 The Key Objective of Flexibility

In an *uncertain* world, there may be events whose probability occurrence might be *low*, but *if* they did happen, they could have a *majo*r impact on the corporation as whole. The effect could be *negative* like a catastrophe, or *positive* like a breakthrough (Ansoff, 1988, pp. 41-42).

So, to address this problem Ansoff suggests that we should add to the firm's master-list of objectives an objective of *flexibility.* Flexibility can be of *two* kinds: *external* and *internal*.

Internal flexibility calls for *liquidity* of *internal* resources (*ibid*).

Ansoff says the best way to describe *external* flexibility is *not* to put all of one's eggs in a single basket. *External* flexibility may be *aggressive* or *defensive* or both (*ibid*, p. 42).

While Ansoff's flexibility objective is grounded in the *real* world of an environment that is *dynamic* and *ever- changing*, the Friedman doctrine is based on the foundation of a *static* environment that does *not* therefore need to recognize uncertainty: as we have shown in section 17.2.

10. Need for a New Business Challenge

10.1 Profit a Constraint Not the Purpose of a Business

Drucker (1974, pp. 71-73, 114) points out, that profit is *not* the purpose of a business, but only a *constraint* on its operation. This constraint is the *minimum* profit—the cost of capital—that every business *must* earn for its survival. Levitt (1986), too, does not consider profit to be a meaningful expression of corporate purpose. He says this is like saying "that the purpose of life is to eat. Eating is a requisite, *not* a purpose of life. Without eating life stops…. Without profits, business stops" (Datta, 1997).

10.*2 From a Transaction or Contractual Orientation to Relationship Focus*

Drucker (1995) says that Womack and Jones (1994), the coauthors of *The Machine That Changed the World*, make a *persuasive* argument for managing costs along the *entire* economic chain. They suggest that the concept of a company based on *legal* boundaries has become *obsolete* in today's global competition, now increasingly being driven by the Japanese-originated system of *lean* production. They suggest a transition from *lean* manufacturing to the *lean enterprise*: a *network* of producer, customers, and suppliers *closely* linked in a *common* chain as *one* economic whole.

Kotler (1991, p. 1) adds that the traditional *transaction*-based approach has a *short-term* focus on sales. Since such a system does *not* build customer loyalty, so price sensitivity is *high*. In contrast, *relationship* marketing has a *long-term* outlook. Price sensitivity is *lower* because it builds customer *loyalty* "by adding value all along the way" (Datta, 1997).

10.3 Government and Business Must Build America's Industrial Commons

Pisano and Shih (2009) argue that America's economic decline of the 1980s and early 1990s didn't really disappear. "It was just *hidden* during the bubble years behind a *mirage* of prosperity, and all the while the country's industrial base continued to *erode*."

Thanks, in a large measure to the Friedman doctrine, for decades, U.S. companies have been *outsourcing* manufacturing to *save* costs on the belief that manufacturing *at home* held *no* competitive advantage. But that has been a *disaster*, because *today's* low-value manufacturing operations contain the seeds of *tomorrow's* innovative new products. What those companies have been *ceding* is the country's *industrial commons* --that is, the *collective* operational capabilities that support *new* product and process development in the U.S. industrial sector. Consequently, America has *lost* not only the ability to develop and manufacture *high-tech* products--like televisions, memory chips, and laptops--but also the *expertise* to produce *emerging* hot products like the *Kindle e-reader, high-end servers, solar panels*, and the *batteries* that will power the next generation of automobiles (*ibid*).

Centuries ago, "the commons" referred to the *land* where *animals* belonging to people in the *community* would graze. As the name implies, the commons did *not* belong to any one farmer. *All* were better off for having access to it (*ibid*).

Industries, *too*, have commons. A *foundation* for innovation and competitiveness, commons can include R&D know-how, advanced process development, engineering skills, and manufacturing competencies related to a *specific* technology (*ibid*).

To *rebuild* the commons--and *restore* its wealth-generating machine--will call for government *and* industry in America to make *two* radical changes: (1) The government *must* change the way it supports *basic* and applied scientific research to promote the broad *collaboration* with business and academia needed to *address* society's big problems, (2) Corporate management practices and governance structures *must* also be overhauled so they no longer *exaggerate* the payoffs of outsourcing production on the one hand, nor *discount* its dangers on the other. Moreover, they should also *stop* cutting investments in R&D (*ibid*).

11. Profit Maximization: too Difficult, too Unrealistic—and Immoral

Sixty years ago, Robert Anthony (1960, Note 6), Professor of Management Control (Cunha, 2002) at the Harvard Business School, wrote a *brilliant, provocative* exposition with an *insight* that is still valid today. In that essay, he wondered *why* college graduates trained in *economics* were so *ill-equipped* to deal with *real-life* business problems? He finally concluded that the reason was the assumption that *most* college economics textbooks made that the *objective* of a business is *to maximize profits*.

The question is why economic courses are created on this premise? Anthony believes that this is because "it permits a *rigorous* intellectual reasoning process," and provides "*correct* answers to classroom problems, and rules." So, he asks that *how* can one "*grade* an economics examination if there are a whole range of '*correct answers?*' "

And when the rules "do *not* work in *practice*, they can always be explained away by '*other things being equal*'" response (*ibid, italics* added).

Sixty years later, the "profit maximization" gospel--which has now morphed into "maximizing shareholder value"— is still being taught *today* in two of the most popular textbooks on *Managerial Economics* (Denning, 2013).

11.1 Profit Maximization is too Difficult and Unrealistic

Anthony says *pricing* is one major area of decision making where profit maximization is *inconsistent* with business practice (*ibid*).

11.1.1 Businesses follow Full-Cost Pricing vs. Marginal Analysis of Economic Theory

According to economic theory, to maximize profits a business has to set a price where marginal revenue *equals* marginal cost. That means a business must *estimate* the demand at *all* prices and the marginal cost at *all* volumes. A business must *also* estimate the extent to which demand is *interdependent* with advertising and promotional expenses (*ibid*).

"This is a *fantastically* difficult task, so difficult that it is *rarely* attempted in practice." Instead, the studies show that a business goes through a much *simpler* process, and develops a "normal" price. The "normal" price is arrived at by including *direct* costs, a *fair* share of the indirect cost, or *overhead*, and a *satisfactory* profit margin—as Prof. Simon has argued in section 12. This process is called *full-cost* pricing (*ibid*).

The profit that would result from this endeavor would *not* perhaps lead to maximum profit. However, a business owner is likely to be much *more* comfortable with a *lower* profit—developed from a *dependable* and *consistent* procedure--than he or she would be if the *maximum profit* was the result of a process that had to rely on several *estimates* and *guesses* that may *or* may not turn out to be right (*ibid*).

Moreover, Anthony (*ibid*) points out that pricing is *not* the major focus of' management attention that the economists suggest that it is. *Pricing* is *one* clement of the "total marketing *mix* which also includes merchandising, branding, channels of distribution, personal selling, advertising, promotions, packaging, display, and servicing" (*italics* added).

Anthony (*ibid*) suggests that to criticize the assumption of *satisfactory* return is "*comparable* to criticizing the physicists for their acceptance of Heisenberg's *uncertainty* principle. In *both* cases, the resulting body of theory is *less* precise, but it is also *more* realistic" (*italics* added).

So, based on the above argument one could conclude that it is "far better to be *roughly* right than exactly wrong" (Datta, 1980).

11.2 Profit Maximization is Immoral

Profit maximization requires the businessman to use every *trick* in the book to do the following (Anthony, *ibid*):

- Keep wages and fringe benefits *low*
- To *extract* every possible dollar from the consumer
- To sell as *low* a quality merchandise as he can legally fool the customer into buying
- To use income *solely* for the benefits of the stockholder
- To *disown* any responsibility to the community
- To finagle the *lowest* possible price from his vendors
- The "long run" is a *long way off* and its effect on current decisions unclear
- A businessman's conscience and *ethical* considerations are *irrelevant*

And to all of the above, we can add: laying-off workers, closing plants, spinning off divisions, and *outsourcing* production overseas," as Pearlstein (2013) has said earlier.

Anthony then *boldly* declared back in 1960 that "businessmen could *not* maximize (profits) if they wanted to, and they would *not* want to if they could" (*ibid*, *italics* added).

As Pearlstein (2013) has shown, unfortunately, the history of the last thirty-five years has revealed, how *wrong* Anthony turned out to be: thanks to the power of the *Friedman* doctrine!

12. Simon's Satisfying Behavior Model

Herbert Simon (1956, Note 7), a Nobel laureate in Economics, believes that in the real world, firms do *not* try to maximize profits because of: (1) *imperfections* in data and, (2) the *incompatibility* of interests of the *various* constituents of an organization.

According to his s*atisficing* model, the *biggest* challenge facing modern businesses is the *lack* of complete information and *uncertainty* about the *future*. So, to address this problem, firms are forced to *incur* costs to acquire this information. Considering these obstacles, a business is *unable* to maximize either profit, or sales, or growth. In reality, they act as *constraints* to rational decision-making because of which the firm has to function under *"bounded rationality."* Thus, a firm can only aim at attaining a *satisfactory* level of profit, sales, and growth. Consequently, the firm sets up for itself some *minimum* standards of achievement, which it expects will assure its *viability* over the *long run.*

According to this theory, the relevant information the managers (decision-makers) have is *far* from complete. A manager--due to the *complexity* of calculations, *uncertainties* of future, and *imperfection* of the data to be used for determining 'optimal' decisions--*cannot* make really optimal decisions, but he or she is *satisfied* with something *less*. Therefore, this model is termed as *'satisfying'* model.

13. Price is a Strategic, not a Tactical Variable

Mainstream economists treat price as a *tactical* variable that can be *manipulated* using marginal revenue and cost analysis in an effort towards profit maximization.

In reality, price is a *strategic* variable. *Customer*-perceived quality is the *most* important factor contributing to the long-term success of a business. However, quality *cannot* really be separated from price. Quality, in general, is an *intricate* multi-dimensional concept that is difficult to comprehend. So, consumers often use *relative* price—and a brand's reputation—as a symbol of quality (Datta, 1996, 2021).

A business that seeks market-share *leadership* has to *differentiate* itself by offering quality *better* than that of the nearest competition. To make this idea *operational* requires *two* steps: (1) The *first* is to determine *which* price-quality *segment* to compete in? Most consumer markets can be divided in *three basic* price-quality segments: *premium*, *mid-price*, and *economy*. These can be extended to *five* by adding two more: *ultra-premium* and *ultra-economy* (*ibid*).

The answer lies in serving the *middle* class by competing in the *mid-price* segment. This is the socio-economic segment that represents about 40% of households in America (Datta, 2011, 2021).

The *second* step for a business seeking market share leadership is to *position* itself at a price that is *somewhat* higher than that of the *nearest* competition. This is in accord with P&G's practice based on the idea that although higher quality does deserve a "price premium," it should *not* be excessive (Datta, 2010b, 2021). A higher price offers *two* advantages: (1) It promotes an *image* of quality, and (2) It ensures that the strategy is *both* profitable and sustainable in the long run (*ibid*).

A *classic* example of price *positioning* is provided by General Motors (GM). In 1921 GM rationalized its product line by offering "a car for every purse and purpose"—from Chevrolet to Pontiac, to Oldsmobile, to Buick, to Cadillac. More importantly, GM positioned each car line at the *top* of its segment (Datta, 1996, 2010a, 2021).

We have followed *twelve* studies that have tried to analyze the competitive profile of U.S. *consumer* markets. In *nine* of the twelve—that *exclude* Men's and Women's Razor-Blades, and Ground Coffee—the market-share leader was found to be a member of the *mid-price* segment, and that its unit price was *higher* (Note 8) than that of the nearest competition, as we have hypothesized. Those market leaders are:

- Edge Men's Shaving Gel, Bud Light Lager Beer, Pantene Shampoo, Kraft Grated/Shredded Cheese, Tropicana Refrigerated Orange Juice, Crest Toothpaste, Campbell Chicken Broth/Campbell Chicken Noodle Soup, Lay's Potato Chips, and Energizer Alkaline AA 4-pack Battery.

Section III: Examination of the Friedman Doctrine

14. The "Milton Friedman 50 Years Later" Debate

To mark the 50th year anniversary of Milton Friedman's *The New York Times Magazine* essay of 1970, twenty-seven articles were published in 2020 by the Stigler Center of the University of Chicago in the form of an *e-book* (Note 9) which we are going to refer to as 'symposium.' Prof. Luigi Zingales (Note 10) of the University of Chicago, who *promoted* the debate, has authored a *concluding* article to give his overall *appraisal* of the debate.

However, today, fifty years after the Friedman article was published, the Friedman doctrine has been resoundingly r*epudiated* by business leaders, the media, and even some economists. For example:

- Martin Wolf (2020, Note 11), a *participant* in the e-book 'symposium' said that for a long time, he, like many in the English-speaking countries and elsewhere, believed in the Friedman doctrine.
    - Now he admits he was *wrong*.
- In an article published in *Fortune* (Mayer et. al, 2020), the authors declare that fifty years later Friedman's shareholder doctrine is *dead*.
- Steve Denning (2018, Note 12) *asserts* that focusing on maximizing *short-term* shareholder value—the essence of the Friedman doctrine—"is built on the world's *dumbest* idea' (Note 13).
- Prof. Joseph Stiglitz (Note 14) won his Nobel Prize in Economics in 2001. At that time, he gave a talk at the University of Chicago presenting an early version of his *research* which *established* the notion that pursuing *profit maximization* did *not* lead to maximization of social welfare. This is because Adam Smith was *wrong* in saying that the pursuit of *self-interest* would lead--as if by an *invisible* hand--to the *well-being* of society. During the discussion, reports Stiglitz, Friedman simply *couldn't* or *wouldn't* accept the result of Stiglitz' research for which had just won a Nobel Prize (Sorkin, 2020).
- Howard Schultz--Emeritus Chairman of Starbucks--in a "*rebuke* of Friedman's *single-minded* focus on profits" (his words), says that, according to the company's original *mission* statement, we "wish to be an economic, intellectual and social *asset* in *communities* where we operate. We would *not* do this at the expense of profits, but to *grow* them" (Sorkin, 2020, *italics* added; Note 15).
- Oren Cass (Sorkin, 2020, Note 16) points out that:
    - Friedman is *wrong* that what business owners want is to make as much money as possible: an assertion that is empirically *false*.
    - Sole proprietors and closely-held firms are generally *considerate* of their workers, communities and customers.
    - "Shareholders of a *widely*-held *publicly*-traded company are *not* like personally engaged business owners. Distant, diffuse, and often *hidden* behind layers of legal *fiction*, they are *not* accountable, or even known, to the communities in which their companies operate. They often do *not* know, *or care* to know, how those companies operate" *(italics* added).
    - "If Friedman's argument is that business should make as much money as possible, it is *less* a celebration of the free market's power than [a] *brutal* indictment".
- Martin Lipton (2020, pp. 22-25), a partner in the *law* firm of WLRK--and a *participant* in the e-book 'symposium'—says that Milton Friedman's doctrine of "shareholder *primacy*" became the "*doctrinal* foundation for an era of *short-termism*, *hostile* takeovers, *extortion* by corporate raiders, *junk bond* financing, and the *erosion* of protections for employees, the environment, and society generally" (*italics* added).

14.1 Serafeim of Harvard Revolutionizes the Way to Calculate Business Success

Prof. George Serafeim of Harvard Business School (Kishan, 2020) *throws out* Milton Friedman's playbook of measuring business performance mainly by *'shareholder value.'* Serafeim is well known for *ESG*—environmental, social, and corporate governance. Sarafeim's philosophy is that "what gets measured gets *managed*."

Serafeim and his Harvard team's aim is to "value *intangible*, *non-financial* factors." For example, *charging* credit card companies for the medical costs of *depression* related to indebtedness; *charging* airlines for the human toll of flight *cancellation;* and making food producers *accountable* for the ill effects of *obesity*.

Sarafeim's calculations *credit* automakers for *safety* of their cars, and companies that hire people in areas of *high* unemployment.

15. Medieval, Mechanistic Scientific Ideology of Mainstream Economics

15.1 From a Cosmic Organism to a World Machine

Aristotle's (384-322 BC) scientific philosophy of nature—*animate* and *alive*—dominated Western thought for *two* thousand years after his death (Capra, 1996, chap. 2; Sheldrake, 1994, p. 44; Datta, 1998).

However, during the *sixteenth* and *seventeenth* centuries, this *medieval* worldview went through a *fundamental* transformation. In the words of Capra (*ibid*, p. 19, *italics* added; also, Sheldrake, 1994, pp. 3, 49; Datta, 1998):

- "The notion of an *organic* and spiritual universe was replaced by that of the world as a *machine*, and the word machine became a *dominant* metaphor of the *modern* era. This radical change was brought about by the new discoveries in physics, astronomy, and mathematics known as the scientific revolution associated with the names of Copernicus, Galileo, Descartes, Bacon and Newton."

Here are the *major* characteristics of this ideology:

- Galileo asserted that *only* those phenomena that were *quantifiable* were to be admitted into science (Capra, 1996, chap. 2; Datta, 1998).
- Descartes invented the method of *analytic* thinking: breaking a complex system into *parts* to understand the whole (Capra, 1996, pp. 19-20; Datta, 1998).
- Descartes divided the universe into two *distinct* realms: *mind* and *matter*. He characterized the *material* universe, or *nature*—including *living* organisms—as a perfect *machine* governed by precise *mathematical* laws (Solomon & Higgins, 1996, p. 183; Capra, 1991, p. 333; Datta, 1998).
- Descartes' philosophy was "to objectify the world, to turn everything into an *object* or thing to be *manipulated*, and *controlled*" (Rockefeller & Elder, 1992, p. 150, *italics* added).
- Descartes placed a special emphasis on *certainty* and immunity from *doubt* in scientific research (*ibid*).

Thus, the Cartesian paradigm was based on *certainty* of knowledge (Capra, 1991, p. 333).

Lodge (1976) says f*ive* major theories or *principles* form the *foundation* of this *mechanistic* ideology

(Note 17).

The following three are the *most* relevant for this study:

- Emphasis on *certainty* and *immunity* from doubt
- *Reductionism*: based on the belief, that in order to understand a system it is necessary to *break* it apart, and if you know enough about the parts, you can understand the whole. In other words, the *whole* is equal to the *sum* of the parts.
- *Objectivity* means that for knowledge to be scientific it must be *objective*. As such, it must be *quantifiable*. Thus, "what *cannot* be measured presumably is *not* worth knowing" (Lodge, *ibid*, p. 315, *italics added*).

This mechanistic ideology is closely related to the American *social* philosophy which exalts *individualism*, sanctions the sanctity of a *contract*, and worships at the altar of *free* markets and *competitio*n (Lodge 1976, chaps. 1, 10; Datta, 1998).

Later, Newton *completed* the Descartes-Galileo conceptual framework. Thus, Newtonian mechanics, his grand *synthesis*, was the *supreme* achievement of the seventeenth century science (Capra, 1996, p.20; Datta, 1998).

Francis Bacon (1561-1626), who was *not* a scientist but a *lawyer*, "was one of the early prophets of the *power* and promise of science." He "triumphantly proclaimed that the new science would soon make 'Nature, with all her children' the '*slave*' of humankind" (Rockefeller & Elder, 1992, pp. 150-151, *italics* added; also, Montuschi, 2010).

15.2 Western Scientific Ideology Treats Humans as Machines

Allan Watts (1991), a Zen scholar, too, makes the point that "the scientist, despite his theoretical naturalism, tends to regard *nature--human* or otherwise--as a world to be *conquered* and *reordered*" (p. 3, *italics* added).

One fundamental attribute that distinguishes Western cultures from the East is *primacy* of the individual: grounded in the idea of *individual choice*, responsibility, and achievement (Naipal, 1990). The idea that so sharply distinguishes Judeo-Christian theology from the fatalism of Eastern religions, such as Hinduism, is the concept of *evolution* and *progress*: a notion that provides the world with a basis for *optimism* and *hope* (Ferris, 1997, chap. 7; Watts, 1977a, pp. 29-30).

15.3 Physicists Adopted a Holistic Philosophy Long Time ago

With the onset of *quantum mechanics* during the early part of this century, the physicists *abandoned* the notion of identifying matter with "things" or "solid objects," and adopted instead a new *holistic* view based on the idea of *relationships* (Capra, 1982, pp. 77-78; Datta, 1998).

16. Western Scientific Ideology Refuses to Recognize the *Natural* Traits that Make Humans: Human

In the words of Alan Watts, it is *ironic* that Western scientific ideology has *belittled* the *individual* by treating humans as *machines*; and by refusing to recognize the *salience* of those *natural* characteristics that make humankind *human*: creativity, intuition, judgment, courage, persistence, spirituality, and so on (1977a, pp. 29-30).

However, in the *real* world of business, these are the *very* human qualities that are the *hallmark* of the strategic management process.

For example, the right answer to the question: "What is our business?" is usually anything *but* obvious; it requires *judgment* and *courage* (Drucker, 1974, pp. 77, 79).

Managerial *aspirations*, willingness to take *risk*, *consistency* of purpose, *persistence*, *commitment*—and even *luck*—also play a *critical* role in determining the *long-term* success of a business (Andrews, 1983; Barney, 1986; Hamel & Prahalad, 1993; Mintzberg, 1992).

Chester Barnard more than 50 years ago, recognized the superiority of *intuition* over rational processes for top management (Denhart, 1979; Wolf, 1974, pp. 91-96; also see Mintzberg, 1973). Quinn (1980) says that strategy deals with the *unknowable* to which there is "*no* objectively right answer" (pp. 56, 181; chap. 2, *italics* added). He adds that the strategic planning process is usually fragmented, evolutionary, and mainly *intuitive*.

According to Mintzberg (1994), the assumption of the Western scientific ideology is that the whole is *equal* to the sum of the parts: a proposition that is patently *false*. As such, defining what the nature of a business should be, or determining its key objectives calls for a picture that looks at the *whole*, and therefore this process is *not* about analysis, but *synthesis.*

17. A Critique of the Friedman Doctrine

- Friedman a conservative ideologue: Not an unbiased scholar
- Libertarian free market ideology
- Doctrine offered in a societal vacuum due to belief in reductionism ideology
- Friedman did not say if profit maximization good in the long-run for society
- Focus on legal contracts vs. relationships
- Concept of a corporation based on legal boundaries now obsolete
- America must rebuild its Industrial Commons

17.1 Friedman a Conservative Ideologue: Not an Unbiased Scholar

- Joseph Stiglitz (Sorkin, 2020), Nobel-prize winning economist, says that Friedman had done distinguished analytic and empirical work in economics. However, later he became "largely a conservative *ideologue*" (Note 18, *italics* added). Darren Walker, CEO of the Ford Foundation suggests that Friedman's thinking became *theology* (Sorkin, 2020).
- Stephanie Mudge (2008) observes that Friedman's articulation of markets as the "source and arbiter of human freedoms" has a *semi-evangelical* tone.

- Friedman was no mere economist: he was a kind of *celebrity*. He became a *regular* on the talk-show circuit (Note 19). The Public Broadcasting System (PBS) commissioned a ten-episode series, called *Free to Choose* that starred Milton Friedman (Andersen, 2020. p. 97).

17.2 Libertarian Free Market Ideology

Milton Friedman's University of Chicago represents a school that has been *ideologically* wedded to the *free* market, such as those espoused by Adam Smith (McCraw, 1990). Stiglitz (Sorkin, 2020) contends that Friedman was *wrong* to subscribe to Adam Smith's ideology that the pursuit of *self-interest* would lead--as if by the magic of by an *invisible hand*--to the well-being of society.

According to Friedman (1970):

- In an "*idea*l free market resting on private property, *no* individual can coerce any other, all cooperation is *voluntary*, all parties to such cooperation benefit or they need not participate" (*italics* added).
- A "corporate executive is an *employee* of the owners of the business. His "responsibility is to conduct the business in accordance with their *desires*, which generally will be to make as much *money* as possible while conforming to their basic rules of the *society*, both those embodied in *law* and those embodied in *ethical* custom (*italics* added)."

As mentioned earlier, Luigi Zingales (2020a) promoted the Friedman 'symposium' in 2020. In his concluding article he has tried to give a *balanced* evaluation of the debate that in the view of Wolf (2020) is quite "devastating."

Zingales (2020b) asks "under *what* conditions is it *socially* efficient for managers to focus *only* on maximizing shareholder value?" This question calls for answers to the following *three* queries (*italics* added):

- First, companies should operate in a *competitive* environment, which means that firms be *both* price *and* rules *takers*.
- Second, there should *not* be externalities (or the government should be able to address them perfectly through regulation and taxation).
- Third, contracts are *complete*, in the sense that we can specify in a contract *all* relevant contingencies at *no* cost.

Zingales (*ibid*) concluded that in reality, *none* of these conditions can be satisfied.

Wolf (2020) offers the following explanation as to *why* this is so:

- The *invention* of the corporation permitted the creation of *huge* entities, in order to *exploit* economies of scale. Given their *size*, the idea of businesses as price-takers is totally *unrealistic*.
- *Externalities*, some of them global, are quite *pervasive*.
- Corporations also exist because contracts are *incomplete*. If it were possible to write contracts that specified *every* eventuality, the ability of management to respond to the *unexpected* would *be superfluous*. Anyway, such ability is possible only in a *static* environment: *not* in a *dynamic* world that corporations actually face in the *real* world.

- Most of all, corporations are *not* rule-takers but rather *rule* makers. They play games whose rules *they* have a *large* role in creating, through the political process.
- Zingales (2020b) points out that Friedman got the law *wrong* because corporate managers are *not* the employees of shareholders, but that of the *corporation*.

17.3 Doctrine Offered in a Societal Vacuum

Mintzberg (2004, pp. 151, Note 20) *italics* added) points out that economists, such as Milton Friedman, justify *self-serving* behavior. This is based on the idea that a "business has *no* business attending to social goals" because these are for the *government*, and that each should stick to its *own* knitting. Mintzberg then adds (*ibid*, *italics* added):

- "How *convenient* would be a world as *black and white* as this bit of economic theory. It does *not* exist. In the *real* word of decision making, the economic *and* the social are all *tangled up*…Every economist knows that *all* social decisions *cost* resources. Well then, *how* can an economist argue for economic decisions that have *no* social consequences? They *all* impact socially." Then he goes on to say:
- "So, business people who take this separation *seriously* create *havoc* with the social consequences of their actions. They do as they wish for economic *gain* while conveniently *slipping* the social consequences *off* their ledgers, as what economists call *"externalities,"* meaning that the corporation *create* the costs while society *pays* the bills."

Finally, Mintzberg (*ibid*, p.151) underscores a very *important* point. He says that whereas business "may not exist to serve social needs, it *cannot* exist if it *ignores* them." Then he *quotes* the following observation from the Russian novelist, Aleksandr Solzhenitsyn while he was living in America:

- "A society that is based on the *letter* of the law and *never* reaches any higher is taking very *scarce* advantage of the *high* level of human possibilities. The letter of the law is too *cold* and *formal* to have a beneficial effect on society. Whenever the issue of life is woven of *legalistic* relations, there is an atmosphere of moral *mediocrity*, *paralyzing* man's noblest impulses" (*italics* add).

17.4 Friedman did Not Say if Profit Maximization Good in the Long-run for Society

Prof. Luigi Zingales (2020b) observes that Friedman's (1970) contribution can be looked at *two* ways. One is what is optimal for *shareholders,* and what is optimal for *society*? The title seems to suggest the *second* interpretation. *Yet*, in the essay his focus is *only* on the *first*: what is good for *shareholders*.

As mentioned above, Friedman has presented his doctrine in a *societal* vacuum. It is *not* therefore surprising that Friedman did *not* care to dwell on what is optimal for society. This is because he has ingeniously *framed* the debate for shareholder *primacy* by characterizing concern for society and social responsibility as subversive *socialism*, as we have discussed later in section 19.

17.5 Focus on legal Contracts vs. Relationships

According to Prof. Zingales (2020b), Friedman advocated the *contractarian* view of the corporation—i.e., that "corporations are just a *nexus* of contracts freely drawn by the various parties involved." According to this view point, corporations are *no* different than a collection of individuals.

Therefore, they should *not* have any social responsibility different from that of individuals. It is important to stress, thus, that this does not mean “no responsibility.” Friedman, at the end of the NYT essay, makes clear that corporations have the social responsibility to *play* within the rules of the game, “which is to say, engage in open and free competition *without* deception or fraud.

In the words of Prof. Stephano Zamagni (2020, Note 21), the problem with the *contractual* view of corporations is that the idea of the firm as a *nexus* of contracts is “theoretically *groundless* and legally *contradictory*.” In reality, the modern corporation is essentially a *public* entity, since it has the power to *impose* its rules on those who operate *within* it and exercises *real* influence outside of its boundaries. What that means is that the governance of a corporation is *not* something that concerns only the shareholders. Yet the *contractarian* view is based on the premise that the corporation is the product of a *contract*, i.e., of an agreement between *private* individuals (*italics* added).

17.5.1 From “Doing Good by Doing Well” to One of “Doing Well by Doing Good”

Zamagni (*ibid*) suggests it is *reductionist* to characterize the firm as a *mere* “nexus of contracts” between different parties, attributing to it only *one* purpose: profit maximization as the *only* metric of business success. The firms are capable of doing much *more*—and *better*—than solely maximizing profits. Perhaps it is time to move on from the rhetoric of “doing *good* by doing well” to one of “doing *well* by doing good.”

17.6 Concept of a Corporation Based on Legal Boundaries now Obsolete

As we have seen in section 10.2, the idea of defining a corporation based on *legal* boundaries has become *obsolete* in today’s global competition, now increasingly being driven by the Japanese-originated system of *lean* production. So, we need to make a *transition* from *lean* manufacturing to the *lean enterprise*: a *network* of producer, customers, and suppliers *closely* linked in a *common* chain as *one* economic whole.

17.7 America must Rebuild Its Industrial Commons

As we have shown in section 10.3--thanks to the Friedman doctrine--U.S. companies have been *outsourcing* manufacturing for decades to save costs. But that has been a *disaster*. What those companies have been *ceding* is the country’s *industrial commons* --that is, the *collective* operational capabilities that support *new* product and process development in the U.S. industrial sector (Pisano & Shih, 2009).

Consequently, America has *lost* not only the ability to develop and manufacture *high-tech* products--like televisions, memory chips, and laptops--but also the *expertise* to produce *emerging* hot products like the *Kindle e-reader*, *high-end servers*, *solar panels*, and the *batteries* that will power the next generation of automobiles (*ibid*).

18. Major Flaws of the Friedman Doctrine

- Profit maximization idea offered as a doctrine not a theorem
- Friedman’s moral philosophy: Self-interest—and greed
- No distinction between short-term and long-term shareholders

18.1 Profit Maximization Idea Offered as a Doctrine Not a Theorem

As mentioned in section 15, Prof. Zingales (2020b) has penned a concluding article giving his overall appraisal of Friedman's legacy. The title of his article is: "Friedman's Legacy: *From Doctrine to Theorem*." Clearly, Prof. Zingales must have realized that this was a major *deficiency* in Friedman's work because it was offered as a doctrine, and as such, could *not* then be regarded as a serious endeavor worthy of consideration.

Darren Walker, chief executive of the Ford Foundation, says that "Friedman's thinking became *theology*—the *intellectual* scaffolding that allowed its disciples to justify decades of greed is *good* excess" (Sorkin, 2020, *italics* added).

18.2 Friedman's Moral Philosophy: Self-interest—and Greed

In the words of American journalist William Greider (2006), Friedman was the "most *influential* economist of the second half of the twentieth century" in the eyes of his admirers. However, he was also the "most *destructive* public intellectual of our time" (*italics* added).

Greider further adds that his *most* profound harm was as a *moral* philosopher as he "championed an ethic of unrelenting, unapologetic *self-interest* that pushed aside human sympathy" (*ibid*, italics added).

In the words of Mintzberg (2004, p. 147, *italics* added):

- "In recent years we have been witnessing a *glorification* of self-interest perhaps *unequalled* since the 1920s. *Greed* has been raised to some sort of *high* calling; corporations are urged to *ignore* broader social responsibilities in favor of *narrow* shareholder value; chief executives are regarded *as if* they alone create economic performance."

  "A society devoid of selfishness may be difficult to imagine, but a society that *glorifies* selfishness can be imagined only as cynical and *corrupt*."

Mintzberg (2004, pp. 147-148) cites the work of Jensen and Meckling (1994) exalting self-interest. They argue that "there is no such thing as a need." "Individuals are willing to sacrifice a little of almost *anything*…for a sufficiently *large* quantity of other desired things" (*italics* added).

Mintzberg (*ibid*) then adds:

- "In other words, when pushed to the limit, everyone is a willing *prostitute*. Everyone, everything, every value, has its *price*. We cherish *nothing*."

Mintzberg *concludes* the discussion with the following *pithy* comment:

- "How true. How *sad*" (*italics* added).

18.3 No Distinction between Short-term and Long-term Shareholders

- Erika Karp (*The New York Times*, 2020; Note 22) points out that Friedman made the mistake of *not* including two words: "*long-term*." Had he talked about "long-term principle and long-term consequences, business might have been more *thoughtful* about deploying financial, natural, and human capital. "Respect for the value of each form *reinforces* the value of the other" (*italics* added).

19. How Friedman Cleverly Framed the Debate that Stakeholder-welfare is "Socialism"

Prof. Roger Martin (2014, Note 23) has provided an important *insight* into Milton Friedman's doctrine of shareholder *primacy*. He points out that the participants in the *Inclusive Capitalism Conference* argued that Friedman was *wrong* to make the *trade-off* between shareholders and the rest of society so *entirely* in favor of shareholders, and that greater *balance* is needed in that trade-off.

Prof. Martin argues that because they make the argument as mentioned above, Friedman has *won* the debate "the way a *great* debater wins."—by "*cleverly framing* the terms of the debate": a debate that is still going on for half a century (*italics* added).

Friedman employed several different tactics to frame the debate: (1) He has tried to occupy a *high* moral ground by equating capitalism with *freedom*. However, as we have noted in the next section, his single-minded *deification* of shareholders clearly means that he is interested in *their* freedom *alone*. (2) Friedman knew that the term "socialism" had a *negative* connotation in America, especially during the time he wrote the NYTimes article in 1970. So, to *deflect* attention from his *exclusive* concern for shareholders, he invoked the specter of *social* responsibility and *subversive socialism* to elicit sympathy and support for his cause. (3) And *most* importantly, because the theory of profit maximization is utterly *incompatible* with the welfare of *key* stakeholders, like customers and employees.

19.1 Friedman Equates Capitalism with Freedom: But only for Shareholders

In his book titled *Capitalism and Freedom* (1962) Friedman equates capitalism with *freedom.* This is what Mintzberg (1996) has to say about that:

- "I take issue with Milton Friedman…who has been fond of *comparing* what he calls "free enterprise" with "subversive" socialism. The very notion that an institution, *independent* of the people who constitute it, can be free is itself a *subversive* notion in a democratic society. When the enterprises are really *free*, the people are *not"* (*italics* added).

19.2 Corporate Concern for Stakeholder-welfare Equals "Socialism"

Friedman regards corporate concern for stakeholders as part of *social responsibility* and therefore so*cialism,* as mentioned earlier. He *wrongly* believes that the welfare of stockholders and stakeholders is a *zero-sum* game.

As Mulligan (1986) has shown, commitment to social responsibility does *not* have to be at the cost of stockholders' welfare, and that both can go *together* side by side: an insight also revealed by Starbucks' Schultz, as we have stated in section 14.

Mulligan (*ibid*) also points out that Friedman does *not* clearly say what he means by *socialism*.

Finally, as we have argued in section 23, we have turned the Friedman doctrine *on its head,* and that is: *Profit maximization is neither good for society nor even for shareholders!*

20. Friedman's "Pseudo-science" Static-equilibrium Methodology

Blackford (2017, Note 24) has characterized Friedman's methodology--of what the latter calls "*positive science*"-- discussed below as *"pseudo-science, as if"* methodology based on a theory of *static* *equilibrium.*

20.1 The Analogy of the Expert Billiards Player

Milton Friedman (1953) published his essay “The Methodology of Positive Science” in 1953. In support of his theory, Friedman uses the example of an *expert billiard player*:

- “It seems *not* at all unreasonable that excellent *predictions* would be yielded by the hypothesis that the billiard plyer made his shots *as if* he knew the complicated mathematical formulas that would give the *optimum* direction of travel, could estimate accurately by eye the angles etc., describing the location of balls, could make *lightning* calculations from the formulas, and could then make the balls travel in the direction indicated by the formulas. Our confidence in this hypothesis is *not* based on the belief that billiard players, even the expert ones, can or do go through the process described; it derives rather from the *belief* that, *unless* in some way or other they were capable of reaching essentially the same result, they would in fact *not* be expert billiard players” (*italics* added).

Blackford (2017) says Friedman’s argument is *circular*. He further suggests that “*how* do we know expert players play this way? And if they did *not* play this way, they would *not* be expert players” (*italics* added).

Blackford (*ibid*) points out that “Friedman poses the (expert billiard player) analogy in the midst of a *convoluted* argument by which he attempts to show that a scientific theory (hypothesis or formula) *cannot* be tested by testing the *realism* of its assumptions. All that matters is the *accuracy* of a theory’s *predictions*”: “*not* whether or not its assumptions are true” (*italics* added).

Blackford *(ibid*) further says that Friedman’s logic is firmly engrained in his *“belief,”* and *only* then it makes sense.

20.2 The Law of Falling Bodies

Friedman then makes an attempt to demonstrate his *belief* by examining “the law of falling bodies.” He says it is an accepted hypothesis that the *acceleration* of a body dropped in a *vacuum* is constant—g. So, Friedman argues, it is *meaningless* to suggest that this law assumes a vacuum. The only thing that is the *accuracy* of the *predictions* obtained if we *assume* bodies fall *as if* they are falling in a vacuum (*ibid*).

20.2.1 Aristotle Theory of Motion

According to Blackford (*ibid*), Aristotle hypothesized that a *constant* force when applied to an object will cause it to *accelerate* at a constant *velocity.* But he also assumed that *heavier* bodies—like a *stone*--fall with a *greater* velocity than lighter bodies (like a *feather*).

20.3 Galileo’s Theory

In *contradiction* to Aristotle’s theory, Galileo observed that *heavier* bodies do *not* fall with a greater velocity than lighter bodies. He also did *not* accept Aristotle’s theory that a *constant* force when applied to an object will cause it to move at a constant *velocity. Instead*, he introduced the concept of *momentum*. He suggested that a body at rest tends to remain at *rest*, and a body in motion tends to remain in *motion*. So, he theorized that when a force is applied to an object it causes that object to *accelerate* at a constant *rate*, *not* at a constant *velocity* (*ibid*).

20.3.1 Newton's Second Law of Motion

Newton's theory of gravity assumes: (1) That force is *equal* to mass *times* acceleration and (2) That, there is an *inverse-square* relationship between the *force* of gravity and the *distance* between the centers of gravity of the earth and a falling body. These two assumptions *imply* that the *rate* of acceleration must *increase* as a falling body and earth approach each other (*ibid*).

20.3.2 Einstein's Theory of Relativity

Thanks to Einstein's theory of relativity, Newton's assumption of the *independence* of space and time was rejec*ted* by empirical evidence, and was replaced by an assumption of *continuum* of space and time (*ibid*).

20.3.3 Friedman Ignores the History of the Law of Falling Bodies

Blackford (*ibid*) points out that Friedman first refers to and then *ignores* the history of the law of falling bodies. However, he has *not* cared to acknowledge the advances made since then by Galileo, Newton, and Einstein.

20.3 Advances in Physical Sciences due to constant Testing of Hypotheses

All the advances in the physical sciences that have happened since the time of Galileo became possible *only* by (*ibid)*:

- Galileo rejecting Aristotle's unrealistic assumptions.
- Newton rejecting unrealistic assumptions of Galileo.
- Einstein rejecting unrealistic assumptions of Newton.

20.4 Friedman Denies that a Scientific Theory an Embodiment of Its Assumptions

Friedman says truly "important and significant theory will be found to have assumptions that are truly *inaccurate* descriptive representations of reality, and in general, *more* significant the theory, the *more* unrealistic the assumptions" (*ibid, italics* added).

Blackford (*ibid*) insists that "*a scientific theory is, in fact, the embodiment of its assumptions*" (*italics* in the original) through which the theory can be *understood* and *explained*. To *test* its validity, the *reason* and *logic* of its assumptions provide the *premises* upon which to *compare* a theory's *predictions* with *empirical* evidence.

Blackford (*ibid*) questions *why* should society take mainstream economists seriously if their theories—and their arguments—are based on *false* assumptions?

20.5 Friedman Calls for Tradition and Folklore, and the Tenacity with which Hypotheses are Held

Friedman says a scientist should look to "the *tradition* and *folklore* of a science revealed in the *tenacity* with which the hypotheses are held." to find the *truth* (*italics* added). He then goes on to say that since the "capacity to judge…is something that *cannot* be taught [and] can be learned…only by *experience* and *exposure* in the 'right' scientific atmosphere" we must look to the *wise* men and women of the discipline who have been exposed to "the 'right' scientific atmosphere" to find where the "*thin* line is drawn which distinguishes the 'crackpot' from the scientist" (Blackford, *ibid, italics* added).

Blackford (*ibid*) argues that *if* physicists had adopted Friedman's approach through the course of history, we would still be living in a *Ptolemaic* universe under which it was believed that the *sun* revolved around the earth!

In our judgment, what Friedman seems to be saying above is that his message is so *sacred* and *holy* that it should be disseminated *only* by an *ordained* member of the church!

21. Friedman's Quest for Analytic Rigor to Claim the Mantle of Science

Two points emerge from the above discussion. *One* is that Friedman--*and* the entire mainstream Economics establishment—are trying to *emulate* physical sciences to develop theories for a *living* organism that is extraordinarily *complex*: a large *corporation.* This is an entity that *doesn't* necessarily have to accept the environment as given: but one that can be *altered*—even dramatically--by *human* action.

Second, the physicists know that we live in a world that is constantly *changing*, and as such, they expect their theories to be *dynamic.* Nevertheless, Friedman is only interested in a theory that is *static,* and therefore *easy* to deal with, a point Prof. Zingales (2020b) has acknowledged earlier.

21.1 Friedman's Theory can handle only One Variable at a Time

Friedman's aforementioned example of the *law of falling bodies* clearly indicates that his focus is only on a *single* variable at a time. We believe *that* is the framework which is *behind* his doctrine.

The only *publicly*-available variables for a corporation that can meet the above-mentioned requirement are *profit,* or *share price*. Since both are intimately linked to *shareholders,* that is how Friedman *must* have arrived at the idea of shareholder *primacy*.

21.2 Friedman Ignores the Two most Important Stakeholders: Customers and Employees

As we have noted in section 8, Peter Drucker has indicated that the *purpose* of a business is to create a *customer.* Prof. Raghuram Rajan (2020, pp. 17-21; Note 25), a participant in the e-book symposium discussed earlier, emphasizes that *workers* or employees, too, are *important* stakeholders because their *"sweat equity"* is *embedded* in the firm.

Since Friedman' methodology can handle only *one* variable at a time, he conveniently dismissed the corporate concern for the two *most* critical stakeholders—customers and employees—as *socialism*.

21.3 Friedman did not Distinguish between Short-term and Long-term Shareholders

Friedman also did *not* distinguish short-term from long-term shareholders. We can come up only with *one* possible explanation. His *simplistic* model would *fall apart* if he did that.

21.4 Friedman's Seems to Exalt the Importance of Analytic Rigor

In his *NYTimes* 1970 essay he criticizes the proponents of social responsibility for their "analytical *looseness* and *lack* of rigor" (*italics* added). Although he did *not* clearly provide any clue regarding how *his* doctrine met that test, we believe he chose to focus on a *single* stakeholder—the shareholders—and its counterpart profit or price/share-- because these variables can be *easily* measured *objectively,* at least on the surface.

In our humble opinion Friedman's quest—and that of the mainstream economists--for analytic *rigor* is an attempt to claim the mantle of *science*.

22. How "Shareholder Value" "Cult" has Survived when No Law Sanctions It?

Earlier, in section 4 we have shown that stakeholders' welfare can be justified on the basis of theory of *property*. In section 5, we have learnt that according to Delaware law, the board of directors manage a corporation to benefit *all* stakeholders.

Washington Post reporter, Pearlstein (2013) reveals that the "imperative to 'maximize' a company's share price has *no* foundation in history or in law." Moreover, there is *no* empirical evidence that it makes the economy or society better off.

Prof. Lynn Stout (2012, Note 26; Pearlstein, 2013) has been searching for *years* for a corporate charter that even hints at maximizing profits or share price. Still she has found *none*.

Pearlstein (2013) argues that "maximizing shareholder value" has created an elaborate *infrastructure* that supports it, and that includes:

- Business schools that *indoctrinate* students with the *shareholder-first* ideology.
- Corporate lawyers who advise *against* any action that might lower share price.
- Wall Street establishment that is totally fixated on *quarterly* earnings and *short-term* trading.
- Top executives who get "*gluttonous"* pay packages tied to *short-term* performance of the company stock.

As we have indicated at the beginning of this paper, the push for shareholder *primacy* was first created by Ronald Reagan and Margaret Thatcher who found the Friedman doctrine as a powerful *platform* from which to launch their radical *free-market* agenda. However, as Kurt Andersen (2020) has revealed below, it was largely an *invisible* and *powerful* force that was driving this ideology.

22.1 Charles Koch: Master-mind behind Developing a Libertarian Infrastructure

The driving force behind a *decades*-long effort to create an infrastructure for espousing *libertarian*, *conservative* ideology were the billionaires Koch Brothers, Charles and David Koch (Note 27). For one of the annual libertarian conferences Charles Koch sponsored during the 1970s, he wrote a paper in which he pointed out that their "*radically* different social philosophy" could attract "*undesirable* criticism." So, he recommended that *how* his libertarian organization is run "should *not* be widely advertised." Even when he "stepped out from behind the curtain two decades later," he told a reporter: "I *don't* want to dedicate my life to getting publicity" (Andersen, 2020, p. 70; *italics* added).

The Koch Brothers cast their net *far and wide* and decided that they were going to play a *long* game.

They followed a *multi-pronged* approach to achieve their objective:

- Supporting existing conservative think tanks (Note 28)
- Creating new conservative think tanks (Note 29)
- Transplanting conservative think tanks to George Mason University, VA (Note 30)
- Direct involvement in America's political process
- ▪ Tea Party movement that strongly opposed Obamacare (Note 31)
- ▪ Getting *conservative* judges elected to the Supreme Court
- ▪ *Subsidizing* libertarian programs at more than three hundred universities and colleges (Note 32)

In 2008 the U.S. Supreme Court ruled in the *Citizens United* case that a U.S. corporation is legally a *person!* The major implication of this momentous event is that it allows U.S. corporations to spend an *unlimited* amount of money in U.S. elections *without* disclosure (Datta, 2011).

During the tenure of President Trump, the Republicans were able to add *two* conservative judges to the U.S. Supreme Court, thus *drastically* tilting its composition in favor of *conservative* judges with six vs. three liberal ones.

It is interesting to note that the wealth of Koch Brothers, after adjusting for inflation, is *twenty* times more than it was forty years ago (Andersen, 2020, p. 279). In contrast, as we have mentioned earlier, America's income inequality has now *widened* so much that it rivals the *highest* level recorded in 1928 that led to the Great Depression of 1929.

The formidable institutional infrastructure that Koch Bothers and the conservatives have shrewdly been able to create has given them a *mega-phone* that has *drowned out* the voice of everyone else.

23. Profit Maximization Neither Good for Society Nor Even for Shareholders

Prof. Stiglitz (2019, p. 35) reports, that from 1947 to 1980, the U.S. economy grew at an annual rate of 3.7%. However, from 1980—when the Friedman doctrine was in *full* swing—to 2017 the average growth rate has been *only* 2.7%: a major *decline* of about 30%.

Clearly, the above results do *no*t support Friedman's assertion that his theory should *not* be judged by how realistic it is, but by its ability at *prediction*.

Instead of beating around the bushes, we would like to come directly to the *nub* of the problem. So, we are going to make the following assertion that *may* even come as a shock:

- *On logical grounds alone, the theory of profit maximization is neither good for society, nor even for shareholders.*

Friedman's doctrine is grounded on the foundation of concentrating on the welfare of just *one* stakeholder:--the *shareholders*--to the *disregard* of everyone else. An obvious *logical* implication of this mind set is, that if you are going to *maximize* the reward of *one* stakeholder, then you *must* then also *minimize* the benefits of *everyone else*, by trying to *extract* maximum concessions from them, as Prof. Anthony (1960) has so eloquently expounded in section 11.

The foundation of this mindset is that it treats customers and employees as a *burden* whose costs must be *minimized*, rather than as *assets* that need to be *nurtured*. Clearly, the profit a business earns is the result of contributions made by *all* the members on the *team*.

According to Senge (1990), the old days when a Henry Ford, Alfred Sloan, or Tom Watson learned for the organization are gone. In an increasingly dynamic, interdependent, and unpredictable world, it is simply *no* longer possible for anyone to "figure it all out at the top." The old model, the "the top thinks and the local acts," must now give way to a *new* way: thinking and acting at *all* levels (p. 7, *italics* added; Datta, 1998).

It is easy to *motivate* employees when they feel *pride* in their work, and believe they are making a *worthwhile* contribution to the business: for example: making customers *happy*.

However, it is going to be extremely *difficult* to encourage employees when you tell them that they are working to *maximize* profit or shareholder value.

Thus, when one compares the results of one's performance, in the first case (Friedman) the result is most likely to be 2+2=3, as opposed to 2+2=5 in the second case.

Friedman has *not* explained *how* a business can maximize its profits. The only reason we can think of that he did not do so, is that it would be quite an *embarrassing* admission if he did so. That's why he used an ingenious *ploy* by equating stakeholder welfare as part of *social responsibility*, and therefore *socialism*.

In our humble opinion, the reason Friedman *framed* the debate this way is, as he had an extremely *weak* hand. This is because the theory of *profit maximization* is neither good for society nor even for shareholders.

24. Drucker Institute's "Management Top 250, 2020"

The Drucker Institute, a unit of Claremont Graduate University, developed a *holistic* company ranking based on the principles of its founder, Peter Drucker, using data from a *wide* range of providers [https://www.drucker.institute/2020-drucker-institute-company-ranking/].

The ranking measures corporate effectiveness by examining performance in *five* areas (Note 33):

- Customer satisfaction
- Employee engagement and development
- Innovation
- Social responsibility
- Financial strength

The ranking is based on an analysis of 33 data inputs provided by 14 *third-party* sources. The five areas are weighted nearly *equally* in calculating a score that is the basis of this ranking.

Microsoft, Apple, IBM, and Amazon *top* the list of first four. Among the first 50 we found the names of *many* major corporations that have also done very well. These are: Cisco (6), Intel (7), Procter & Gamble (8), Johnson & Johnson (9), H.P. Inc. (10), Merck (11), PepsiCo (15), Ford Motor Co. (19), General Electric (20), Colgate Palmolive (21), JPMorgan Chase (30), Walmart (34), Coca-Cola (40), and General Motors (46).

25. Conclusion

Let us first start with critique of the Friedman doctrine, and this is what we found:

- Friedman a conservative ideologue: Not an unbiased scholar
- Libertarian free market ideology
- Doctrine offered in a societal vacuum due to belief in reductionism ideology
- Friedman did not say if profit maximization good in the long-run for society
- Focus on legal contracts vs. relationships

- Concept of a corporation based on legal boundaries now obsolete
- America must rebuild its Industrial Commons

Friedman has said that corporate managers are the employees of shareholders. But he got the law *wrong* because they are employees of the *corporation.*

We found three *major* flaws in the Friedman doctrine:

- Profit maximization idea offered as a doctrine *not* a theorem
- Friedman's moral philosophy: Self-interest—and greed
- No distinction between short-term and long-term shareholders

Friedman's critics were saying that he was *wrong* to be *entirely* in favor of shareholders, and that greater *balance* is needed in the *trade-off* between shareholders and the rest of society. And that is how Friedman has *won* the debate by cleverly *framing* the terms of the debate: a debate that is still going on for half a century.

Friedman's methodology of what he calls "*positive science,*" has been characterized by Blackford as *"pseudo-science, as if"* theory based on the idea of *static equilibrium.* According to Friedman, a theory should *not* be judged by how realistic it is, but, rather, by the accuracy of its *predictions.*

Friedman—and the entire mainstream economics establishment—are dedicated to *prediction* based on their theory. Mintzberg rightly (1977) cautions that *before* we tell *how* it "should" be done, we must first *understand* how it "is" done and *why*.

We believe Friedman became a *prisoner* of his own *free market* ideology--and the *static equilibrium* methodology-- that could handle only *one* variable at a time; a focus on *objectivity* and *quantification;* and a *strong* need for prescription and *prediction*.

As Greider (2006) has mentioned earlier, Friedman's *most* profound harm was as a *moral* philosopher, as he championed an ethic of unrelenting, unapologetic *self-interest.*

As we have seen in our long discussion, Friedman's invoking the *specter* of socialism is a clear indication of his bias *against* the role of government. Greider (2006) reports that Art Hilgart, a retired industrial economist, recalls hearing a Friedman lecture in 1991 in which the latter recommended *destruction* of Medicare, welfare, the postal system, Social Security and even public education. When a brave young woman asked what this would do for poverty, Friedman responded: "There is *no* poverty in America."

Prof. Robert Frank (2021; Note 34) reports that Friedman is said to have *joked* that if the federal government were put in charge of the Sahara, in five years there would a shortage of sand!

This *anti-government* attitude has been fostered by *free-market* enthusiasts. For example, President Ronald Reagan clearly said it in his first inaugural address: "Government is *not* the solution to our problem; government *is* the problem" (*ibid*, *italics* added).

Frank (2021) suggests that in many cases i*ndividually* rational behavior is *collectively* irrational. For example, buying 5,000-pound cars when 2500-pound cars would be almost better for everyone else, would clearly be a social waste. So taxing cars by *weight* would be a relatively easy solution. Yet, opponents of government might say such an action is *social engineering*.

But Frank (*ibid*) argues that *so* are speed limits and traffic lights.

In an incisive article we have cited earlier, Mintzberg (1996) says that after the fall of Eastern Europe many *wrongly* concluded that Capitalism had won. As a result, U.S. and U.K. are more likely to favor *private* sector over the public. However, Mintzberg believes that this is *not* going to help society.

He adds that capitalism did *not* triumph at all: *balance* did. We in the West have been living in a *balanced* society: with strong private sector, strong public sector, cooperatively-owned organizations, and non-government organizations (NGOs).

Encouraged by the Friedman doctrine, American CEOs set themselves on a path toward *profit* maximization--or its counterpart maximizing *shareholder* value. This new mind-set encouraged *risk aversion* and *short-run* behavior: with a focus on *cost reduction* rather than *long-term* concerns about innovation, quality, and customer satisfaction. And it was this momentous philosophical *shift*—from substance to *shadow*—that has contributed so much to the American industrial decline.

Lower quality and *lack* of innovation played a key role in the virtual *disappearance* of U.S. companies from the consumer electronics industry, and their *loss* of world dominance in such markets as automobiles, steel and tires.

Thanks, in a large measure due to the Friedman doctrine, for decades U. S. companies have been *outsourcing* manufacturing to *save* costs on the belief that manufacturing *at home* held *no* competitive advantage. But that has been a *disaster*, because *today's* low-value manufacturing operations contain the seeds of *tomorrow's* innovative new products. What those companies have been *ceding* is the country's *industrial commons* --that is, the *collective* operational capabilities that support *new* product and process development in the U.S. industrial sector.

Consequently, America has *lost* not only the ability to develop and manufacture *high-tech* products--like televisions, memory chips, and laptops--but also the *expertise* to produce *emerging* hot products like the *Kindle e-reader*, *high-end servers*, *solar panels*, and the *batteries* that will power the next generation of automobiles.

What those companies have been *ceding* is the country's *industrial commons*--that is, the *collective* operational capabilities that support *new* product and process development in the U. S. industrial sector.

Economic *inequality* in America has been going up persistently since 1974, squeezing the middle class. America's income inequality has now *widened* so much that it rivals the *highest* level recorded in 1928 that led to the Great Depression of 1929.

One argument that has been advanced in favor of the profit maximization theory that it provides correct answers to problems, and therefore makes grading students' papers easier. This is also the theory that is the *bedrock* of the *tenure* and *promotion* system in colleges and universities in mainstream Economics.

But this is also the theory that is *brainwashing* business students--the future *leaders* of tomorrow--into *destructive* behavior.

But most importantly, as Pearlstein (2013) has argued, that in the "recent history of management ideas, *few* have had a *more* profound—or *pernicious*—effect than the one that says corporations should be run in a manner that "maximizes shareholder value" (*italics* added).

But, as Prof. Anthony has so powerfully explained, Friedman's theory of profit maximization is too difficult, too unrealistic—and immoral.

Martin Wolf of the *Financial Times* (2020), in commenting on the Friedman doctrine has said this:

- "But, as H L Mencken is supposed to have said…"for every complex problem there is an answer that is clear, simple, and *wrong*." This is a powerful example of that truth" (*italics* added).

Finally, on Prof. Blackford's (2017) paper's opening page (at the top right-hand corner), there is a statement attributed to Mark Twain which goes as follows:

- It ain't what you don't know that gets you into trouble. It's what you know for *sure* that just *ain't* so (*italics* added).

Finally, in Table 1 we have presented a *comparative* version of Friedman's world of business, vs. the one in the *real* world.

Table 1. Friedman's World of Business vs. Real World of Business

Name of Topic	Friedman's Business World	Real Business World
Scientific ideology	Mechanistic	Holistic
Scientific methodology	Static equilibrium	Dynamic
World view	Reductionism: the whole is equal to some of the parts	Focus on the whole
Primary mode of investigation	Analysis	Synthesis
Scientific paradigm	Certainty of facts	How realistic the facts are
Main scientific principle	Objectivity and quantification	Relevance
Level of uncertainty	None	We live in an uncertain world for which we need an objective of flexibility
Major business objective (s)	Profit Maximization	Profit maximization too difficult, too unrealistic, and immoral. Profitability, market share, and flexibility
Price	Tactical variable	Strategic variable
Nature of the corporation	Contractual: based on legal boundaries	*A network* of producer, customers, and suppliers *closely* linked in a *common* chain, as *one* economic whole. Need for building America's Industrial Commons.
Nature of decision-making process	Analytical rigor	Intuition, judgment, creativity, courage, persistence.

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We are immensely grateful to the memory of Robert Anthony, Professor of Management Control at the Harvard Business School, for his classic essay of 1960: "The Trouble with Profit Maximization," whose insight is still valid today. We are proud to say that the *central* message of our article rests on the broad shoulders of Prof. Anthony's wisdom revealed in his classic essay mentioned above.

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Notes

Note 1. Gillian Tett is chair of the editorial board and editor at-large, *US of the Financial Times*.

Note 2. https://www.drucker.institute/perspective/about-peter-drucker/

Note 3. Professor at the University of Chicago Law School.

Note 4. file:///C:/Users/ydatt/Downloads/Milton%20Friedman's%20_Shareholder_%20Theory%20Was%20Wron g%20-%20The%20Atlantic.html

Note 5. Igor Ansoff has been called 'the father of strategic management' by Henry Mintzberg (Wood & Wood)

Note 6. Robert Anthony did more than anyone else to introduce a conceptual structure to *management control* that helped him to *transform* the field of managerial accounting *from* the province of accountants *to* the tool of managers. https://en.wikipedia.org/wiki/Robert_N._Anthony

Note 7. https://fragileeconomics.com/2020/06/satisfying-behavioral-theory-business-objectives.html

Note 8. One exception was Head & Shoulders shampoo, a runner-up, whose unit price was *higher* than that f the market leader Pantene. However, a big reason for this is that the former is anti-dandruff *specialty* shampoo that always costs more than a regular shampoo.

Note 9. Milton-Friedman-50-years-later-ebook (1).pdf

Note 10. Luigi Zingales is the Robert C. Mc Cormack Distinguished Service Professor of Entrepreneurship and Finance at the University of Chicago - Booth School of Business.

Note 11. Associate Editor and Chief Economics Commentator at the *Financial Times*.

Note 12. *Senior Contributor of Forbes*.

Note 13. Focusing on maximizing short-term shareholder value"—the essence of the Friedman Doctrine—"is built on the world's *dumbest* idea'.

Note 14. In 2011, Stiglitz was named by *Time* magazine as one of the 100 most influential people in the world. https://en.wikipedia.org/wiki/Main_Page

Note 15. https://nytimes.com/2020/09/13/business/dealbook/milton-friedman-essay-anniversary.html#:~:text=Milton%20Friedman's%20Influential%20Essay%20on,Later%20%2D%20The%20New%20York%20Times&text=DealBook%7CGreed%20Is%20Good.,Except%20When%20It's%20Bad

Note 16. Executive Director of American Compass.

Note 17. Specialization, Reductionism, Objectivity, Rationalism, and Materialism.

Note 18. https://www.nytimes.com/2020/09/13/business/dealbook/milton-friedman-essay-anniversary.html#:~:text=DealBook%20Newsletter-,Greed%20Is,Except%20When%20It's%20Bad.&text=Sept.%2013%20is%20an%20imp ortant,in%20business%20and%20policy%20circles

Note 19. https://www.google.com/search?q=was+milton+friedman+a+regular+on+the+tv+circuit+&ei=Zqx0YPSWGcHIsAWk3bfgDA&oq=was+milton+friedman+a+regular+on+the+tv+circuit+&gs_lcp=Cgdnd3Mtd2l6EAMyBQghEKABMgUIIRCrAlDZqwNY8rkDYLDFA2gBcAB4AIAByAGIAZIMkgEGMC4xMC4xmAEAoAEBqgEHZ3dzLXdpesABAQ&sclient=gws-wiz&ved=0ahUKEwj04fbcxPnvAhVBJKwKHaTuDcwQ4dUDCA0&uact=5

Note 20. Henry Mintzberg is Cleghorn Professor of Management Studies at the Desautels Faculty of Management at McGill University, Montreal, Canada.

Note 21. Stefano Zamagni is a Professor of Economics at the University of Bologna.

Note 22. Erika Karp is CEO of Cornerstone Capital Group.

Note 23. Prof. Martin is a former dean of the Rotman School of Management at the University of Toronto.

Note 24. George Blackford is a former Chair of the Department of Economics at the University of Michigan-Flint.

Note 25. Prof. Rajan is the Katherine Dusak Miller Distinguished Professor of Finance at Chicago Booth.

Note 26. Prof. Lynn Stout is the Distinguished Professor of Corporate and Business Law at Cornell University.

Note 27. David Koch, the younger brother of Charles, died in 2019.

Note 28. For example, The Heritage Foundation, Hoover Foundation.

Note 29. Founded Cato Institute in 1977.

Note 30. Andersen (2020, p. 142).

Note 31. Andersen (2020, p. 278).

Note 32. That includes such prestigious universities and colleges as MIY, NYU, Amherst, Wellesley College, Stanford, and so on (Andersen, 2020, p. 274).

Note 33. Explore the Management Top 250 - WSJ

Note 34. Robert H. Frank is the Henrietta Johnson Louis Professor of Management and Professor of Economics at Cornell's Johnson Graduate School of Management. prof robert frank biography - Bing.