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Milton Friedman And The Fallacy Of Good Intentions



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Yesterday—July 31—would have been Milton Friedman’s 101st birthday. It was interesting to read the [tributes of his supporters](#). Friedman was “a giant intellect... And like most towering intellects, he was a font of pithy and brilliant one-liners.” I was particularly struck by one that was cited as “the best quote” of his entire career:

“Concentrated power is not rendered harmless by the good intentions of those who create it.”

Friedman was referring, of course, to government, but his quote has turned out to be prophetic critique of his own legacy in the private sector.

The headlong stampede for profit alone, with the self ahead of everything—a stampede of which Friedman was “the most influential voice”—has led to concentrated power in the hands of the few, along with large harm for many. Thus the stampede has led to:



- a supposed goal of maximizing of shareholder value which has in practice [undermined long-term shareholder value](#);
- the creation of “[bad profits](#)” that have destroyed many individual firms;
- a highly concentrated banking sector that is “too big to fail” (or to jail) despite [rampant illegality and continuance of the very practices that caused the financial meltdown in 2008](#);
- large-scale off-shoring of manufacturing that has [destroyed whole sectors of the U.S. economy](#);

- the undermining of the [capacity of the U.S. economy to compete internationally](#);
- the [continuing decline of the private sector](#), with rates of return on assets and invested capital now only one quarter of what they were in 1965;
- the [undercutting of the economic recovery](#) that should have taken place after the meltdown of 2008; and
- in a final irony, compensation for the C-suite and the financial sector that is not only inversely proportional to performance but so excessive as to constitute [a macro-economic problem of the first order](#).

Friedman had great influence on economic policy and management practice. But with great influence comes great responsibility. Friedman's doctrines have a lot to be responsible for, although the vast harm inflicted was no doubt the opposite of what Friedman intended or wanted.

Friedman was an honorable man. His intentions were good, but the consequences of his ideas were not rendered harmless by his good intentions, by the fact that he won the Nobel Prize for [Economics](#) or by the fact that he was the adviser to presidents. His supporters like to think that he "rescued the U.S. economy" and "saved capitalism." The problem is that the cure has turned out to be far worse than the disease.

[Management](#) and economic writing must embody truth, both in what is said and the way it is said, if it is to have any meaning for us now and in the future. The truth of our times, bitter and disheartening as it is, must be faced. Both honesty and imagination are needed. We must look at the legacy of the intellectual giants of the 20th Century with a new force and clarity to ascertain their true role in the creation of the generally mediocre economic scene in which we now find ourselves.

In the 21st Century, management and economics must envisage and build a society that is actually worthy of human life. This is why clichés about systems and efficiency and saving capitalism will not do. It is true that capitalism is in danger, but the biggest risk now comes from its self-proclaimed friends rather than from its avowed enemies. The rot lies within, in the very philosophy of the heroes who claimed to save it.

We must rediscover the wiser side of capitalism that is built on adding value to customers and society, with generous returns for true entrepreneurs and for those who are actually contributing, rather than excessive pay for bureaucrats simply occupying positions that come with the ability to exercise arbitrage.

Happily, for those who have eyes to see, a more agile and productive kind of economy—the Creative Economy—is already emerging from the wreckage of the 20th Century's sputtering bureaucratic structures.

The Creative Economy doesn't have to be invented. It already exists. Countless organizations are already part of it. It is sitting right here in front of us.



Books describing it and showing how to put it into practice have already been written. All our leaders need to do is to read and implement them. Not much to ask.