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# Managers and Market Capitalism

by [Rebecca Henderson](#) and [Karthik Ramanna](#)

## Abstract

In a capitalist system based on free markets, do managers have responsibilities to the system itself? If they do, should these responsibilities shape their behavior when they are engaging in the political process in an attempt to structure the institutions of capitalism? The prevailing view—perhaps most eloquently argued by Milton Friedman—is that the first duty of managers is to maximize shareholder value, and thus that they should take every opportunity (within the bounds of the law) to structure market institutions so as to increase profitability. We maintain here that this shareholder-return view of political engagement applies in cases where the political process is sufficiently 'thick,' in that diverse views are well-represented and sufficiently detailed information about the issues is widely available. However, we draw on a series of detailed examples in the context of the determination of corporate accounting standards to argue that when the political process of determining institutions of capitalism is 'thin,' in that managers find themselves with specialized technical knowledge unavailable to outsiders and with little political resistance from the general interest, then managers have a responsibility to market institutions themselves, even if this entails acting at the expense of corporate profits. We make this argument on grounds that this behavior is both in managers' long-run self-interest and, expanding on Friedman's core contention, that it is managers' moral duty. We provide a framework for future research to explore and develop these arguments.

**Keywords:** [Market Design](#); [Economic Systems](#); [Managerial Roles](#); [Government and Politics](#);

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## Managers and Market Capitalism

[Rebecca Henderson](#) and [Karthik Ramanna](#)

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