



motive

WWW.PRAGERU.COM

## DISCUSSION & REVIEW QUESTIONS:

- At the beginning of the video, Dr. Williams asks, “Why are profits so important to everyone, not just business owners...?” How would you answer his question?
- Dr. Williams informs us that, “Profits motivate people to work hard for themselves and make life better for others.” What are some examples of this?
- Write out a list of all the people you imagine it would take to get a Television made in Korea to a department store in a small Town in Iowa. Taking this information and its implications into consideration, how are profits ‘progressive?’
- How does the difference between companies who risk failure for not pleasing customers and government agencies who don’t face any meaningful consequences if they don’t please the people they service affect consumers? How could it affect communities or even entire industries?
- Towards the end of the video, Dr. Williams concludes that we, as consumers, should “...want as little government as possible.” Do you agree with this assessment? Why or why not?

## EXTEND THE LEARNING:

### CASE STUDY: Milton Friedman

INSTRUCTIONS: Read Corporate Social Responsibility: Friedmans’ View, then answer the questions that follow.

- What did Friedman consider corporate social responsibility to be?
- What did Friedman believe the role of citizens should be in guiding corporate responsibility?
- Why would Dr. Coleman, the author of the article, believe that corporations should not define corporate responsibility for themselves (beyond Friedman’s definition)?



# QUIZ

## PROFITS ARE PROGRESSIVE

---

**1. According to Walter Williams what is profit?**

- a.. The payment for taking risks, for innovating, and for making decisions.
- b.. The surplus made by charging more than what goods and services cost to produce.
- c. The surplus made by charging as much money as you can for goods and services.
- d. What the rich take from the poor through capitalism.

**2. Which of the following statements is true?**

- a. More profits equal less motivation. Less profits equal more motivation.
- b. Non-Profits lead to fairness. For-Profits lead to greed.
- c. Fewer profits equal less motivation. More profits equal more motivation.
- d. Non-Profits equal more motivation. For-Profits equal less motivation

**3. What happens when the profit motive is taken away?**

- a. People become less greedy and they begin to take care of others.
- b. People are less motivated to do a good job since they cannot be penalized for doing a bad job.
- c. The government steps in and makes sure that everyone gets a fair share.
- d. The profit motive cannot be taken away from humans.

**4. How do profits motivate?**

- a. Self-interest motivates people to work hard to get as much as they can for themselves.
- b. Profits motivate people to earn money in the expense of other people at all times.
- c. Self-interest motivates people to be lazy and dependent on others.
- d. Profits motivate people to be jealous and demanding of others who earn more than them.

**5. Why do Texas cattle ranchers go out in the winter blizzard to feed cows so that New Yorkers have beef on their shelves?**

- a. They love New Yorkers.
- b. They want to make a profit for themselves.
- c. They are motivated by human love and kindness.
- d. They love the challenge of fighting the cold winter.



# QUIZ - ANSWER KEY

## PROFITS ARE PROGRESSIVE

---

**1. According to Walter Williams what is profit?**

- a.. The payment for taking risks, for innovating, and for making decisions.
- b.. The surplus made by charging more than what goods and services cost to produce.
- c. The surplus made by charging as much money as you can for goods and services.
- d. What the rich take from the poor through capitalism.

**2. Which of the following statements is true?**

- a. More profits equal less motivation. Less profits equal more motivation.
- b. Non-Profits lead to fairness. For-Profits lead to greed.
- c. Fewer profits equal less motivation. More profits equal more motivation.
- d. Non-Profits equal more motivation. For-Profits equal less motivation

**3. What happens when the profit motive is taken away?**

- a. People become less greedy and they begin to take care of others.
- b. People are less motivated to do a good job since they cannot be penalized for doing a bad job.
- c. The government steps in and makes sure that everyone gets a fair share.
- d. The profit motive cannot be taken away from humans.

**4. How do profits motivate?**

- a. Self-interest motivates people to work hard to get as much as they can for themselves.
- b. Profits motivate people to earn money in the expense of other people at all times.
- c. Self-interest motivates people to be lazy and dependent on others.
- d. Profits motivate people to be jealous and demanding of others who earn more than them.

**5. Why do Texas cattle ranchers go out in the winter blizzard to feed cows so that New Yorkers have beef on their shelves?**

- a. They love New Yorkers.
- b. They want to make a profit for themselves.
- c. They are motivated by human love and kindness.
- d. They love the challenge of fighting the cold winter.

<https://bfi.uchicago.edu/feature-story/corporate-social-responsibility-friedmans-view>



## Corporate Social Responsibility: Friedman's View

A reader asks:

*I'd like to more clearly understand Milton Friedman's (and others as necessary) views on corporate social responsibility. Did Friedman believe it was inappropriate for corporations to do all they could to minimize potentially injurious "externalities" such as toxic waste dumps or harmful work environment that result from the corporations' activities in pursuit of their business and its profitability?*

What are a corporation's "social responsibilities?" Milton Friedman's well-known response is: "a corporation's responsibility is to make as much money for the stockholders as possible." At first blush this sounds uncivil, severe, potentially even cruel. What about worker safety? Pollution? Child labor in less-developed countries? Are issues like these to be ignored by corporations? This indeed sounds like an uncivil, potentially unpleasant society.

But dig a little deeper, think about the issues as an economist would, and we see that there is no contradiction between corporations pursuing profit and a civil and civilized society. An economist would recognize that Friedman's admonition (that firms should only pursue profits) is a good route to a civil and civilized society. Friedman (I have no doubt) would have argued that it is more likely to produce social good than exhortations or rules that firms should be "socially responsible".

The explanation lies in the second, less-well-known part of Friedman's famous statement (the italicized phrase, with my emphasis added): "In [a free economy] there is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits *so long as it stays within the rules of the game*." (*Capitalism and Freedom*, University of Chicago Press, 2002 Fortieth Anniversary Edition, p 133).

Although it is generally the first part of the statement we remember, the second is equally important. Friedman says a few sentences later: "It is the responsibility of the rest of us to establish a framework of law such that an individual in pursuing his own interest is, to quote Adam Smith again, 'led by an invisible hand to promote an end which was no part of his intention.'" (p. 133). It is that framework of law rules around issues such as property rights, liability, and so on that push profit-maximizing firms to behave "responsibly" (or irresponsibly).

Take as an example pollution externalities. If these are important and controlling them is an important social end, then the political process and the legal system are the appropriate forum to “establish a framework of law.” Property rights and liability laws that hold a firm responsible for pollution compel the firm to take those external costs into account; firms internalize the external costs. The firm still maximizes profits, but the profits account for the pollution costs now included in the cost of doing business.

An economist would argue, as does Friedman, that “If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is? Can self-selected private individuals decide what the social interest is?” The appropriate forum for such decisions is the political and legislative arena or the legal system. The pros and cons of such policies can be debated and voted upon, or adjudicated according to precedent and law.

An economist argues for effective means to manage externalities and other social responsibilities. It is neither efficient nor reliable to impose ill-defined social responsibilities that may be open to arbitrary interpretation by firm managers. It is far better to establish a framework of law that will clearly and transparently induce the firm to internalize costs. Within that framework, firms should single-mindedly pursue profit maximization.

In the end I do not believe Friedman thought it inappropriate for corporations to do all they could to minimize potentially injurious externalities. I think Friedman’s argument was about the means more than the end. He was arguing, even if such ideas seem counterintuitive at first blush, that single-minded profit maximization (allied with an appropriate framework of law) would be more likely to produce social good than exhortations that firms be socially responsible.

*Thomas S. Coleman, AM’81, PhD’84,*

Posted: 8/16/13