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TO PROFIT MAXIMIZE, OR NOT TO PROFIT MAXIMIZE: FOR FIRMS, THIS *IS* A VALID QUESTION

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Abstract: According to an influential argument in business ethics and economics, firms are normatively required to maximize their contributions to social welfare, and the way to do this is to maximize their profits. Against Michael Jensen's version of the argument, I argue that even if firms are required to maximize their social welfare contributions, they are not necessarily required to maximize their profits. I also consider and reply to Waheed Hussain's 'personal sphere' critique of Jensen. My distinct challenge to Jensen seems to me fatal to any view according to which firms are normatively required to maximize their profits.

Keywords: Profit, The Firm, Michael Jensen, Waheed Hussain

Defending a prominent view today in business ethics and economics, Michael Jensen has argued that firms are normatively required to maximize their profits. Jensen develops a consequentialist argument according to which each firm's objective function (i.e. the good or value it has a normative duty to maximize[1]) is its long-term profits.[2] Firms have this objective function because, it is claimed, (*a*) they are morally

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[1] See Jensen (2001: 8; 2002: 236) and Hussain (2012: 312).

[2] Unlike the views of Milton Friedman and law and economics scholars, Jensen's view is not fundamentally concerned with shareholders. Friedman's (1970) delegated property rights view holds that managers are agents who are dutybound to maximize the profits of shareholders, the firm's owners. Law and economics theorists, in contrast, argue that managers must maximize profits if shareholders so demand. For insightful discussion, see Hussain (2012: 316–317). On arguments for shareholder primacy, see Stout (2002).

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required to maximize their respective contributions to social welfare, and (*b*) maximizing profits is the way to do this and thus morally required.[3] In this paper, I shall accept (*a*) for the sake of argument and argue against (*b*). Assuming the truth of (*a*) will position me to show, from within Jensen's own moral perspective, why his argument for the claimed objective function does not follow.[4] Even if firms are required to maximize their contributions to social welfare, they are not necessarily required to maximize their *profits*.[5]

I shall develop three formidable problems for Jensen's profit-maximization account of the firm. I will present Jensen's view in §1, Waheed Hussain's important recent critique and my reply to it in §2, and my distinct, three-part challenge to Jensen in §3. Although Jensen's view will be my specific target, the doubts I will raise seem to me fatal to any view according to which the firm is morally required to maximize its profits.

1. JENSEN'S CONSEQUENTIALIST VIEW

Welfare consequentialist accounts first identify the good in non-moral terms, as a form of welfare, and then define the right in terms of maximizing the good so understood. Jensen holds a preference-satisfaction view of welfare. On his view, the good is social welfare, it is achieved when a society's members satisfy their preferences, and the right thing for a firm to do is to contribute as much as possible to this good. The way for firms to do this, says Jensen, is to maximize their profits.[6]

Jensen's argument for profit maximization is premised on the notion that a defensible objective function will enable firms to make the most valuable use they can of society's limited resources (Jensen 2001: 12). He observes that '200 years' worth of work in economics and finance indicate[s] that social welfare is maximized when all firms in an economy maximize total firm value' – where 'value' is equivalent to *profits* (Jensen 2001: 13).[7] Adopting the standard definition of profit as the difference

[3] The term 'social welfare' is awkward and imprecise, but there may be no better alternative. I use the term, which Jensen himself employs (2001: 11–14, 21), to mean something like 'the total wellbeing of the persons who are members of a given society'. See Hayek's (1976) argument against the conceptual intelligibility of a similar term – social justice.

[4] This strategy is importantly different from arguing that Jensen's account is implausible for the (external) reason that social welfare consequentialism is implausible.

[5] See Coleman (1984), Dworkin (1985) and Sen (1999) for general discussion of why firm profitability and social welfare need not co-vary. Cited in Hussain (2012: 315).

[6] For simplicity, I shall sometimes write as if a firm, rather than just its individual members, could do or believe something. I leave that complicated question open, though.

[7] Jensen sometimes couches the duty to profit-maximize in terms of a duty to maximize long-term market value (see Jensen 2001: 10, 12, 16), but he treats the two as effectively identical. As Hussain (2012: 313) notes, '[f]or the purposes of defining the objective function of the

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between revenues and costs, Jensen argues that in a situation lacking negative externalities or monopolies, 'a company that takes inputs out of the economy and puts its output of goods and services back into the economy increases aggregate welfare if the prices at which it sells the goods more than cover the costs it incurs in purchasing the inputs' (Jensen 2001: 12). On this view, profitable firms take resources out of the economy for which consumers would be willing to pay X, and transform the resources such that consumers would be willing to pay Y, where Y>X. This process creates social value in the amount of Y−X (see Jensen 2001: 13).

Central to Jensen's account, then, is the idea that firms whose sales revenues exceed their input costs increase aggregate welfare by supplying consumers with items they prefer to acquire.[8] Under welfare consequentialism, this yields the ethical imperative: 'the firm should expand its output as long as an additional dollar of resources taken out of the economy is valued by the consumers of the incremental product at more than a dollar' (Jensen 2001: 12).[9] Since a firm's profit level reflects the extent of the firm's contribution to social welfare, a firm that profit-maximizes will contribute as much as it can to social welfare.

Jensen stresses that profit maximization is an attractive alternative to stakeholder theory because it lets managers avoid (what is sometimes called) the 'too-many-masters' problem. If firms try to serve stakeholders' competing interests, they cannot adopt a rational strategy; instead, they must try in vain to achieve mutually incompatible objectives (see Jensen 2001: 10–11, 14). Managers are better off, then, relying exclusively on the unambiguous performance measure of profit maximization, which provides a clear standard not only for making performance decisions but also for assessing managerial performance. Fortunately, says Jensen, profit-maximizing managers will also have strong incentives to avoid mistreating or ignoring their stakeholders. For, in order to profit-maximize, firms must maintain good relations with all parties who affect or are affected by their operations, including 'customers, employees, financial backers, suppliers, regulators, and communities' (Jensen 2001: 16).

firm ... Jensen treats the long-run market value of the firm as equivalent to the long-run market value of the stream of profits that the firm will generate.' For simplicity, I conduct my discussion in terms of profit maximization.

[8] Jensen's defence of a profit-maximization duty concerns what real firms ought to do. He says (2001: 8; italics mine), for example, '[a]t the economy-wide or social level, the issue is this ... How do we want the firms *in our economy* to measure their own performance? How do we want them to determine what is better versus worse?' See also Jensen (2001: 13, 14, 16).

[9] Although Jensen says this about firms under idealized market conditions, he insists in various places that his prescription for profit maximization applies to real firms (see fn. 8).

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2. THE PERSONAL SPHERE REJOINDER

Without a doubt, Jensen's view is intuitively appealing. For one thing, many firms seem naturally suited for profit maximization given both their structures and the incentives they face. For another, a moral requirement on firms to make production decisions based partly on considerations other than profit maximization may seem to be either the wrong kind of requirement or an overly demanding one. Yet I suggest that serious theorizing about what, if anything, the firm is morally required to do cannot safely assume that the social value of a firm's contributions depends solely on the degree to which its members maximize the firm's profits. Even if more profitable firms always contribute more to consumer welfare than less profitable firms (a claim I reject in §3), this does not entail that more profitable firms always contribute more to *social* welfare. Whether firms increase social welfare will depend on how they treat both their consumers and their members, and not just as valuable producers but also as *persons*.

Fortunately, Waheed Hussain's recent account is rightly sensitive to such considerations. According to Hussain (2012: 323, 326; see also 330), agents are bound by impartial morality, such as Jensen's welfare consequentialism, in what he calls the 'impersonal sphere', but they are *not* bound by impartial morality in the personal sphere. Hussain thinks that if impartial morality really did apply to market actors, then it would seriously restrict the personal sovereignty of employees, employers, shareholders, managers and others. *Pace* Jensen, Hussain contends (2012: 325–327) that this would be problematic since market actors would then be required to support profit maximization at the expense of their other legitimate goals.

Hussain considers how Jensen's account fares when evaluated by the standards of liberal welfare consequentialism. This view, which many economists today embrace, includes a Millian account of the personal sphere.[10] Liberal welfare consequentialism of the Millian variety claims that market actors 'achieve the highest level of aggregate welfare, in the long run, when individuals are free to pursue their own preferred objectives in market life' (Hussain 2012: 328). As Hussain says, this Millian view recognizes 'a basic tension … between the view that corporate profit maximization is socially optimal and the idea that liberty for market actors is socially optimal' (Hussain 2012: 329). Rightly, in my view, Hussain worries that Jensen and fellow travellers offer no systematic argument to the effect that, in terms of a given firm's contribution to social welfare, a requirement on firms to maximize their profits would be worth the

[10] However, Hussain (2012: 325) stresses that, for his argument, 'the precise characterization of the personal sphere is not as important as the basic recognition that some such sphere exists'. See also Carens (2003: 164–165).

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attendant loss of freedom. The argumentative burden on supporters of the profit maximization view is to show that the welfare gains from a profit maximization requirement exceed the welfare losses from the loss of individual freedom (see Hussain 2012: 328–329).

Now, if firms really were morally required to profit maximize, this requirement would generate the further requirement that they adopt organizational structures conducive to profit maximization. Hussain argues, though, that firms are free from the demands of impartial morality: Firms can 'orient their association to profits exclusively (a business corporation), partially (a hybrid), or not at all (a nonprofit) – it is up to them to decide' (Hussain 2012: 330). If, for instance, a small bank wants to start a minority lending programme,[11] an ice cream company prefers to pay its workers above market wages,[12] or a museum wants to provide free admission despite strong market demand to view its artwork,[13] each organization is morally permitted to do so even if it would be less profitable as a result. Commonsense moral intuitions, says Hussain (2012: 317–320), strongly support this permissibility claim.[14]

Hussain's account clearly is a step in the right direction, especially in its insistence that firms may engage in diverse activities not all of which help to maximize, and some of which even diminish, their profits. But two key concerns are (1) the account's reliance on a controversial claim about the corporate sphere relative to the personal sphere (i.e. that the former is a proper part of the latter) and (2) that even if the claimed relationship between these spheres obtained, that would not yield a decisive indictment of Jensen's account.

To begin with, discourse in the West includes deeply entrenched distinctions between 'work life' and 'personal life', 'professional obligations' and 'personal obligations'. To take a hard line according to which corporate life (or life in another kind of firm) is a proper part of the personal sphere is to deny that these distinctions substantially track the truth. Establishing Hussain's claim that firms operate in the personal sphere thus seems to require showing that the cultural ethos underlying our common distinction between work life and personal life is, unbeknownst to most of us, radically misguided. Developing an argument for this claim would be no easy task.

[11] This is Hussain's 'Beta Lending' example.

[12] The company is Ben and Jerry's.

[13] The museum is the Metropolitan Museum of Art.

[14] Hussain says, for example, '[e]ven if there are many different ways for a corporation to contribute to aggregate welfare,' Jensen's argument 'is still at odds with commonsense' (Hussain 2012: 322). One way in which Jensen's view runs afoul of ordinary morality is that it treats 'the corporation as if it were an extension of the state' (Hussain 2012: 326). The idea here is fairly straightforward: Some people think of the state as having a duty to maximize social welfare, but they usually do not think of firms as having such a duty.

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Suppose, though, that such an argument were available. Even if firms were part of the personal sphere, this fact would not *entail* that firms are unconstrained by welfare consequentialist morality. After all, there seem to be important distinctions yet to be drawn concerning the normative requirements on diverse groups within the personal sphere. For example, many economists distinguish between the sphere of production and the sphere of consumption. In the sphere of production, agents deploy resources including their labour to produce goods. In the sphere of consumption, agents make use of these goods while leading their lives as members of diverse communities and associations. With this distinction in hand, we can say that firms, the paradigmatic sites of productive activity, fall within the production sphere, but clubs, churches, and other associations fall within the consumption sphere. In these different spheres, different normative requirements may indeed apply, even if both spheres lie within the personal sphere proper.

The spheres' normative requirements naturally might differ because these domains have developed in diverse ways and involve different activities. For instance, unlike when individuals join a church, when they choose to work for a firm it is widely understood that they agree to pursue at least some goals, and engage in at least some activities, that they would neither pursue nor engage in without compensation. It is also widely thought that employees have a weighty but defeasible obligation to do what is best for the firm as its members. If these common intuitions hold true and profit maximization is best for a firm, then employees may indeed have a duty to help their firms profit maximize, even if firms are, in fact, part of the personal sphere.

To be sure, Hussain seems entirely correct that people sometimes *do* join firms for personal reasons, and that the duties of firms' members will sometimes depend on why these persons joined the firm in the first place. Hussain's forceful challenge to Jensen also has the merit of remaining within the perspective of liberal welfare consequentialism, since it allows that members of the impersonal sphere may be under moral duties to contribute maximally to social welfare. Again, though, Hussain's response to Jensen relies on the controversial view that firms operate in the personal sphere, and questionably assumes that the dividing line between the personal and impersonal spheres is the same as the dividing line between the domain in which agents and organizations have a duty to contribute maximally to social welfare and the domain in which they do not.[15] A reply to Jensen that proceeds independently of Hussain's important argument will thus be valuable in its own right.

[15] Here I assume *arguendo* that such domains exist.

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3. THREE PROBLEMS FOR THE PROFIT-MAXIMIZING VIEW

In this section I develop three challenges to Jensen's view. The *expected value problem* implies that firms lack a welfare-consequentialist duty to profit-maximize if they justifiably believe that consumers are misestimating the extent to which they will satisfy their preferences. The *distorted preferences problem* holds that some firms will have moral duties not to produce certain items, but now for a different reason: Even if the items are valuable in that they satisfy consumer preferences, they may be disvaluable because they set back consumer interests. Finally, the *problem of non-monetary value* implies that much value in the world cannot be reflected by monetary amounts, and the firms that contribute most to social welfare will not always be those that profit most. Taken together, these problems pose a serious and perhaps insuperable challenge to the view that firms are morally required to maximize their profits, despite the claims of Jensen and other theorists to the contrary.[16]

Before developing these challenges to Jensen's argument, I should be clear about my use of 'welfare'. What constitutes welfare is a contested question among theorists. There is a divided literature in economics on what best *tracks* welfare, with the two main candidate accounts being preference satisfaction accounts (the majority view) and hedonic accounts (a minority position held by Kahneman, Krueger, Sugden, Thaler and others).[17] There is also a divided literature in philosophy on just what human welfare *is* and what constitutes it (prominent theories being hedonic, objective list, and desire satisfaction theories). Given the heavily contested states of these literatures, I will not rely on a single, controversial view of welfare when examining Jensen's account; and I will generally avoid employing a controversial conception of welfare, specifying the conception where I do.[18]

3.1. The Expected Value Problem

The first problem for Jensen's account is this: Consumer purchasing decisions are driven by expected value, but expected value often doesn't even *approximate* real value. That consumers clearly can get it wrong when trying to increase their utility prompts the question: What ought firms to do, morally speaking, when they justifiably believe that

[16] Milton Friedman, for one, famously argued (1970: 5) that 'there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits'. Friedman quotes there from his book *Capitalism and Freedom*.

[17] See e.g. Kahneman and Sugden (2005), Kahneman and Krueger (2006) and Kahneman and Thaler (2006). Cited in Hausman (2018).

[18] On happiness relative to economic considerations, see e.g. Layard (2005) and Burchardt (2006).

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consumers are consistently failing to satisfy their preferences due to mistaken expectations about the value they will receive from purchasing goods? From the perspective of maximizing profits, firms should continue to produce. From the perspective of maximizing social welfare, however, firms should sometimes slow or stop production. Here is the argument.

Suppose, for example, that a frequent patron of a family-run grocery store in a small town is well known to a firm's employees. Members of the firm are aware that the patron consistently chooses against his own good, and his preference for securing it, by misestimating the value he will acquire from a certain product. This consumer might know, say, that he has a peanut allergy that is serious but not life threatening, and that he prefers not to suffer from the allergy; however, in moments of weakness, he buys peanuts because he likes how they taste. A firm that knows of such a customer might not be morally required to prevent health risks that are significant but not life threatening. But if the firm can avoid selling peanut products to this customer, then, I submit, it is morally *permitted* to do so even if withholding sales lowers its profits. This conclusion follows from the conjunction of (*i*) Jensen's claim that firms face a moral requirement to maximize their contributions to social welfare and (*ii*) the plausible claim that selling peanuts to this and similar customers would prevent a firm from doing so. A firm in this scenario could not maximize its contribution to social welfare by selling products that imperil customers' health, running afoul of their fundamental preferences.

In cases such as the peanut allergy case, it is important to compare how much a firm contributes to social welfare by withholding welfare-undermining sales with how much a firm reduces social welfare by *mistakenly* withholding welfare-enhancing sales. I just claimed that, by withholding profit-boosting sales, a firm can sometimes enhance social welfare. But an objector might reply that, by adopting the *rule* 'maximize long-term profits', firms would tend to promote social welfare as well as they could. Besides comporting with the spirit of Jensen's account, rule utilitarianism about profit maximization is epistemically attractive. It spares firms the daunting task of needing to determine case-by-case whether maximizing profits would best serve consumers.[19]

Recall that Jensen's too-many-masters problem concerned a firm's ability to make productive decisions rationally. To test the rationality of the proposed profit maximization rule, suppose that members of a firm justifiably believe that sales of its product X would significantly harm

[19] One might also think that adopting such a rule would enable firms to avoid becoming entangled in welfare-undermining coordination problems associated with act utilitarianism. See Hunter (1994).

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consumers of *X*. If a firm believes this and, naturally enough, consumers prefer not to be harmed, then under Jensen's welfare consequentialism, the firm should desist from producing *X*. The manager's decision would be based on the following principle: Follow rule *R* (maximize profits) except when you *know* that *R* does not apply (maximizing profits would harm consumers), in which case deviate from *R*. If compliance with the proposed rule is rationally required given a (rational) antecedent commitment to welfare consequentialism, then a manager with the knowledge just specified can rationally decide *against* maximizing her firm's profits. In cases like these, always following a rule to maximize profits would be tantamount, in J. J. C. Smart's words, to engaging in 'superstitious rule-worship' (Smart 1956: 349). For it is pointless to comply with a rule when doing so would predictably run afoul of the purpose for which it was instituted. Here we have a weighty reason why Jensen's commitment to rational production ought to push him *away* from thinking that profit maximization is morally required.

It is worth emphasizing that the claim that firms cannot contribute maximally to social welfare without sometimes withholding profit-increasing sales applies to many ordinary commercial interactions. In the case of small firms whose managers can actively monitor sales, it will sometimes be both feasible and morally permissible to selectively prevent the sale of items that managers reasonably think would harm consumers (as in the peanut case). But managers of large firms often can do much the same, in effect, by giving local employees discretion to avoid selling a product that would predictably harm a certain consumer or kind of consumer. And even if the manager of a large firm could not somehow selectively prevent harmful sales to consumers in anonymous, impersonal markets, the manager could still decide to cease or curtail the sale of items that are demonstrably harmful to consumers, such as carcinogenic cigarettes. In such cases, it would be surprising if profit maximization were morally *required* of the firm.

3.2. The Distorted Preferences Problem

The previous case concerned a misguided all-things-considered preference for a good. The consumer had justified *in se* preferences – a preference for a tasty food (peanuts) and a preference to avoid a harm (an allergic reaction) – but, in moments of weakness, he mistakenly weighed the former more heavily than the latter. By assigning unjustified relative weights to these preferences, the consumer miscalculated his expected value, resulting in a mistaken all-things-considered judgement about what to do, *viz.* the judgement to buy the nuts. However, there is also a class of cases concerning consumers with *distorted in se* preferences. I turn to the distorted preferences problem by way of an example.

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Suppose that, as seems obviously true, supporting neo-Nazism is morally bad, but consumers are willing to pay great sums for neo-Nazi paraphernalia. The paraphernalia satisfy consumers' all-things-considered preferences, but precisely in satisfying *these* preferences, the products set back consumer interests. Consumers have an interest in not being devoted to a sordid cause, and the cost of being devoted to neo-Nazism will typically outweigh any benefit one derives from satisfying one's misguided preferences. Thus, on an interest-based view of welfare, the claim that firms are morally *required* to maximize their contributions to social welfare by capturing maximal profits falls prey to counterexamples such as the neo-Nazi case.[20]

This new case is importantly different from the expected value case. The present case involves a distorted preference to consume products that better enable one to support neo-Nazism, where this consumption – unlike the consumption of the allergenic peanuts – has little or no value in *any* respect. Returning to Jensen's call for firms to contribute maximally to social welfare, it seems simply false that a firm that supports an unsavoury cause 'clearly' should 'expand its output as long as an additional dollar of resources taken out of the economy is valued by the consumers of the incremental product at more than a dollar' (Jensen 2001: 12). Even if its bottom line shrinks as a result, such a firm is at least *permitted* to engage in 'broad paternalism' in the sense of not expanding its production in order to prevent consumers from meeting ends it believes to be profoundly misguided (see Dworkin 2017: section 2).

Relatedly, Jensen's argument about the normative demands on firms pays surprisingly little attention to problematic ways in which consumers form and maintain their preferences. For one thing, there are documented cases of adaptive preferences, or 'preferences that are adjusted to a bad state of affairs' (Nussbaum 2010: 252), and there is no good reason to expect consumers to increase their welfare by satisfying such preferences.[21] For another, there are cases where market actors entice consumers to develop preferences that they would not accept on reflection, such as a preference to assume heightened risk in credit markets (see e.g. George 2001). Such concerns about preference formation imply that social welfare would not be maximized even in an economy in which *every* firm maximized its profits by selling items to preference-satisfying consumers.[22]

[20] On setting back interests, see Feinberg (1987: 31–64).

[21] An example Nussbaum (2001: 68–69) cites is a woman who is 'very acquiescent in a discriminatory wage structure and a discriminatory system of family income sharing'. See also Nussbaum (2000: 112–115, 136–142).

[22] On why preference satisfaction may be a poor proxy for wellbeing, see Brighouse (2004: 68–70).

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3.3. The Non-Monetary Value Problem

The third problem that Jensen's account of the objective function faces is that some generators and instantiators of human value resist monetization. Consider the old adage, 'Money can't buy love'.[23] Loving relationships are partly constitutive of human welfare, but love is one of many non-economic goods to which it is difficult, or perhaps impossible, to assign an economic value. Assigning economic value is no easy task when it comes to different *sources* of value, such as friendship and other interpersonal relationships, and diverse *kinds* of value, such as aesthetic and environmental value. The worry for Jensen's account, then, is that firms that comply with their purported duty to maximize profits might contribute maximally to their society's *economic* welfare without contributing maximally to their society's *overall* welfare. Jensen says, for instance, that when 'a company acquires an additional unit of any input(s) to produce an additional unit of any output, it increases social welfare by at least the amount of its profit' (Jensen 2001: 13). This claim assumes, however, that a society's welfare increases monotonically with its firms' profits, an assumption that appears unjustified in the light of the following example concerning non-monetary value.

Suppose members of a firm expand their production process in order to manufacture and sell an entertainment device *E*. They expect *E* to be profitable and will produce *E* only if they can earn a decent income from production. However, what principally motivates them to produce *E* is the thought of bringing great value to the lives of *E*'s consumers. The firm's employees take pride in getting the production process up and running, and rightly so, but not for long. For a new study has come out showing that this sort of product, which is used by one person at a time, is *so* entertaining that it leads many users to divert their attention away from their families and friends. This result is bad for the consumers, their families and friends, and society in general – and the creators of *E* now know this. Members of this firm therefore begin to wonder whether they should continue to make *E*. They know that their firm will be less profitable if they cease or curtail production. They also know that *some* consumers will naturally shift away from welfare-undermining consumption, but many will not.

By seeking to capture maximal profit by producing *E*, this firm would run afoul of its members' principal, shared aim in not only launching the firm but continuing to work for it. Even if the firm in this example would profit more as a result, the firm's production of *E* would harm consumers

[23] Theorists such as Michael Walzer (1983) lend support to this insight when they argue that our socially accepted *concepts* of goods such as honour and true love imply that these lack a market price. Cited in Satz (2010: 80), who also discusses (2010: 79–84) the social meanings of particular market goods and distributions.

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against their fundamental preferences, and so the firm's members would be morally justified in ceasing to produce *E*. In holding that firms are required to maximize their profits, Jensen's account delivers the wrong verdict in such cases.

Any normative analysis according to which firms must maximize their profits needs to account for the fact that firms' abilities to increase social welfare via profit maximization are constrained by money's capacity to serve as a proxy for goods and services. The value of money consists, in short, of what we can acquire with it. A firm that maximizes its profits maximizes the goods and services it can purchase given the value of its assets minus its liabilities. Yet such goods and services – though obviously important – are, of course, only a *subset* of the goods and services necessary for a thriving human life; non-economic goods matter too. If firm *X* is more efficient than firm *Y* at producing economically valuable goods, *Y* may yet be superior to *X* at producing socially valuable goods. Hence, as I have argued, a firm that profits more does not necessarily contribute more to social welfare. For example, many 24–7 stores presumably could increase social welfare by closing their doors at night. Their employees might then experience a welfare gain from having more time at home with their families at night that outweighed consumers' presumed welfare loss from being unable to purchase items at night. Whether a firm can increase social welfare in this way will depend on the firm's particular circumstances, including facts about its employees and customers. To contribute maximally to social welfare, a firm must decide with an eye to the particulars of its situation whether profit maximization is an appropriate vehicle for welfare maximization.

4. CONCLUSION: WHY MANY FIRMS NEED NOT MAXIMIZE THEIR PROFITS

Although profit-maximizing firms create tremendous value for market societies, to hold that every firm is morally required to earn maximal profits is to endorse a one-size-fits-all normative demand that strains credulity. I have argued that Jensen's own consequentialist morality does not obligate every firm to adopt the objective function 'maximize our profits'. After presenting Jensen's view, I addressed Hussain's argument that corporations operate in the personal sphere and thus are not obligated under welfare consequentialism to maximize their profits. There are good reasons to accept Hussain's valuable insight that people join and participate in firms for many reasons unrelated to profit maximization. Yet his reply to Jensen relies on the controversial view that corporations operate within the personal sphere, and leaves open the plausible possibility that firms that people join for personal reasons may yet be normatively required to maximize their profits.

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My distinct challenge to Jensen allowed *arguendo* that firms are bound by impartial morality to maximize their contributions to social welfare, and claimed that even this duty does not generate a further duty on firms to profit-maximize. I defended three arguments against Jensen's account, each framed as a theoretical problem: Consumer decisions about what to purchase are often driven by erroneous judgements of expected value; consumers act in welfare-undermining ways due to their distorted preferences; and profitable exchange sometimes diminishes a society's non-economic welfare more than it promotes a society's economic welfare. Taken together, these problems imply that even if firms are bound by the moral imperatives of welfare consequentialism, many firms are morally permitted – perhaps even required – *not* to maximize their profits. This conclusion is wholly consistent, of course, with the fact that many profit-maximizing firms greatly improve consumers' lives, and often in ingenious ways.

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