

Free Market Theory

Kelvin Gani

Philosophy 312

Prof. Battaly & Prof. McWilliams

March 10, 2009

In the business world, there is one theory that “provides a systematic view of the proper role of business in society” (DesJardins & McCall, 2005, p. 7). That theory is called free market. The free market theory believes that business managers have only one primary responsibility, which is to maximize profit; also, the theory tells that government should not involve in economic matters, except to prevent fraud and coercion (DesJardins & McCall, 2005, p. 7). Government involvement or interference will only disturb the market and create ineffectiveness. One of the Nobel Prize winning economists that supports this theory was Milton Friedman. In his essay “The Social Responsibility of Business is to Increase its Profits”, he (2005) argued that in a free market, a corporation has one social responsibility which is to maximize its profits” (p. 7), and a corporation in the pursuit of profit, has to be free from government interference (p. 13). Although Friedman said that free market theory would improve the overall economy, I argue that his defense on the free market theory fails.

Friedman (2005), in his essay, started the discussion on the social responsibilities of business. Friedman first explained that business cannot have responsibilities, “only people can have responsibilities” (p. 8). Therefore, in a corporation, corporate executives as the employees of the owners of the business, hold the responsibility. Corporate executives are responsible to increase profits while running the business sincerely and fairly within the rule of the society because the owners of the business always want to maximize their profits (Friedman, 2005, p. 8). Friedman implied that if every corporate executive does their job according to their responsibility, it will lead to the improvement of the overall economy (DesJardins & McCall, 2005, p. 12). Therefore, maximizing profits would be the social responsibility of business.

In addition, Friedman (2005) argued that corporate executives as the agents of the corporation should do their responsibility according to their employer or investors (p. 9). If the

corporate executives do their responsibility accordingly, which is to make as much money as possible, then it will be good for the corporation. A corporation will be like an individual, and each corporate executive will take care of the corporation like it is their own. Generally, people are self-interested, so no matter what, they will take care of themselves better than anyone else (Friedman, 2008, PBS Interview). One of the examples is Central Park in New York; he mentioned that Central Park is not safe because it was managed by the government as a social benefit. There is no incentive for the government to maintain the park well. However, if Central Park was privatized, the environment would be different. It would be better and safer because a private corporation will have the incentives for improving it (Friedman, 2008, PBS Interview). A better, safer environment will lead more people to visit the park, which will increase the corporation's profits. Otherwise, people will probably not come to that park.

The other argument that Friedman presented in his essay is that it is unethical and immoral to force someone else's will or choice. If a corporate executive is being socially responsible to the society, and not his or her corporation or employer, such as imposing extra expenditures to the corporation in order to be environmentally responsible or donating to charity, then he or she is acting ethically wrong (DesJardins & McCall, 2005, p. 12). The corporate executives could argue that they want to make the world a better place, and nobody can complain about their personal choice. However, their actions to be socially responsible are not in accord with their employers, so they are wrong. In addition, the employers might not have the same choice or opinion as them. So, they are actually spending corporate funds to fulfill their personal interest (DesJardins & McCall, 2005, p. 8). This would be unethical and immoral because they are forcing their personal interest on other people, who are their employers or corporate stakeholders.

Friedman (2005) wrote that “there is nothing that could do more in a brief period to destroy a market system ...than effective governmental control” (p. 11). He mentioned that a lot of corporate executives were very thoughtless; they asked government for help to regulate new laws. They should have considered the continuing effect of such regulation (Friedman, 2005, p. 11). It might not affect their business directly, but it would affect the economy as a whole. According to Friedman (2008), he found that private corporations can do better without government interference because corporations must be the experts in their field (PBS interview). If the products they sell were harmful, nobody would buy their product and they would fail. Indeed, private corporations want to make as much profit as possible, so they will make good products instead. Nonetheless, many private corporations try to look good in public by promoting the idea that they are socially responsible. These corporations do not realize that they are supporting the idea that “the pursuit of profit is wicked and immoral and must be curbed and controlled by external forces”, which are government regulations. (Friedman, 2005, p. 11) Furthermore, with such encouragement, government would be more eager in regulating new laws in the market. By requiring corporations to be responsible for things other than profit such as environment and society, the corporations then would have to spend much more extra expenditures not related to profit, which would cause ineffectiveness and inefficiency (Friedman, 2005, p. 11). Private corporations operating unencumbered in a free market would lead to greater efficiency and thus, decreasing prices and increasing quality.

Friedman believed that the responsibility of the corporation is simply to maximize profit (DesJardins & McCall, 2005, p. 12). Also, as the agents of the corporation, corporate executives are responsible to maximize profit as that is what the owners of the corporation want, and it would be unethical and immoral for the corporate executives to try to be socially responsible at

the expense of the corporations. Moreover, the interference of the government in economic matters will only destroy the market systems and competition because of its ineffectiveness and inefficiency. Although Friedman argued that in a free market the economy in general will improve, I argue that his defense will fail because of two points. First, there is trade-off among freedoms (DesJardins & McCall, 2005, p. 15), and second, government involvement is sometimes necessary for the good of society and overall economy.

Freedom is “a state in which somebody is able to act and live as he or she chooses, without being subject to any undue restraints or restrictions” (“Freedom,” 2006). Desjardin (2005) in his objection to Friedman’s defense wrote that “freedom is not an either or concept.... Rather, there are many different freedoms and a free society inevitably will involve trade-offs among these freedoms” (p. 15). Since one’s freedom might conflict with the freedom of others (DesJardins & McCall, 2005, p. 15), the involvement of government is necessary. For example, a corporation tries to make as much money as possible by forcing the salary based employees to work seven days a week without giving any extra bonuses. This shows that the freedom of corporation limits the freedom of the employees, which to have leisure time or at least some fair compensation for time. In this case, the corporation is the entity that acts unethically by forcing the employees to work outside normal working hours for the sole benefit of corporation. Thus, government interference is required such as regulating new labor laws that protect employees from being taken advantage of. On the other hand, government involvement in the market should not be too strong that it would limit the freedom of the corporation itself. Corporation should be free in pursuing its profit as long as it does not limit other people’s freedom such as time and earning potential. As employees have a responsibility to increase profit of their corporation, a corporation besides maximizing profit, also has to be responsible to its employees. Since there

exist exchange among freedoms, Friedman's defenses are invalid when he claims that the responsibility of corporation is only to maximize profit (2005, p. 8), and government interference in the market will be the downfall of free society (2005, p. 10).

Friedman believes that free market would be good for the overall economy (2008, PBS Interview) and that government interference in the market will only create ineffectiveness and inefficiency for the business in general (2005, p. 11); however, government interference is sometimes good for both business and society such as, to keep jobs within the country. In his essay, he argued a lot about the good effects of free market; actually, as an economist, he should have been more farsighted in considering the side effect of free market to the overall economy. For example, the effects of outsourcing by manufacturers; since the corporations are allowed to do anything in order to maximize profit, the manufacturer would most likely outsource their factory to a developing country to cut costs. If the government did not regulate any laws in regards to this issue, then all of the U.S. manufacturing jobs must have been outsourced to China, India, or other developing countries. Fortunately, the government is able to see the possibility of such problems by applying tax duties or quotas on imported products. This regulation is good for both society and businesses because when people work, they will have money to buy goods, so corporations who produced goods, will have people buying their goods. Thus, such regulation improved the overall economy. In his essay, Friedman (2005) did not consider this possibility; instead, he tries to persuade the reader to think that the involvement of government in things besides preventing fraud and coercion would destroy the market system (p. 11). Therefore, Friedman's claims that government interference in the market will only create ineffectiveness and inefficiency for the overall economy, and that free market would be the best for the overall economy are wrong.

In his essay, Friedman exaggerated his arguments and overgeneralized some of the free market ideas. A free market system is not as simple as he described. It could influence not just the economy as a whole, but also society. Since one's freedom might conflict with the freedom of others (DesJardins & McCall, 2005, p. 15), government needs to involve in protecting the freedom of both society and businesses. In addition, as effective as it is in improving an economy, free market could also destroy the overall economy. As we have seen how the banking and financial industries have caused this economic recession while being completely unregulated. Therefore, Friedman's defense of the free market will fail. Consequently, I believe that a free market will produce the best result for the overall economy and society when it is operated simultaneously with adequate government involvement and regulation.

References

- DesJardins, J. R., & McCall, J. J. (2005). *Contemporary Issues in Business Ethics* (5th Ed.). Belmont, CA: Thomas/Wadsworth.
- Freedom. (2006). *Microsoft Student 2007* [DVD]. Redmond, WA: Microsoft Corporation.
- Friedman, M. (2005). The Social Responsibility of Business is to Increase its Profits. In J. R. DesJardins, & J. J. McCall (5th), *Contemporary Issues in Business Ethics* (pp. 7-11). Belmont, CA: Thomas/Wadsworth.
- The John M. Olin Foundation. (2008, October 10). PBS Uncommon Knowledge. Take it to the Limits: Milton Friedman on Libertarianism [Video file]. (March 3, 2009). Video posted to <http://video.google.com/videoplay?docid=4932229245802913052&ei=gSG2SYTcC5PCqAPks8HyAw&q=friedman+libertarian&hl=en>