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INTRODUCTION TO THE PAPERBACK EDITION

Reimagining Capitalism in a World on Fire went to the printer in January 2020, just as the first news of COVID-19 was appearing in the press. It was published in April, as much of the country went into lockdown.

The pandemic shut down my long-planned book tour, and I worried that the book would disappear without a trace. Lying awake at 4 a.m., worrying about the world, I feared that discussions about corporate "purpose" and the need to reimagine capitalism would be dismissed as unaffordable luxuries. But I was entirely wrong. Instead, COVID-19 has pushed this conversation to center stage.

The pandemic changed the world dramatically. The virus infected more than sixty-five million people and by February 2020 had killed more than two million of them, including one of my husband's college buddies and one of my stepfather's oldest friends. The US government spent more than $4 trillion to stimulate the economy. The Europeans spent at least as much. The pandemic reversed twenty years of progress across the developing world.

But it had a silver lining. It forced us to see the world differently. Abstract problems like "inequality" and "structural racism" turned out to have human faces. We now know that the essential workers who deliver our groceries are unlikely to have health insurance or paid sick leave—or sufficient savings to allow them to stay at home if they fall ill. We've seen the mile-long lines for the food pantries and learned that nearly a half of America's children are hungry at least once a month. The agonizing death of George Floyd—a slow-motion nightmare that continues to haunt my dreams—forced us to see that some people are treated differently merely because of the color of their skin.

We learned that things can go suddenly, terribly wrong. The world seems much more fragile. "COVID was the pop quiz," businesspeople tell me. "Climate change will be the final exam." The idea that the free market can survive without good government seems ludicrous. Here in the United States, company leaders have spoken out in support of democracy and the importance of a peaceful transfer of power in ways that were unthinkable just a year ago. Businesspeople used to sit back and look at me skeptically when I talked about the need to strengthen our institutions. Now they lean forward and ask me exactly what I have in mind.

It has become much easier to suggest that firms have real responsibilities for their people and communities, and to talk about the human and emotional dimensions of business. Forced to stay at home—and to see with their own eyes the enormous challenges faced by many of their employees—an increasing number of business leaders are finding that a focus on "being" is just as important as a focus on "doing" and are seeking to make the language of meaning, compassion, and empathy an integral part of their lives and their jobs.

My book tour was reborn on Zoom. I found myself talking to thousands of people across every time zone. Prepandemic, groups of senior business leaders would often respond to me with polite skepticism—with "*Really*, Professor Henderson? I can see that climate change might be something that business should worry about, but inequality? Racial justice? The need to rebuild our democracy? Aren't you going a bit too far?" Now they want to know *how* to reimagine capitalism, and they aren't interested in academic discussion. They want to know what they can do—now.

Academic conferences about historically esoteric subjects like "corporate purpose" or "corporations and democracy" are attracting thousands of participants. A subcommittee of the US Commodity Futures Trading Commission—a dull technical agency if ever there was one—just published a 166-page report whose first sentence was "Climate change poses a major risk to the stability of the U.S. financial system and to its ability to sustain the American economy." CEOs like Microsoft's Satya Nadella are routinely saying things like, "The purpose of the corporation must lie in finding profitable solutions to the issues faced by people and our planet," and seemingly meaning them.

Is this enough to reimagine capitalism? Of course not! Some people are just greenwashing. Others have great intentions but will get derailed when things get tough. But talk is a first step to action, and many firms are acting. For every story of a firm that failed to provide hazard pay or health benefits, I can tell you a story of a firm that did the right thing in a difficult time.

COVID-19 has brought immense suffering. But it has also shown us that business really is as much about "us" and "later" as it is about "me" and "now," and that we can move much, much faster than we ever imagined.

We will change the world. We must. I hope you will join me—and so many others—in reimagining capitalism.

PROLOGUE

I grew up British. The experience left (at least) two lasting marks. The first is a deep and abiding love of trees. My family life was tumultuous, and I spent much of my teens lying on the great lower limb of a massive copper beech, alternatively reading and looking up at the sky through its branches. The beech was toweringly tall—at least as tall as the three-story English manor house it stood next to—and the sun cascaded down through its leaves in greens and blues and golds. The air smelled of mown grass and fresh sunlight and two-hundred-year-old tree. I felt safe and cared for and connected to something infinitely larger than myself.

The second is a professional obsession with change. My first job out of college was working for a large consulting company, closing plants in northern England. I spent months working with firms whose roots went back hundreds of years and that had once dominated the world but were now—disastrously—failing to grapple with the challenge of foreign competition.

For many years I kept the two sides of myself quite separate. I built a career trying to understand why denial is so pervasive and change is so hard. It was a good life. I became a chaired professor at MIT and something of an expert in technology strategy and organizational change, working with organizations of all shapes and sizes as they sought to transform themselves. I spent my vacations hiking in the mountains, watching the maples burn and the aspens dance in the wind.

But I kept my job and my passions in separate boxes. Work was lucrative and fun and often hugely interesting, but it was something I did before returning to real life. Real life was cuddling on the sofa with our son. Real life was lying together on a blanket underneath the trees, introducing him to the world that I loved. I assumed that the trees were immortal: a continuously renewing stream of life that had existed for millions of years and would exist for millions more.

Then my brother—a freelance environmental journalist and the author of *The Book of Barely Imagined Beings*, a wonderful book about creatures that should not exist but do, and *A New Map of Wonders*, an intricate meditation on the physics of being human—persuaded me to read the science behind climate change. I wonder now if he was hoping to wake me up to the implications of my day job. If so, he succeeded.

It turns out that the trees are not immortal. Leaving climate change unchecked will have many consequences, but one of them will be the death of millions of trees. The baobabs of southern Africa, some of the oldest trees in the world, are dying. So are the cedars of Lebanon. In the American West, the forests are dying faster than they are growing. The comfortable assumption on which I'd based my life—that there would always be soaring trunks and the sweet smell of leaves—turned out to be something that had to be fought for, not an immutable reality. Indeed, my comfortable life was one of the reasons the forests were in danger.

And it wasn't just the trees. Climate change threatened not just my own son's but every child's future. So did rampant inequality and the accelerating tide of hatred, polarization, and mistrust. I came to believe that our singular focus on profit at any price was putting the future of the planet and everyone on it at risk.

I came close to quitting my job. Spending my days teaching MBAs, writing academic papers, and advising companies as to how to make even more money seemed beside the point. I wanted to *do* something. But what? It took me a couple of years to work out that I was already in the right place at the right time. I started working with people who had the eccentric idea that business could help save the world. A couple of them ran multibillion dollar companies. But most of them were in much smaller firms or much less exalted positions. They included aspiring entrepreneurs, consultants, financial analysts, divisional VPs, and purchasing managers. One was convinced she could use her small rug company to provide great jobs for skilled immigrants in one of the most depressed towns in New England. Several were trying to solve the climate crisis by building solar or wind companies. One was giving his life to accelerating energy conservation. One was pushing his company to educate and hire at-risk teenagers. Another was hiring convicted felons. Another was doing everything she could to clean up labor practices in the factories her firm ran across the world. Many were trying hard to channel financial capital to precisely these kinds of people: business leaders seeking to solve the great problems of our time.

All of them were skilled businesspeople, very much aware that the only way they could drive impact at scale was to ensure that doing the right thing was a "both/and" proposition—a means to both build thriving and profitable firms and to make a difference in the world. All of them were passionately purpose driven, convinced that harnessing the power of private enterprise was a hugely powerful tool to tackle problems like climate change and—perhaps—to drive broader systemic change.

I loved working with them. I still do. They strive to live fully integrated lives, refusing to wall off their work from their deepest beliefs. They struggle to create what one purpose-driven leader I know calls "truly human" organizations—firms where people are treated with dignity and respect and motivated as much by shared purpose and common values as by the search for money and power. They try to make sure that business is in service to the health of the natural and social systems on which we all depend.

But I worried. I worried that this approach to management would never become mainstream: that it was only exceptional individuals who could master the creation of both purpose and profit. I was convinced that in the long run, the only way to fix the problems that we faced was to change the rules of the game—to regulate greenhouse gas emissions and other sources of pollution so that every firm has strong incentives to do the right thing, to raise the minimum wage, to invest in education and health care, and to rebuild our institutions so that our democracies are genuinely democratic, and our public conversations are characterized by mutual respect and a shared commitment to the well-being of the whole. I couldn't see how a few purpose-driven firms could help drive the kind of systemic change that we would need to put these kinds of policies in place. My students—by this time I was teaching a course in sustainable business—shared my concerns. They had two questions: Can I really make money while doing the right thing? and Would it make a difference in the end if I could?

The book you hold in your hands is my attempt to answer these questions—the result of a fifteen-year exploration of why and how we can build a profitable, equitable, and sustainable capitalism by changing how we think about the purpose of firms, their role in society, and their relationship to government and the state.

I do not suggest that reimagining capitalism will be easy or cheap. My career has given me extensive firsthand experience of just how difficult it is to do things in new ways. For many years I worked with firms struggling to change. I worked with GM as it attempted to respond to Toyota. With Kodak, as the conventional film business collapsed in the face of digital photography. With Nokia—which at its peak sold more than half of the world's cell phones—as Apple revolutionized the business.[1] Transforming the world's firms will be hard. Transforming the world's social and political systems will be even harder. But it is eminently possible, and if you look around, you can see it happening.

I am reminded of a moment some years ago when I was in Finland, facilitating a business retreat. It was the first and last time that my agenda has included the item "5.00 pm—Sauna." Following instructions, I showed up for the sauna, took off all my clothes, and soaked up the heat. "And now," my host instructed me, "it's time to jump into the lake." I duly ran across the snow (everyone else carefully averting their eyes—the Finns are very polite about such things) and carefully climbed down a metal ladder, through the hole that had been cut in the ice, and into the lake. There was a pause. My host arrived at the top of the ladder and looked down at me. "You know," she said, "I don't think I feel like lake bathing today."

I spend a good chunk of my time now working with businesspeople who are thinking of doing things differently. They can see the need for change. They can even see a way forward. But they hesitate. They are busy. They don't feel like doing it today. It sometimes seems as if I'm still at the bottom of that ladder, looking up, waiting for others to take the risk of acting in new and sometimes uncomfortable ways. But I am hopeful. I know three things.

First, I know that this is what change feels like. Challenging the status quo is difficult—and often cold and lonely. We shouldn't be surprised that the interests that pushed climate denialism for many years are now pushing the idea that there's nothing we can do. That's how powerful incumbents always react to the prospect of change.

Second, I am sure it can be done. We have the technology and the resources to fix the problems we face. Humans are infinitely resourceful. If we decide to rebuild our institutions, build a completely circular economy, and halt the damage we are causing to the natural world, we can. In the course of World War II, the Russians moved their entire economy more than a thousand miles to the east—in less than a year. A hundred years ago, the idea that women or people with black or brown skin were just as valuable as white men would have seemed absurd—at least to the white men who were running things. We're still fighting that battle, but you can see that we're going to win.

Last, I am convinced that we have a secret weapon. I spent twenty years of my life working with firms that were trying to transform themselves. I learned that having the right strategy was important, and that redesigning the organization was also critical. But mostly I learned that these were necessary but not sufficient conditions. The firms that mastered change were those that had a reason to do so: the ones that had a purpose greater than simply maximizing profits. People who believe that their work has a meaning beyond themselves can accomplish amazing things, and we have the opportunity to mobilize shared purpose at a global scale.

This is not easy work. It sometimes feels exactly like climbing down a metal ladder into a hole cut through foot-thick ice. But here's the thing: while taking the plunge is hard, it is also exhilarating. Doing something different makes you feel alive. Being surrounded by friends and allies, fighting to protect the things you love, makes life feel rich and often hopeful. It is worth braving the cold.

Join me. We have a world to save.

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"WHEN THE FACTS CHANGE, I CHANGE MY MIND. WHAT DO YOU DO, SIR?"

Shareholder Value as Yesterday's Idea

> The real problem of humanity is the following: we have Paleolithic emotions; medieval institutions; and god-like technology.
>
> —E. O. WILSON

What is capitalism?

One of humanity's greatest inventions, and the greatest source of prosperity the world has ever seen?

A menace on the verge of destroying the planet and destabilizing society?

Or some combination that needs to be reimagined?

We need a systemic way to think through these questions. The best place to start is with the three great problems of our

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The chapter title is from Paul Samuelson, who later attributed it to Keynes. "When the Facts Change, I Change My Mind. What Do You Do, Sir?" *Quote Investigator*, May 19, 2019, https://quoteinvestigator.com/2011/07/22/keynes-change-mind.

time—problems that grow more important by the day: massive environmental degradation, economic inequality, and institutional collapse.

The world is on fire. The burning of fossil fuels—the driving force of modern industrialization—is killing hundreds of thousands of people, while simultaneously destabilizing the earth's climate, acidifying the oceans, and raising sea levels.[1] Much of the world's topsoil is degraded, and demand for fresh water is outstripping supply.[2] Left unchecked, climate change will substantially reduce GDP, flood the great coastal cities, and force millions of people to migrate in search of food.[3] Insect populations are crashing and no one knows why—or what the consequences will be.[4] We are running the risk of destroying the viability of the natural systems on which we all depend.[5]

Wealth is rushing to the top. The fifty richest people among them own more than the poorer half of humanity, while more than six billion live on less than $16 a day.[6] Billions of people lack access to adequate education, health care, and the chance for a decent job, while advances in robotics and artificial intelligence (AI) threaten to throw millions out of work.[7]

The institutions that have historically held the market in balance—families, local communities, the great faith traditions, government, and even our shared sense of ourselves as a human community—are crumbling or even vilified. In many countries the increasing belief that there is no guarantee that one's children will be better off than oneself has helped to fuel violent waves of anti-minority and anti-immigrant sentiment that threaten to destabilize governments across the world. Institutions everywhere are under pressure. A new generation of authoritarian populists is taking advantage of a toxic mix of rage and alienation to consolidate power.[8]

You may wonder what these problems have to do with capitalism. After all, hasn't the world's GDP quintupled in the last fifty years, even as population has doubled? Isn't average GDP per capita now over $10,000—enough to provide every person on the planet with food, shelter, electricity, and education?[9] And, even if you think business should play an active role in attempting to solve these problems, doesn't it seem, at first glance, an unlikely idea? In the majority of our boardrooms and our MBA classrooms, the first mission of the firm is to maximize profits. This is regarded as self-evidently true. Many managers are persuaded that to claim any other goal is to risk not only betraying their fiduciary duty but also losing their job. They view issues such as climate change, inequality, and institutional collapse as "externalities," best left to governments and civil society. As a result, we have created a system in which many of the world's companies believe that it is their moral duty to do nothing for the public good.

But this mind-set is changing, and changing very fast. Partly this is because millennials are insisting that the firms they work for embrace sustainability and inclusion. When I first launched the MBA course that became "Reimagining Capitalism," there were twenty-eight students in the room. Now there are nearly three hundred, a little less than a third of the Harvard Business School class. Thousands of firms have committed themselves to a purpose larger than profitability, and nearly a third of the world's financial assets are managed with some kind of sustainability criterion. Even those at the very top of the heap are beginning to insist that things have to change. In January 2018, for example, Larry Fink, the CEO of BlackRock, the world's largest financial asset manager, sent a letter to the CEOs of all the firms in his portfolio that said the following: "Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all of their stakeholders, including shareholders, employees, customers, and the communities in which they operate."[10]

BlackRock has just under $7 trillion in assets under management, making it among the largest shareholders in every major publicly traded firm on the planet. It owns 4.6 percent of Exxon, 4.3 percent of Apple, and close to 7.0 percent of the shares of JPMorgan Chase, the world's second-largest bank.[11] For Fink to suggest that "companies must serve a social purpose" is the rough equivalent of Martin Luther nailing his ninety-five theses to Wittenberg Castle's church door.[12] The week after his letter came out, a CEO friend reached out to me to confirm that surely he didn't—really—mean it? My friend was in a state of shock. He had based a long and successful career on putting his head down and maximizing shareholder value, and to him Fink's suggestion seemed ludicrous. He couldn't imagine taking his eye off the profit ball in today's ruthlessly competitive world.

In August 2019 the Business Roundtable—an organization composed of the CEOs of many of the largest and most powerful American corporations—released a statement redefining the purpose of the corporation: "To promote an economy that serves all Americans." One hundred and eighty-one CEOs committed to lead their companies for "the benefit of all stakeholders: customers, employees, suppliers, communities, and shareholders."[13] The Council of Institutional Investors (CII)—a membership organization of asset owners or issuers that includes more than 135 public pension and other funds with more than $4 trillion in combined assets under management—was not amused, responding with a statement that said, in part:

> CII believes boards and managers need to sustain a focus on long-term shareholder value. To achieve long-term shareholder value, it is critical to respect stakeholders, but also to have clear accountability to company owners. Accountability to everyone means accountability to no one. BRT has articulated its new commitment to stakeholder governance . . . while (1) working to diminish

> shareholder rights; and (2) proposing no new mechanisms to create board and management accountability to any other stakeholder group.[14]

One of the world's largest financial managers insists that "the world needs your leadership," and some of the world's most powerful CEOs publicly commit to "stakeholder management," while many businesspeople—like my (hugely successful) CEO friend and many large investors—think they are asking for the impossible. Which of them is right? Can business really—and I mean really—rescue a world on fire?

I've spent the last fifteen years of my life working with firms that are trying to solve our environmental and social problems at scale—largely as a means of ensuring their own survival—and I've come to believe that business has not only the power and the duty to play a huge role in transforming the world but also strong economic incentives to do so. The world is changing. The firms that change with it will reap rich returns—and if we don't reimagine capitalism, we will all be significantly poorer.

I started this journey with an appropriately British degree of skepticism, but I am now surprisingly optimistic—in the "if we work really hard, we might just succeed" sense of optimistic. We have the technology and the resources to build a just and sustainable world, and doing so is squarely in the private sector's interest. It is going to be hard to make money if the major coastal cities are underwater, half the population is underemployed or working at jobs that pay less than a living wage, and democratic government has been replaced by populist oligarchs who run the world for their own benefit. Moreover, embracing a pro-social purpose beyond profit maximization and taking responsibility for the health of the natural and social systems on which we all rely not only makes good business sense but is also morally required by the same commitments to freedom and prosperity that drove our original embrace of shareholder value.

A mere decade ago the idea that business could help save the world seemed completely crazy. Now it's not only plausible but also absolutely necessary. I'm not talking about some distant utopia. It's possible to see the elements of a reimagined capitalism right now, and to see how these elements could add up to profound change—change that would not only preserve capitalism but also make the entire world better off. Indeed this book is an attempt to persuade you to give your life to the attempt.

How We Got Here

A central cause of the problems we face is the deeply held belief that a firm's only duty is to maximize "shareholder value." Milton Friedman, perhaps the most influential intellectual force in popularizing this idea, once stated that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits." From here it's not far to the idea that focusing on the long term or the public good is not only immoral and possibly illegal but also (and most critically) decidedly infeasible. It is true that the capital and product markets are ruthless places. But in its current incarnation, our focus on shareholder value maximization is an exceedingly dangerous idea, not just to the society and the planet, but also to the health of business itself. Turing Pharmaceuticals' experience with Daraprim illustrates the costs of chasing profits at the expense of everything else.

In September 2015, Turing, a small start-up with only two products, announced that it was raising the price of the generic drug Daraprim from $13.50 to $750 a tablet—an approximately 5,000 percent increase. Daraprim was widely used to treat complications from AIDS. It cost approximately $1 per pill to produce and had no competition.[15] Anyone wanting to buy Daraprim had to buy it from Turing. The move unleashed a media storm. Martin Shkreli, Turing's CEO, was vilified in the press and accosted in public. But he was unrepentant. Asked if he would do anything differently, he replied:

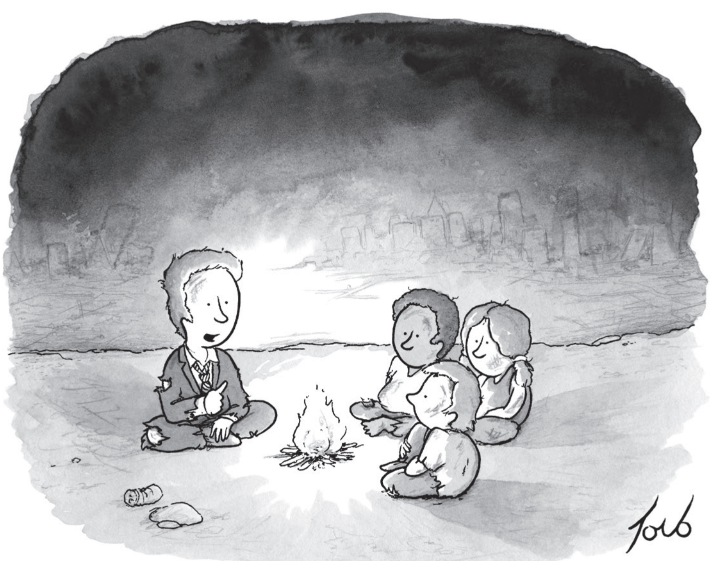
> I probably would have raised prices higher. . . . I could have raised it higher and made more profits for our shareholders. Which is my primary duty. . . . No one wants to say it, no one's proud of it, but this is a capitalist society, capitalist system and capitalist rules, and my investors expect me to maximize profits, not to minimize them, or go half, or go 70 percent, but to go to 100 percent of the profit curve that we're all taught in MBA class.[16]

It's tempting to believe that Shkreli is an outlier. He is a deeply eccentric person and currently in jail for defrauding his investors.[17] But he expressed in the starkest terms the implications of the imperative to make as much money as you can, and Daraprim is not the only generic drug to have had its price hiked. In 2014, Lannett, another generic pharmaceutical producer, raised the price of Fluphenazine—a drug that is used to treat schizophrenia and is on the World Health Organization's list of most essential medicines—from $43.50 to $870—a 2,000 percent increase.[18] Valeant increased the prices of Nitropress and Isuprel—two leading heart drugs—by more than 500 percent, reportedly leaving the firm with gross margins of more than 99 percent.[19]

Surely this can't be right. Do managers really have a moral duty to exploit desperately sick people? Purdue Pharma's decision to aggressively promote the prescribing of OxyContin was—at least in the short term—hugely profitable.[20] Does this mean that it was right or even good business? Do firms have a duty to pursue the maximum possible profit, even when they know that doing so will almost certainly have significantly negative consequences for their customers, their employees, or society at large? Since December

2015, when the Paris Climate Agreement was signed, for example, the world's fossil fuel companies have spent more than a billion dollars lobbying against controls on greenhouse gas (GHG) emissions.[21] Lobbying in favor of heating up the planet may have maximized shareholder value in the short term, but in the long run, was it a good idea?

Taken literally, a single-minded focus on profit maximization would seem to require that firms not only jack up drug prices but also fish out the oceans, destabilize the climate, fight against anything that might raise labor costs—including public funding of education and health care, and (my personal favorite) attempt to rig the political process in their own favor. In the words of the cartoon: "Yes, the planet got destroyed, but for a beautiful moment in time we created a lot of value for shareholders."



Tom Toro

"Yes, the planet got destroyed, but for a beautiful moment in time we created a lot of value for shareholders."

Business was not always wired this way. Our obsession with shareholder value is relatively recent. Edwin Gay, the first dean of the Harvard Business School, suggested that the school's purpose was to educate leaders who would "make a decent profit, decently," and as late as 1981, the Business Roundtable issued a statement that said, in part: "Business and society have a symbiotic relationship: The long-term viability of the corporation depends upon its responsibility to the society of which it is a part. And the well-being of society depends upon profitable and responsible business enterprises."

A Beautiful Idea

The belief that management's only duty is to maximize shareholder value is the product of a transformation in economic thinking pioneered by Friedman and his colleagues at the University of Chicago following the Second World War. Many of their arguments were highly technical, but the intuition behind their work is straightforward.

First, they argued that free markets are perfectly efficient, and that this makes them a spectacular driver of economic prosperity. Intuitively, if every firm in an industry is ruthlessly focused on the bottom line, competition will drive all of them to be both efficient and innovative, while also preventing any single firm from dominating the market. Moreover, fully competitive markets use prices to match production to demand, which makes it possible to coordinate millions of firms to meet the tastes of billions of people. Friedman himself brought this idea to life using a very ordinary example:

> Look at this lead pencil. There's not a single person in the world who could make this pencil. Remarkable statement? Not at all. The wood from which it is made . . . comes from a tree that was cut down in the state of Washington. To cut down that tree, it took a saw. To make the saw, it took steel. To make steel, it took

> iron ore. This black center—we call it lead but it's really graphite, compressed graphite . . . comes from some mines in South America. This red top up here, this eraser, a bit of rubber, probably comes from Malaya, where the rubber tree isn't even native! It was imported from South America by some businessmen with the help of the British government. This brass ferrule? I haven't the slightest idea where it came from. Or the yellow paint! Or the paint that made the black lines. Or the glue that holds it together. Literally thousands of people co-operated to make this pencil. People who don't speak the same language, who practice different religions, who might hate one another if they ever met![22]

If Friedman were trying to make the same point today, he might use a cell phone—each of which contains hundreds of components that are manufactured all over the world.[23] But the key point is that truly competitive markets allocate resources much more effectively and much more efficiently than anything else we've tried. Indeed, pathbreaking work in the fifties and sixties established that under a number of well-defined conditions—including free competition, the absence of collusion and of private information, and the appropriate pricing of externalities—maximizing shareholder returns maximizes public welfare.[24]

The second argument behind the injunction to focus on shareholder returns rests on the normative primacy of individual freedoms, or the idea that personal, individual freedom is—or should be—the primary goal of society and that an individual's ability to make decisions about the disposition of her resources and time should be one of society's highest goals. This idea is deeply rooted in the post-Enlightenment, classical-liberal tradition of the eighteenth and nineteenth centuries. Milton Friedman and Friedrich Hayek drew from this tradition as a way to articulate an intellectual counterpoint to the Soviet Union's philosophy of centralized economic control.

Freedom, in this context, is "immunity from encroachment" or "freedom *from*"—the ability to make decisions free from the interference of others. Friedman and his colleagues suggested that free markets create individual freedom because, in contrast to planned economies, they allow people to choose what they do and how they do it and give them the resources to choose their own politics. It is difficult to be truly free when the state—or a small group of oligarchs—controls whom you work for and how much you're paid.

Third, Friedman and his colleagues argued that managers are agents for their investors. Acting as a trustworthy agent is a moral commitment in its own right, rooted in the widely shared idea that one should keep one's word and not misuse funds with which one has been entrusted. Since managers are agents, they argued, they have a duty to manage the firm as their investors would wish—which Friedman assumed would in most cases be "to make as much money as possible."

Together these three arguments make a powerful case for shareholder value maximization and are the moral force behind many businesspeople's belief that to maximize profits is to fulfill deep normative commitments. From this perspective, failing to maximize shareholder returns not only constitutes a betrayal of your responsibility to your investors but also threatens to reduce prosperity by compromising the efficiency of the system and reducing everyone's economic and political freedom. To do anything other than maximize returns—to pay employees more than the prevailing wage for no obvious benefit, for example, or to put solar panels on the roof when local coal-fired power is cheap and abundant—is not only to make society poorer and less free but also to betray your duties to your investors.

These ideas are, however, the product of a specific time and place, and of a particular set of institutional conditions. Given the realities of today's world, they are dangerously mistaken. Friedman and his colleagues first formulated them in the aftermath of the Second World War. At the time it seemed there was a serious risk that a reliance on the market would be replaced by centralized planning. Governments—after conquering economic depression and war—were popular and powerful. Capitalism was not. Enduring memories of the Great Depression that had preceded the war—at its height US GDP fell by 30 percent, while industrial production fell by almost 50 percent, and a quarter of the working population was unemployed[25]—meant that for the next twenty years, unregulated, unconstrained capitalism was regarded with suspicion nearly everywhere. This was the dominant view in Europe and in Asia. In Japan, for example, the business community explicitly embraced a model of capitalism that stressed the well-being of employees and a commitment to the long term, while in Germany, firms, banks, and unions cooperated to create a system of "co-determination" that routinely sought to balance the well-being of the firm with the well-being of employees and of the community.

This meant that for roughly thirty years after the war, in the developed world the state could be relied on to ensure that markets were reasonably competitive, that "externalities" such as pollution were properly priced or regulated, and that (nearly) everyone had the skills to participate in the market. Moreover, the experience of fighting the war created immense social cohesion. Investing in education and health, "doing the decent thing," and celebrating democracy seemed natural.

Friedman's ideas did not get much traction until the early seventies, when the turmoil of the first oil embargo ushered in a decade of stagflation and intense global competition, and the US economy came under significant pressure. Under these conditions, it was not crazy to believe that "unleashing" the market by telling managers their only job was to focus on shareholder returns would maximize both economic growth and individual freedom.

The Chicago-trained economists blamed the economy's lackluster performance on the fact that many managers were putting