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Fifty years ago this September, Milton Friedman--one of the most famous economists of the 20th century--wrote an influential article in the *New York Times* titled "[The Social Responsibility of Business is to Increase its Profits](#)." In your final essay, you will read this article and respond whether you think he was right or wrong, based on economic principles and a case study you provide.

Your essay should be roughly 1,000–1,200 words, and no more than 1,300 words. You are free to structure your essay as you wish, but it must include the following four points, preferably in this order:

- I. Articulate the rationale for Friedman's argument in economic terms. Address (at least) the following:
 - a) Explain Friedman's argument that managers engaging in "corporate social responsibility" (CSR) is an example of a principal-agent problem, and why this implies CSR is not a good thing.
 - b) Further down, Friedman states:

"...the doctrine of "social responsibility" involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses."

Articulate **why** markets are a useful way to allocate scarce resources, and why CSR could distort this allocation mechanism and result in an inefficient allocation of resources.
 - c) Friedman gives the example of a company that provides amenities to the town it is located in as "one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest." Comment on how this reasoning is consistent with the profit motive and relates to Adam Smith's "invisible hand."
2. Articulate (at least) one reason why Friedman's argument could be misguided or incorrect---again, using economic arguments and concepts that we covered in class. Specifically, are there situations in which the profit motive leads firms to an outcome that fails on the dimension of efficiency and/or fairness, and why? And would a motive that included objectives other than profit do better? Remember that your answer must be based on economic arguments, but you can certainly appeal to non-economic justifications as well.
3. Friedman concludes:

"there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game."

Do you agree? *i.e.*, are you more convinced by your answers from #1 or #2? Justify your answer.

Based on your answer, discuss how you think **public policy** should intervene in the interactions between firms and their customers. For example, should policy actively encourage or require that firms have an objective other than profit-maximization, and if so how? Should policy encourage the profit-motive to flourish untouched? Should policy accept the profit motive, but put specific restraints on firms' profit-seeking behavior, and if so how? Again, justify your answer using economic arguments.

4. Research and describe a real-world example of a company or industry to support your answer to part 3. So, if you agree with Friedman, this could be a company that is highlighting how the profit motive can lead to a socially beneficial outcome for customers, workers, and other stakeholders. If you disagree with Friedman, this could be a company that is explicitly following a mission that includes objectives other than profit, and whose existence results in an outcome superior to what a purely profit-maximizing firm would achieve (again, for customers, workers, and other stakeholders). In your description, include at least one citation (to a website, news article, or other source) to support your argument.