Solving Society's Problems from the Bottom Up

For-Benefit Enterprises

David Colander

Few people knew that when Milton Friedman claimed that a corporation's only responsibility is profits, it would become conventional wisdom. David Colander, the always original and often iconoclastic economist, makes the refreshing case in support of for-benefit enterprises.

THERE IS MUCH DISCUSSION among lawmakers, socially minded entrepreneurs, and legal experts about for-benefit enterprises. Most of that discussion is from the perspective of a practitioner—how to change the laws to better enable for-benefit enterprises to carry out their mission. In this paper, I approach for-benefit enterprises from the perspective of an economic theorist and textbook author. I ask the question "How do for-benefit enterprises fit into economic theory?"

This question requires one to explore how markets, enterprises, nonprofits, and government fit into the economic story that economists tell. Contrary to what many noneconomists think, I argue that in a world in which people are concerned with social as well as material

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***DAVID COLANDER** is XX at Middlebury College.* *The author thanks Heerad Sabeti for helpful comments on earlier drafts.*

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welfare, which is clearly the world within which we live, for-benefit enterprises are necessary for efficiency. I further argue that for-benefit enterprises are a natural evolution in the economic landscape; they allow markets to move beyond *material welfare* to provide *social welfare* from the bottom up, just as for-profit enterprises allow markets to provide material welfare from the bottom up.

Previous broad theoretical considerations of the market that are well known by laypeople, such as Milton Friedman's, have provided the sense that for-profit firms are necessary for efficiency. His argument is based on the implicit assumption that investors, workers, and consumers are only interested in material goods. Given that assumption, for-profit firms essentially become the equivalent of for-benefit firms because material welfare is assumed the equivalent to social welfare. But the assumption that people are only interested in material goods is far from reality, and it certainly was not part of the broader tradition of classical economic thinking that developed to justify markets. Classical economists believed that material welfare was only part of people's concerns. Recent work in behavioral economics is bringing back that broader classical aspect of economic thinking and recognizing the obvious—that people are social beings with social goals. The existence of those social goals undermines Friedman's argument for the efficiency of for-profit enterprises, and instead becomes a theoretical argument for the efficiency of for-benefit enterprises.

Capitalism, Corporations and Material Welfare

Capitalism developed to solve society's material welfare problems. For Western society, it did so admirably. Consistent with that focus on material welfare, it developed organizational forms, such as for-profit corporations, that were highly conducive to providing that material welfare. Corporations were state-sanctioned enterprises that allowed expanded bottom-up collective action to produce material goods; they provided an alternative-to-government mechanism to undertake certain types of collective action efficiently; they channeled entrepreneurial power and funds into collective organizations that compete among themselves to provide society with increased material welfare.

Corporations did not develop in a vacuum. For corporations to operate effectively, they needed an institutional and legal framework that allowed them to evolve and develop to handle the difficult collective action problems they posed. Over time that framework developed, and the for-profit corporate form became a fixture of Western societies and an alternative source of economic coordination and control within society. They thrived so much that they changed the nature of capitalism to corporate capitalism. In corporate capitalism, government was left in charge of achieving society's social goals, and the private sector, reinforced by the corporate form, was in charge of achieving economic, or what economists called "material," welfare. The corporate structure succeeded admirably, and material living standards increased multifold in Western societies.

As capitalist societies developed, early economists, such as John Stuart Mill, had expected that society's focus on material welfare would subside, since what they considered the economic problem would have been solved. They saw societies switching their focus away from material welfare and toward social welfare, which included material welfare but also included broader concepts of humanistic and nonmaterialistic welfare. Mill pictured a society developing as far more concerned with social welfare and far less concerned with material welfare—a society in which "while no one is poor, no one desires to be richer, nor has any reason to fear being thrust back by the efforts of others to push themselves forward."

That did not happen. The for-profit corporate form was too strong. Once for-profit organizations had met the immediate material *needs* of society, they learned how to fill, and how to help create, material *wants* that would provide them with additional profit-making opportunities. Whereas material needs are limited, material wants are essentially infinite, so this change gave for-profit corporations an extended, almost unlimited, role in an increasingly materialistic society. As that happened, capitalism changed—advertising, marketing, and branding became central to capitalist societies; manufacturing and production became secondary.

There is no doubt that people's measured material welfare has continued to rise in Western market societies, but somehow there is a feeling among many that social welfare has not increased by anyway near that amount. In response, people have turned to government to provide that social welfare. Unfortunately, current governmental organizational structures are not set up to efficiently provide that social welfare. While government can often nicely articulate need, it seems unable to contain costs and make the difficult budget decisions that must be made by any functioning sustainable system.

The problem with government providing for social welfare is the same problem with government providing for material welfare. The economy is too complex to deal with in the control framework that social planners implicitly follow. Just as there can be no controller who runs our economic system—the economic system emerges from the infinite number of individual decisions—so, too, can there be no controller who runs our social system. It is too complex. Attempts to have government achieve social goals that deviate from the aggregated goals of the members of society are doomed to fail for the same reason that central planning of economies fails. What government can do is to create a broader ecosystem within which individuals' true preferences—both material preferences and social preferences—can be articulated and acted upon. Mill called this policy "laissez-faire," but it was not a "government should do nothing" policy. Laissez-faire was a policy in which government actively structured the ecosystem so that markets and entrepreneurs operating in a competitive environment by following their own selfish private material goals would achieve the material goals that society wanted.[1] Because their focus was on how to provide material welfare, they did not consider the problem of providing social welfare and how markets could play a role there as well. Instead, social welfare was seen as being provided by government from the top down, or by nonprofit charitable organizations.

In economic theory nonprofits can be seen as an extension of individuals' philanthropic concerns. Nonprofits are the bottom-up agents through which individuals can work to achieve some of their social goals. Unfortunately, because of the substantial separation between the people donating the funds, the people actually carrying out the spending of the funds, and the beneficiaries of the funds, nonprofits are often subject to serious principal agent problems. This means that often the goals of the person giving the money are only partially met by the nonprofit. The problem is that, while the motives of many of the entrepreneurial leaders of nonprofits are generally highly laudable, the nonprofit organizational structure often does not allow a blending of the donor's conception of what needs to be done with that of the entrepreneurial leaders of the nonprofit. The result is the lack of the spending discipline and cost-containment procedures necessary to see that the nonprofit operates efficiently in achieving either the donor's or the nonprofit leader's social goal.

Numerous problems develop. For example, donors often pressure nonprofits to keep administrative costs low so more money goes to the mission, but that means nonprofits cannot invest in proper capacity (people, technology, etc.) to effectively deliver on their mission. Differences of opinion develop between funders and nonprofits, causing the nonprofits to distort their strategies to look more attractive to a given funder's priorities, which causes inconsistent, inefficient, and all too often ineffective delivery of their programs.

In the eyes of many donors, all too often, once a nonprofit has become bureaucratized, it seems to operate with a stronger focus on sustaining the organization and its workers, and a weaker focus on the stated mission of the organization, than the donors and funders feel is appropriate or efficient.[2] Donors' concerns that such goal modification by nonprofits takes place leads to many of them limiting their support and funding for nonprofits, even when a nonprofit's stated goals resonate with them. Similarly, altruistic managers and workers in nonprofits often feel caught between the interests of their beneficiaries and the need to attract and appease donors to their cause. Such tensions are inevitable; the problem is that the nonprofit organizational structure exacerbates them rather than moderates them. The result is a vicious circle; donor's concern leads nonprofits to spend more time collecting funds rather that carrying on their social mission, which reduces donor's support for the nonprofit while simultaneously reducing the sense of social altruism that led to the people coming to work for the nonprofit, often at a lower wage than they could have received elsewhere. As the donor comes to believe that the nonprofit is not spending its money on carrying on its social mission, but is instead focusing on fund-raising, the cycle continues.

This separation of social goals and material welfare goals is unnatural and highly inefficient. It leads people to compartmentalize their lives, both in their investments and in their employment. Somehow, in their work and in their investments, people are supposed to be operating in an atmosphere of maximizing profit without concern for broader social goals. Then they put on their social hat, and they turn to what they believe are inefficient governments and inefficient nonprofits to achieve any social goals they have. The result is less progress on achieving shared social goals than almost any member of society wants.

The For-Benefit Enterprise and Socially Motivated Entrepreneurship

It doesn't have to be this way. The split between social and material welfare concerns is to a large degree a product of the polar way our corporate organizational structure has evolved, allowing for only for-profit and nonprofit organizations and nothing in between. The pure for-profit organizational form is not inherent to the structure of capitalism. Organizational structures do not have to be either for-profit or nonprofit; a more logical structure would include hybrid "for-benefit" organizational structures, which blend the social concerns of a nonprofit with the sustainability (where sustainability means the ability to continue in existence) concerns of a for-profit. Groups such as the Fourth Sector Network (www.aspeninstitute.org/publications/emerging-fourth-sector-executive-summary/) have been leading the way in exploring how for-benefit enterprises provide a vehicle for socially motivated entrepreneurs to direct the power of the market to achieving social welfare just as for-profit corporations direct the power of the market to achieving material welfare.[3]

The goal of for-benefit enterprises is to achieve some combination of profit or sustainability goals and pre-specified social goals, with those profit and social goals spelled out at the formation in the company charter. For example, one might have a for-benefit school, whose goal is to educate students efficiently as measured by a specified metric, while achieving a pre-specified monetary return, which could be zero, or even negative, to investors.[4]After that pre-specified monetary return is met by the for-benefit enterprise, additional income it makes could go toward achieving the social metric in its charter. For-benefit organizations might also receive some of their revenues from voluntary contributions, given by individuals whose interest in the social metric focused on by the for-benefit organization is so strong that they are willing to "invest" in the activity with no expectation of monetary return.

For-benefit enterprises should not be seen as replacing nonprofits but as complementing them. To achieve certain types of social goals, especially those that encourage and enable *charity*—where a third-party payer pays for products and services to be provided to beneficiaries who do not have the ability to pay for themselves—nonprofits are the most efficient method to enable bottom-up approaches to the provision of social welfare. But other areas of providing social welfare lend themselves to more market-based approaches. Yet our legal system currently only recognizes the former approach, as codified in the design of nonprofit corporations and tax law. In addition to nonprofits, we could have organizational models that are optimized for integrating individuals' social goals and material goals from the bottom up. For-benefit enterprises would allow for this missing organizational model.

For-benefit organizations allow individuals and investors to combine their material welfare goals and social welfare goals, leading them to accept potentially lower monetary reward in order to gain a greater social reward. In practice, this already happens—real-world firms are guided by individuals who have complicated motives, and principal-agent problems allow social goals to be followed even when the legal structure requires the firm to focus only on material profit goals. For-benefit firms can help find a better fit between workers' and investors' social goals since they would not be legally required to maximize profits as for-profit corporations are.

Instead, for-benefit firms would be legally responsible to maximize whatever combination of social and material goals their charter specifies. Thus, in a for-benefit enterprise, we would expect investors and workers with similar social goals to come together and more efficiently achieve their social ends. For-benefit enterprises allow a type of laissez-faire social policy by providing an environment in which individuals can more easily enter into voluntary contracts with other like-minded individuals and thereby better achieve their social and material goals as they see them, not as a social planner or government organization sees them. Thus, all the same invisible-hand arguments that economists use to justify for-profit organizations in an assumed universe concerned only with material welfare can be extended to for-benefit organizations in a universe where people are concerned with both material and social welfare.

Say, for instance, that a medical drug company was organized as a for-benefit corporation rather than a for-profit corporation, with investors having fully signed on to achieving both a social and a profit bottom line. Then you would have these companies blending these goals into their decisions rather than focusing just on the profit bottom line, as they are currently required to do.

Potential Examples of For-Benefit Organizations

For-benefit organizations can take many forms, and the ones that have been developed only touch the surface of the many variations that are possible. To show the wide range of forms that for-benefit enterprises might take, let me describe three examples that have not yet developed but could. Each provides a slightly different concept of what a for-benefit enterprise is, and how it would operate.

The first involves a variation on National Public Radio. Initially funded by the government, NPR has evolved into a hybrid organization, which, like other radio stations, gets a significant portion of its revenue from what it calls underwriting, which essentially is advertising that meets social criteria that it has specified. Essentially, NPR holds the advertisers to a much higher standard than do for-profit radio stations. NPR also gets funds from government and from voluntary contributions.

NPR has been enormously successful—far more successful than for-profit radio stations over the same period. But in many people's eyes, NPR has reflected a certain ideological bias, and it seems to have no competition. A for-benefit radio station could be designed along the lines of NPR, funded by individuals who see it as providing ideological competition for NPR. A for-benefit radio station would be similar in structure to NPR. It might allow advertising, but with strict rules about what the content of that advertising is, calling that advertising "social underwriting," not advertising. For example, advertising meant to appeal to emotions or that ismisleading might not be allowed. A for-benefit radio station could also get funds from voluntary donations—given by those people who want to support the social goal that the new corporation allows—and it could have strict limits on the pay of individuals who are working for the organization.[5]If these for-benefit radio stations were successful, rather than there being one NPR, there would be a large number of for-benefit radio stations, all competing to provide quality radio, as they define it, to their listeners.

Another example of what a for-benefit organization might be is a for-benefit drug company. Such a company might specify its social goal as bringing a certain medicine to the masses at a reasonable cost and to not promote drugs that do not meet certain benefit-cost criteria. Its goal, instead of maximizing profit by selling as much of the drug as possible, might be to get the drug to those whom "objective outside observers" as specified in the charter believe it would help. In its charter, the company would set up some metric by which its progress toward achieving those goals could be measured, and then make a prospectus spelling out its social and profit metric.[6]A for-benefit drug company would fund its research and development through a combination of investments or donations from foundations or individuals who have an interest in achieving the social goal specified by the company, and thus are willing to accept a smaller expected monetary return on their investment should it succeed.

Who would invest in such a company? Think of many wealthy investors who are already giving a portion of their wealth to various social goals, or who are planning to do so in the future. This group includes a large percentage of wealthy individuals throughout the world.[7] Currently they split their interests—in their for-profit mode, they concentrate on achieving as high a monetary return as they can. Then, in their social mode, they concentrate on giving away the profits they made to what many of them consider highly inefficient nonprofits to achieve certain social ends they desire.

For-benefit enterprises allow people to combine their social and material welfare goals, giving them the option of achieving some of those social goals through their social investing in for-benefit firms. For philanthropic foundations, this might mean that their financial and granting divisions could be integrated. Rather than their financial division earning monetary returns as high as possible with no social goals, and their granting division giving out the money they earn, the foundations could achieve some of their social goals through investments in for-benefit businesses that match their social goals.[8] The existence of for-benefit firms creates a whole new range of possible activities for socially motivated entrepreneurs who combine the vision and hard-headed devotion to a goal of for-profit entrepreneurs with their social aims. Sports teams, newspapers, magazines, charter schools, and programs to aid disadvantaged individuals all could be organized as for-benefit enterprises.

It is not only investors who will be better able to combine their social and material goals through for-benefit enterprises; individuals in their roles as workers and consumers will also be helped. People could choose where they work based on their shared goals with the for-benefit organization's charter. To the degree that they value those shared social goals, they might be willing to accept lower material pay than they would at a for-profit corporation, with the knowledge that they are being compensated for that lower pay with higher "social pay," achieving for them a higher total (social plus material welfare) income. Consumers could also choose to buy from for-benefit enterprises rather than from for-profit corporations. If the social goals of the for-benefit firm are important to lots of people, as for-benefit companies expand they might even outcompete for-profit corporations in those industries where the for-profits are not meeting people's social goals. While many complicated issues are involved in competition between the two types of corporate forms, the point to emphasize here is that since the for-benefit company is a voluntary organization that allows broader dimensions of people's welfare to be considered, there is nothing inherently inefficient in its structure. It can be designed to mimic for-profit companies while allowing for people's broader social concerns. In a world where people have social goals, it is the for-profit organizational structure that is inefficient, not the for-benefit organizational structure.[9]

A third nontraditional example of a possible for-benefit organization would be higher-education institutions. In some ways, nonprofit universities are successful, but they are also highly inefficient. Nonprofit universities support their activities through donations, tuition and fees, and research grants. But the principal agent problem has led many to believe that their goal is often less—to efficiently provide an education and, more, to provide a complicated set of goals that focus more on the material and social goals of faculty and staff than on the goals of the donors who funded the activities or the students who are being educated. In the eyes of many observers, there is little serious cost containment in higher education until it is forced by threatening budgetary forces. The result is that, despite large endowments, the cost of higher education has skyrocketed even as new technological methods of teaching have developed that could have significantly lowered costs. Why are these new technologies not used? Often the reason is that doing so would undercut the professor's or staff's position, something that nonprofit universities, governed in large part by professors, have little incentive to do except as a last resort.[10]

To counter this tendency to goal shift and to bring some cost containment into higher education, for-profit colleges have developed. They have been highly successful in achieving profits for investors but far less successful at bringing quality education at a low price to students. Many of these for-profit colleges have an operating model that relies primarily on government student loans, which they secure for the student for programs that, from the student perspective and from the perspective of many outside observers, often do not achieve the educational needs of students but instead saddle them with loans that they will never be able to repay.

For-benefit universities would be a hybrid between the two extremes. They would allow individuals interested in education to invest in universities, as well as donate to them. In return for these investments, the for-benefit university would agree to a set of conditions set out in its charter. These conditions might include a much higher focus on faculty time spent on teaching,, no tenure for faculty, a commitment to only allow government loans for those students who have a highly likely or even guaranteed chance of getting a job, a commitment to finding certain types of jobs for their graduates, or a variety of other socially desirable goals.

Like nonprofits, for-benefit universities would be financed through a combination of tuition, donations, and government grants, but their organizational structure would likely be fundamentally different. As opposed to being run in large part by the faculty, for-benefit universities would be run by a socially motivated entrepreneur responsible to his or her social investors." The entrepreneur's responsibility would be to investors and donors to achieve pre-specified ends, not to faculty, unless the investors and donors wanted the control decisions to go to faculty.[11]For-benefit universities would likely have quite different operating structures than nonprofit universities do. Teaching faculty in for-benefit universities would likely be paid significantly more, and much more effort would go into providing metrics of successful teaching. Non-grant-funded research, or research that does not contribute to teaching, would be downplayed. Skill, not level of educational attainment, would be the primary focus in recruitment of faculty. For-benefit universities would also likely rely much more on new online methods of instruction for certain standard learning, but then have that online training supplemented by small class tutorials taught by lower-cost specialists who have done hands-on work in the field of study, rather than only by research-focused Ph.D.s who often have little to no hands-on experience.

None of these characteristics might actually come into being; they are just potential scenarios. The actual characteristics of the for-benefit university would be determined from the bottom up by a social entrepreneur who believes he or she knows how to provide low-cost quality education, and who can convince teachers to take part in it, and donors and investors to invest in it.

Providing Better Options for Students

It is not only investors that for-benefit institutions would allow to better meet their combined goals. It is also young people entering the job market. Today, when young people move into the job market, they must choose between the for-profit sector, the government sector, and the nonprofit sector. These students are, in varying degrees, socially minded and ethically concerned about making a better world, but they are also interested in achieving financial stability. This is not to say that they are not concerned with material welfare; they want to do well, but they want to do well by doing good. Doing well means making a comfortable but not necessarily extravagant living.

Some young people are highly entrepreneurial, but more and more young people are interpreting "entrepreneurial" broadly to refer to being a social entrepreneur, not simply being a for-profit entrepreneur. In a world where the goal of society is only material welfare supplied through existing markets, private for-profit entrepreneurship leads to social welfare. But all of people's goals are not met through existing markets, and many social concerns go unmet or are dealt with inefficiently by existing organizations. The reality is that many of today's truly passionate young people tend to be social entrepreneurial—they want to achieve certain environmental goals, social equality goals, or broader social goals. Currently these socially motivated students tend to become social activists, which often means that they see their role as advocating for a position, influencing the press, shedding light on a problem, or working for a nonprofit pushing for government-structured solutions.

A social activist is, however, quite different from a social entrepreneur. A social activist does not actually bring about social change. Instead a social activist brings the problem to light and urges other institutions to solve the problem. Thus, a social activist might lead a boycott of a for-profit corporation or provide information that changes public opinion. A social entrepreneur is the one who actually brings about the change from within an organization, either because they are forced to by the social activist or because they choose to do so. For-benefit companies would allow more young people to become social entrepreneurs rather than social activists.

Conclusion

Once one accepts that people have social goals as well as material goals, it follows that for-benefit enterprises serve a fundamental role in an economy. They allow for an efficient bottom-up social policy that achieves social ends through the market. They empower socially minded entrepreneurs and extend the power of the market in coordinating the desires of diverse groups from only material goals to a combination of material goals and social goals.

For-benefit enterprises are very much within the broader economic tradition. Before Adam Smith wrote *Wealth of Nations,* which argued for laissez-faire and markets, he wrote *The Theory of Moral Sentiments,* which argued that people are social beings and their social goals are central to them. Material welfare is only part of welfare, a part they expected to decrease over time as material needs were met. Over time they expected an evolution of capitalist institutions to reflect greater concerns with social goals. The recent development of for-benefit enterprises is in many ways precisely the type of evolution they envisioned.

That social aspect of Classical economics was lost in the formalist neoclassical period, as economists such as Milton Friedman focused the argument on material welfare and selfishness. Within such a world, they argued that for-profit firms were necessary for efficiency. While Friedman's argument is correct in a world in which individuals are interested only in material goods, it is incorrect in the world in which we live—a world where individuals have intertwined social and material goals.

Economics is now changing. Neoclassical economics is no longer dominant. Behavioral economics is bringing back that broader social classical aspect of economic thinking. In such a world the arguments for markets and bottom-up policy still hold, but the argument for strict profit maximization does not. For-benefit organizations provide a mechanism for an integrated bottom-up social and economic policy. They offer a vehicle for a laissez-faire social policy that articulates and provides for individuals' social as well as material goals.

As I discussed above, the policy of laissez-faire has been quite misunderstood by the general public. It is not a policy of leaving everything to the market, nor is it a policy of glorifying greed. A well-functioning society is built on empathy among its members. A successful laissez-faire social policy requires government to structure the ecosystem so that the invisible hand will work. Western governments did that for material goods; now they need to do it for social goods. They need to create laws and institutions that not only allow for-benefit enterprises, but also encourage them.

Changing the landscape of organizational structures at this fundamental level will not be easy. Changing operating systems is never easy. But our current operating system is obsolete and has not adjusted for the successes of the system in achieving material welfare. We need to bring to social problems the same incentive dynamic that for-profit corporations and private entrepreneurship brought to the achievement of material welfare. We can do that only by changing the operating system of capitalism to direct social entrepreneurship toward solving social problems. Doing so will involve changes in law, in accounting procedures, and more generally in our vision of what organizations' goals are. But it is the direction in which we should be moving.

Notes

1. As Lionel Robbins put it well, the invisible hand is the state.

2. This principal agent incentive-compatibility problem is inherent to organizational structures. The incentives of the individuals carrying out the action differ from the principal's goal, and the greater the distance between the principal and the agent, the greater the problem. For-profit corporations have also experienced this problem and, over time, have channeled large portions of their income to managers, whose wealth and pay have increased enormously at the expense of investors.

3. The conception of a for-benefit enterprise that I am presenting here is a broad one—it is an organization that has both social and financial goals that are determined from the bottom up. This means that the actual structure of the for-benefit enterprise will reflect the bargain reached by investors and social entrepreneurs. That bargain might be something quite different from the ideas that I or others currently have. Society's social goals, like its material goals, emerge from the bargaining process and do not exist independently of that process.

4. One can think of a donation as an investment with a 100 percent negative monetary return.

5. To level the playing field with NPR, which developed with large amounts of government funding, partial government funding initially could be provided to these for-benefit radio stations. But that funding would come with strings—the radio stations would have to meet government-specified criteria, and that funding would come from reduced funding to NPR.

6. The social metric could involve government oversight or private oversight of the metric.

7. It is also possible that there would be no tradeoff, that the for-benefit corporation would make higher profits than a for-profit corporation in the same industry if consumers prefer to buy from the for-benefit firm.

8. The social goals of the investors might include creating living-wage jobs for people, providing the social ends as well as achieving particular social ends**<<au: do you mean this, or another kind of ends?>>**. If that is the case, for-benefit firms might offer higher pay for lower-wage workers than for-profit firms do. This approach would be sustainable to the degree that (1) investors have living wage as one of their social goals; (2) the commitment to a living wage increases productivity and thus is inherently efficient, or (3) consumers are willing to pay higher prices for products produced by a living-wage firm. As discussed in an earlier footnote, my goal here is not to specify what social-benefit investors want—they will define that by the nature of the for-benefit organizations they support—but rather to spell out how the ideas of for-benefit corporations fit into economic theory once one includes individuals with social goals in the analysis.

9. This discussion leaves out the complicated way in which government regulations affect organizations and the direction society takes. In practical policy terms, these regulations are often the driving force in determining how the organizations are structured. My attempt in this paper is to consider the issue only from the broadest perspective, in order to show how for-benefit corporations fit into the broad economic set of arguments for markets and free enterprise. They are fully consistent with Classical liberal economic thinking, not contrary to it.

10. An example of the type of problem that can develop is the situation at atop liberal arts school where the math department was made up entirely of pure, rather than applied, mathematicians, even though applied mathematics is most relevant for most students. This was demonstrated when the math department was asked to teach statistics, and none of the faculty there had even taken a statistics course.

11. Again, I want to emphasize that the actual nature of the contract between investors and for-benefit organizations will be determined in negotiations, not by me or the government. Some investors will want to support universities or other for-benefit organizations that provide governance to all stakeholders and not to themselves. To the degree that organizational structure is less efficient and will channel revenue to stakeholders, they will have to be willing to accept less of the other social and financial returns on their investment.