

Inquiring Minds Topic – September 3, 2021

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Do We Need a Kinder, Gentler Form of Capitalism?

Pope Francis has called on the architects of the global financial system to reduce rising income inequality by prioritizing the needs of the poor who are left behind by the globalization of indifference.

Poverty can be overcome, said the Pope, if an economic system is put in place that includes, feeds, cures, and dresses those left behind by society. “We have to choose what and who to prioritize,” he said. Our choice will lead either to increased social injustice and violence, or to “humanizing socio-economic systems” (Vatican News, 07/09/2020).

Just 35 days later, an essay heard round the world was being celebrated. Milton Friedman’s “[The Social Responsibility of Business Is to Increase Its Profits](#)” laid out arguably the most consequential economic idea of the latter half of the 20th century. The essay, published in The New York Times Magazine on Sept. 13, 1970, was a call to arms for free market capitalism that influenced a generation of executives and political leaders, including Ronald Reagan and Margaret Thatcher.

Mr. Friedman, who was on the faculty of the University of Chicago and who [died in 2006](#) at 94, was no mere economist; he was a kind of celebrity. He became a regular on the talk-show circuit. PBS even gave him a 10-part series. Fifty years later, his theories on the primacy of shareholders and the priority of profits still hold sway over large parts of the corporate world.

(<https://www.nytimes.com/2020/09/13/business/dealbook/milton-friedman-essay-anniversary.html?searchResultPosition=1>)

How Well Has It Worked?

In the decades after World War II, close to 50 percent of American companies’ earnings went to state and federal taxes. Economically, it was a golden period. Middle-class incomes [grew at roughly the same rate](#) as those of the richest Americans. But as globalization gave companies the ability to choose where they recorded profits, Congress scrambled to keep their business by lowering corporate taxes. In 2018, American companies were taxed at an average effective rate of [less than 14 percent](#), by our calculations. Corporate tax breaks have helped business owners amass [inconceivable](#) amounts of money over the past few decades. Meanwhile, middle-class Americans have [footed the bill](#), as Congress has propped up the budget by raising taxes on wages (“This is tax evasion, plain & simple”, Gabriel Zucman and Gus Wezerek, NYTimes, July 7, 2021).

The Dow Jones Industrial Average has moved from 5,800 in 1970 to 34,500 today. Since 1970, the hourly inflation-adjusted wages received by a typical worker have grown at only 0.2% per year, while the average CEO compensation is now 10 times what it was in 1970. The poverty rate for children declined by only about 10%, in the last 50 years, and income inequality is now comparable to what it was during the Great Depression. Despite Gordon Gekko’s insistence, it appears that greed is **not** good, and greed **does not** work.

The New York Times recently published several comments about Friedman's point of view (<https://www.nytimes.com/2020/09/13/business/dealbook/milton-friedman-essay-anniversary.html>).

Marc Benioff, chief executive of Salesforce: I'll never forget reading Friedman's essay when I was in business school in the 1980s. It influenced — I'd say brainwashed — a generation of C.E.O.s who believed that the only business of business is business. The headline said it all. Our sole responsibility to society? Make money. The communities beyond the corporate campus? Not our problem.

I didn't agree with Friedman then, and the decades since have only exposed his myopia. Just look where the obsession with maximizing profits for shareholders has brought us: terrible economic, racial and health inequalities; the catastrophe of climate change. The shareholding class keeps getting richer; the rest of the nation is [falling behind](#). It's no wonder that so many young people now believe that capitalism can't deliver the equal, inclusive, sustainable future they want.

Howard Schultz, emeritus chairman of Starbucks: I've asked this question since opening my first coffee shop in 1986. My answer, a rebuke of Friedman's single-minded focus on profits, appeared in our company's original mission statement: "We wish to be an economic, intellectual and social asset in communities where we operate." We would do this not at the expense of profits, but to grow them.

If Friedman had balked, asserting that Starbucks could have performed even better without these "socially responsible" activities, I would have told him what I told an institutional investor who wanted me to slash health care costs during the Great Recession, or what I said to a shareholder in 2013 who falsely claimed that Starbucks's support of gay rights hurt profits: If you feel you can get a better return elsewhere, you are free to sell your shares.

In 2013, I stood in front of Starbucks shareholders and posed this question: "What is the role and responsibility of a for-profit public company?" Friedman's flawed answer is not his legacy. His legacy is the question itself — which today's leaders must answer with a renewed commitment to balancing moral purpose and high performance.

Joseph Stiglitz, professor of economics at Columbia University, was awarded a Nobel Prize in 2001: By the time he wrote this essay, Friedman, who had done distinguished analytic and empirical work in economics, had become largely a conservative ideologue.

I gave a talk at the University of Chicago around this time, presenting an early version of my research establishing that in the presence of imperfect risk markets and incomplete information — that is, always — firms pursuing profit maximization did not lead to the maximization of societal welfare. I explained what was wrong with Adam Smith's invisible-hand conjecture, which said that the pursuit of self-interest would lead, as if by an invisible hand, to the well-being of society. During the seminar, and in extensive conversations afterward, Friedman simply couldn't or wouldn't accept the result; but neither, of course, could he refute the analysis — it has been a half-century, and my analysis has stood the test of time. His conclusion, as influential as it was, has not.

Today the downside of Friedman's perspective is even darker: Is it Mark Zuckerberg's social responsibility to allow wanton disinformation to roam over his social media platform? Is it Zuckerberg's responsibility to lobby to get rid of a pesky foreign competitor while fighting for his company to be free from anti-competitive restraints and any accountability, so long as it increases his bottom line? Friedman would say yes. Economic theory, common sense and historical experience

suggest otherwise. It is good that the business community has awaked. Now let's see whether they practice what they preach.

Some Alternatives Forms of Capitalism

Kinder Corporations. For many businesses, giving back to their communities is an afterthought — something they only do after they've turned a profit. But by integrating philanthropy into our company culture from the beginning — giving 1 percent of our equity, time and technology — Salesforce has donated nearly [\\$300 million](#) to worthy causes, including local public schools and addressing homelessness. To me, the boys and girls in local schools and homeless families on the streets of our city are our stakeholders, too. Entrepreneurs looking to develop great products and develop their communities can join the 9,000 companies in the [Pledge 1%](#) movement and commit to donating 1 percent of their equity, time, and product, starting on their first day of business. (Mark Benioff, New York Times, October 14, 2019, Page A27).

Stronger Government Control. Government remains the most powerful means to express our collective will. The necessary solution is to create stronger incentives for good behavior and laws against bad behavior.

Instead of urging power companies to burn less fossil fuel, tax carbon emissions.

Instead of pleading with McDonald's to raise wages, raise the federal minimum wage.

Instead of shaming Amazon for squeezing small business, enforce antitrust laws.

Government also needs to do more to support economic growth. Friedman's negative vision of government has helped to obscure the ways the public sector can help the private sector, for example by investing in education, infrastructure, and research.

The outsize political influence of corporations — and those made wealthy by corporations — is certainly one reason for the widening gap between what the law requires and what many Americans would like the law to require. But there is no sense in waiting for corporations to disarm voluntarily. The rules must be changed, and the process begins at the ballot box (Binyamin Appelbaum, New York Times, Sept. 18, 2020).

Depending on the Kindness of Strangers. As income inequality continues to increase, the percentage of the nation's wealth owned by the top 10% has grown to nearly 70%, according to the Federal Reserve. The top 1% now own a whopping 31% of the nation's wealth. Newly minted multi-millionaires and billionaires are moving away from conspicuous consumption and turning toward philanthropy by forming private foundations (Kiplinger e-letter, May 29, 2021). Like Blanche DuBois, should our federal government rely on donations from socially-conscious, super-rich millennials to fund more discretionary spending?

Let's Go Scandinavian. We are all aware that citizens of Scandinavian and Western European countries are among the happiest people on Earth. People in Social Democracies pay high taxes for many benefits that we lack in the U.S., such as universal health care, affordable university tuition, paid leave for childcare, and reduced income inequality. Is it finally time for the U.S. to expand the safety net to our most vulnerable citizens for the good of all?

Of the People, By the People, For the People. As our republic has devolved into what some might call a plutocracy, the elected representatives of the people have become more beholden to their

donors and lobbyists than to the public for whom they work. This change has contributed to the drop in corporate tax rates from 50% to 14% in the past 70 years, plus the \$445 billion paid to contractors by the Department of Defense last year. As a result, an increasing percentage of the discretionary portion of the federal budget has gone **to corporate America** rather than **to the people**.

Discretionary spending by the federal government totaled \$1.6 trillion in 2020, of which \$714 billion was for national defense (\$445 billion went contractors) and \$914 was for nondefense activities (Congressional Budget Office). The top three nondefense costs were health (\$178 billion), transportation (\$117 billion) and education, training, employment & social services (\$107 billion).

Suppose we allocated about half of the defense budget that goes to contractors (\$225 billion) to the top three nondefense cost listed above. How much would the total number of personal bankruptcies resulting from catastrophic medical costs drop every year? How many more Americans could afford to go to the doctor regularly? How many more children from low- and middle-income families could afford community college or university educations without assuming huge debts? How many deteriorating highways and bridges could be upgraded, and how many accidental injuries or deaths could be avoided?

How much closer to a kinder, gentler America would we be?

Discussion Questions

1. Do you agree with Milton Friedman's original essay? Why?
2. How much does continuing the economic status quo threaten the future of our democracy?
3. Practicality aside, which of the alternatives above do you favor? Why?
4. How likely do you think any of the changes could be enacted by Congress?
5. Given the individualistic culture we have in the U.S., how can we try to incentivize people to focus on the good of the whole rather than on their own benefit?