Social Philosophy and Policy (2025), **42**: 1, 37–55
doi:10.1017/S0265052525000147

Social Philosophy &Policy

RESEARCH ARTICLE

Economic and Political Objections to "Moral Capitalism"

Saura Masconale[1] and Simone M. Sepe[2]

[1]Political Economy and Moral Science, University of Arizona and [2]Law and School of Management, University of Toronto
Corresponding author: Saura Masconale; Email: masconale@arizona.edu

Abstract

As corporations increasingly embrace ethical commitments and prioritize corporate social responsibility (CSR), commentators have begun to speak of a shift toward "moral capitalism." This shift has revived debates about the compatibility of CSR with economic efficiency and the role of markets in promoting social change. We find the economic concern misplaced: moral capitalism efficiently responds to a growing demand for CSR from all *stakeholders, including shareholders. Yet the same market mechanisms that make modern CSR profitable raise political objections worth considering. Major shareholders can now leverage their disproportionate economic power to use corporations as vehicles for forcing unilateral resolutions of societal issues, bypassing and undermining formal democratic processes. Beyond this, there is a broader risk to social cohesion: when markets become arenas for adjudicating rather than sidestepping moral and political disagreements, they reinforce exchanges among "friends" (those with shared preferences) while deepening divisions with "foes." This may import polarization into market life, with spillover effects on society at large. Taken together, these concerns raise the question of whether moral capitalism may threaten the very democratic moral sensibility it claims to uphold.*

Keywords: corporate social responsibility; moral capitalism; market vigilantism; economic efficiency; polarization; democratic sensibility

Introduction

Corporate social responsibility (CSR), once a marginal phenomenon, has gone mainstream. The numbers speak for themselves. Fortune Global 500 firms spend around $20 billion annually on CSR initiatives, while socially responsible investing has surged to an astonishing $40 trillion worldwide.[1] These sweeping changes

[1] Socially responsible investing is commonly labeled "ESG" (Environmental, Social, and Governance) to highlight that the commitment to ESG criteria is now a defining feature of business conduct rather than an occasional undertaking. See Elizabeth Pollman, "Corporate Social Responsibility, ESG,

have led scholars to suggest that we are witnessing the rise of "moral capitalism,"[2] as corporations now play a role in fostering our democratic moral sensibility[3] and driving social change. They have also reignited enduring normative complaints. One is the *economic* objection that broader business purposes undermine market efficiency. Another is the *political* objection that, in liberal societies, social change should arise through democratic processes.[4]

This essay considers these objections to moral capitalism and introduces a new concern about its potential to erode social cohesion. It argues that the economic objection is misplaced, as moral capitalism has arisen as a competitive response to growing market demand for CSR, which has made CSR profitable. However, the same market mechanisms that drive this profitability also empower major shareholders to exert disproportionate political influence, fueling concerns about democratic distortions and increasing polarization. Thus, the risk is that moral capitalism may undermine the very democratic moral sensibility it claims to uphold.

Under the prevailing allocative view of markets, it is unsurprising that economic concerns against CSR have long persisted. This view conceives of markets as a system of competitive coordination that generates allocative benefits, prompting a consequentialist objection against privileging social purposes over profit maximization. Doing so, the argument goes, jeopardizes competitive market mechanisms, reducing aggregate wealth.[5] Hence, we get Milton Friedman's conclusion that the only "social responsibility of business is to increase its profits."[6] But this conclusion has become outdated. Today's corporations engage in CSR because *all* stakeholders—consumers, employees, and investors—demand it. "Ethical stakeholders" willingly pay a premium for CSR initiatives. This aligns such initiatives with profit maximization, an alignment that makes Friedman's consequentialist objection inapplicable to moral capitalism.

---

and Compliance," in *The Cambridge Handbook of Compliance*, ed. Benjamin van Rooij and D. Daniel Sokol (Cambridge: Cambridge University Press, 2021), 662–72.

[2] See, e.g., Steven Pearlstein, *Moral Capitalism: Why Fairness Won't Make Us Poor* (New York: St. Martin's Griffin, 2020). Moral capitalism is also referred to as "stakeholder capitalism," "ethical capitalism," or "sustainable capitalism," but the concept remains the same: corporations are stepping up in building a just and sustainable world. See, e.g., Colin Mayer, Amelia Miazad, and Rupert Younger, "Building on Common Ground to Advance Sustainable Capitalism," Harvard Law School Forum on Corporate Governance, August 19, 2021, https://corpgov.law.harvard.edu/2021/08/19/building-on-common-ground-to-advance-sustainable-capitalism/.

[3] We are indebted to David Schmidtz for his insightful comment on the connection between moral capitalism and democratic moral sensibility, which we understand as our capacity for ethical reflection within a democratic framework.

[4] We borrow the phrase "political objection" to describe this criticism from Christian Barry and Kate McDonald, "Ethical Consumerism: A Defense of Market Vigilantism," *Philosophy & Public Affairs* 46, no. 3 (2019): 294.

[5] For a full account of this criticism, see Jessica Flanigan, "Measuring the Mission: A New Defense of Profit Maximization," elsewhere in this volume.

[6] Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits," *The New York Times*, September 13, 1970, https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html.

Yet, the details of the supply-and-demand mechanism that makes moral capitalism efficient matter here. While it is true that "[j]ustice-minded customers gladly put their money where their morals are,"[7] "ethical consumerism" (where purchasing choices influence corporate behavior) has existed for decades with mixed success.[8] What explains the shift toward moral capitalism?

The likely answer comes from changing shareholder preferences. As Oliver Hart and Luigi Zingales observe, shareholders care not only about wealth but also *welfare.*[9] A cleaner environment, for instance, might reduce shareholder returns yet enhance their overall well-being. If shareholders, like consumers who buy electric cars, are willing to pay a premium for CSR initiatives, corporations engaging in these initiatives will be more—not less—competitive in attracting shareholder investments. But then, given shareholders' vastly greater corporate interests compared to other stakeholders, corporations seeking to remain competitive will be incentivized to prioritize the former's social preferences above all. "Ethical shareholderism" (where investors push for social responsibility through capital allocation) rather than ethical consumerism is the primary force behind the growing demand for CSR.

This raises normative complications for moral capitalism, although fully grasping them requires broadening our view of markets. Dan Markovits argues that we should not only consider markets' allocative virtues, but also recall the lesson of "*doux-commerce*,"[10] which holds that, in pursuing their self-interest, market actors learn to develop prudence, reliability, and tolerance for moral and political differences,[11] or what we call "commercial other-regard."[12] This distinctive engagement, in turn, would help cultivate solidarity not just in the market, but also in society at large.

[7] Mario I. Juarez Garcia, "When Moral Talk Becomes Profitable," *Ethical Theory and Moral Practice* 27, no. 3 (2024): 283.

[8] See, e.g., Aaron Chatterji and Siona Listokin, "Corporate Social Irresponsibility," *Democracy: A Journal of Ideas* 3 (2007): 52–53. Employee-driven CSR has also been around for a long time, with equally mixed success.

[9] Oliver Hart and Luigi Zingales, "Companies Should Maximize Shareholder Welfare Not Market Value," *Journal of Law, Financing, and Accounting* 2 (2017): 247.

[10] See Daniel Markovits, "Market Solidarity: Price as Commensuration, Contract as Integration" (unpublished manuscript), 2, https://law.utexas.edu/colloquia/archive/papers-public/2012-2013/04-11-13_markovits_market_solidarity.pdf.

[11] Montesquieu, in his 1748 *Esprit des lois* (*Spirit of the Laws*), XX.1, writes: "[I]t is almost a general rule that wherever the ways of man are gentle (*moeurs douces*), there is commerce; and wherever there is commerce, there the ways of men are gentle." The translation of "doux" as gentle, however, does not fully capture the original meaning, which emphasizes "politeness, polished manners, and socially useful behavior in general." See Albert Hirschman, *The Passions and the Interests: Political Arguments for Capitalism Before Its Triumph* (Princeton, NJ: Princeton University Press, 1997), 61–62.

[12] We borrow the phrase "commercial other-regard" from Markovits, even though he uses it in a narrower sense to describe market actors' "effort to apprehend and penetrate others' mind." In addition to commercial other-regard, Markovits suggests that markets also lead to the development of "commercial prudence," as they help "cordialise mankind, by rendering [persons] useful to each other." Markovits, "Market Solidarity," 5. We use the phrase "commercial other-regard" to capture both aspects of the harmonizing function of markets.

In the aspirations of its proponents, moral capitalism would enhance this function of markets by making solidarity an explicit focus of business conduct. Whereas in commercial other-regard solidarity arises indirectly from reciprocal self-interest, the new "social other-regard" of corporations deliberately seeks to strengthen social cohesion. We refer to this as the *harmonizing* thesis of moral capitalism.

This thesis, however, faces both old and new political objections once we account for the disproportionate weight of ethical shareholders in influencing the demand for social other-regard. First, this influence exacerbates what Waheed Hussain calls the threat of "market vigilantism."[13] Second, it introduces an underappreciated risk of market and societal polarization.

Concerns for market vigilantism stem from the risk that leveraging purchasing power for social change may enable better-endowed individuals to bypass democratic consent, sidestepping key procedural values such as political equality and participatory deliberation. While these concerns were originally raised in the context of ethical consumerism[14] and have largely been overlooked in recent discussions of moral capitalism, ethical shareholderism only heightens them, especially given the ongoing equity-ownership reconcentration of U.S. capital markets. Today, three or four shareholders hold the largest equity positions in nearly half of American corporations. Thus, when we talk of ethical shareholders, we are really talking of a small, board-sized group of people with unmatched influence over corporations' CSR initiatives. This counters the standard arguments used to downplay market vigilantism, starting with the claim that ethical consumerism aggregates the preferences of a representative cross section of society. Shareholders, however, are a far more concentrated group, undermining the notion that shareholder-driven social change might mirror democratic outcomes and, thus, avoid substantial violation of procedural values.[15] Similarly, while we are open to the idea that market vigilantism might occasionally counterbalance democratic inequities,[16] this presupposes that the demand behind it reflects the broader citizenry—an increasingly unlikely assumption. Instead, ethical shareholderism gives a small group of wealthy investors exclusive authority to rectify democratic dysfunctions.

But ethical shareholderism also introduces a new concern. When markets serve as venues for resolving rather than sidestepping moral and political disagreements, they risk fostering polarization, contrary to the predictions of the harmonizing thesis. To see this, consider again the distinction between commercial

[13] See Waheed Hussain, "Is Ethical Consumerism an Impermissible Form of Vigilantism?" *Philosophy & Public Affairs* 40, no. 2 (2012): 111.

[14] See Hussain, "Is Ethical Consumerism an Impermissible Form of Vigilantism?" 111–12, 115–24, (introducing this concern); Barry and McDonald, "Ethical Consumerism," 295 (defending the democratic legitimacy of ethical consumerism); and Brian Berkey, "Ethical Consumerism, Democratic Values, and Justice," *Philosophy & Public Affairs* 49, no. 3 (2021): 237–74 (arguing that the legitimacy of ethical consumerism cannot abstract away from substantive considerations of justice).

[15] For a full discussion of this counterargument, see Saura Masconale and Simone Sepe, "Citizen Corp. – Corporate Activism and Democracy," *Washington University Law Review* 100, no. 2 (2022): 309–10.

[16] Barry and McDonald, "Ethical Consumerism," 295–96.

https://doi.org/10.1017/S0265052525000147

and social other-regard. Commercial other-regard harmonizes civic behavior through the pursuit of morally neutral self-interest, which helps temper the divisive passions that might otherwise hinder cooperative business activities. In contrast, under social other-regard, markets are a forum for aggregating moral and political preferences and determining the "right" course of action, thus settling—not ignoring—disagreement. While the settlement mechanism is compatible with economic efficiency, it concentrates undue power in the hands of the wealthiest few to decide what is right or wrong.

Why does this matter for social cohesion, though? After all, shouldn't we all agree on CSR initiatives like promoting employee well-being or reducing poverty? Even if ethical shareholderism might violate democratic procedural values, it could still serve a harmonizing function. This perspective, however, overlooks recent shifts in CSR engagement, which increasingly focuses not on widely shared altruistic goals, but on highly divisive issues—from gun control and gender and race equality to immigration and abortion.[17] These changes raise the underappreciated risk that ethical shareholderism may foster cohesion only among "friends" who share the moral and political views of major shareholders, while actively alienating dissenting "foes" who disagree with them. This, in turn, imports polarization in market life, with spillover effects that widen rather than mitigate societal divisions.

A healthy democratic society depends on the shared understanding that no one moral ideal should dominate the public sphere. While private moral convictions are sacred, they need not be imposed on everyone. By transforming markets into political arenas, moral capitalism threatens this balance, undermining the liberal ideal that no one's moral view has the right to sweep the field of alternative perspectives.[18]

Moral capitalism and the dual function of markets

Efficiency and harmony

In modern thought, markets are primarily seen as an allocative technology, a mechanism through which goods and resources are efficiently allocated among individuals. This view has a long history, going back to Adam Smith's "invisible hand"—the powerful idea that self-motivated individuals, coordinated solely by the price system, can act in mutual compatibility.[19] Central to this idea is competition, which ensures that prices reflect changing preferences, guiding consumption and production decisions toward allocations that maximize aggregate wealth.[20]

[17] See Masconale and Sepe, "Citizen Corp.," 270–73 (introducing "divisive corporate activism").

[18] See David Schmidtz, *Elements of Justice* (New York: Cambridge University Press, 2006).

[19] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, vol. 1, ed. Edwin Cannan (1776; repr., London: Methuen and Co., 1904), 421.

[20] Smith's invisible hand finds a formal statement in Kenneth Arrow and Gerard Debreu's first welfare theorem, which holds that when supply and demand for a product constitute a competitive equilibrium, the allocation of the product among consumers is Pareto optimal; that is, it is impossible to make one consumer better off without making another worse off. See Kenneth J. Arrow and Gerard Debreu, "Existence of an Equilibrium for a Competitive Economy," *Econometrica* 22, no. 3 (1954): 265. Of course, this statement does not go without precisification, as the welfare theorems rest on very strict assumptions about market completeness.

Today, there is overwhelming consensus—among economists, lawyers, and philosophers—that no other plausible method of social coordination can allocate resources as effectively as markets. The allocative view, however, is not the only view of the markets. Developed around the same time as modern markets, the doux-commerce thesis sees markets as serving a harmonizing function.[21] Markets would foster civic unity by training individuals to commercial other-regard, which is a distinctive mode of engagement in which market participants are more likely to succeed if they can appeal to the self-interest of others. Self-interest and competition are thus as central to doux-commerce as they are to the allocative view, but doux-commerce emphasizes the behavioral and political benefits of competitive markets rather than their efficiency.

Market participants must develop certain virtues to successfully appeal to the self-interest of others. First, they must practice prudence, cultivating a reputation for probity, reliability, reciprocity, and fairness, if only to support long-term commercial relationships. They also need to learn tolerance, which is the willingness to put aside moral and religious differences in favor of cooperative engagement for mutual gain. Thus, the positive role that the allocative view of markets attributes to self-interest in promoting efficient allocations is complemented under doux-commerce by the negative role self-interest plays in curbing harmful "passions."[22]

This habituation to prudence and tolerance, in turn, yields distinct political benefits by educating individuals to values essential to modern liberal societies. As sellers and buyers set aside moral or religious differences to focus on obtaining a better deal, the scope for moral disputes narrows while that for peaceful coexistence broadens.[23] Markets serve as a training ground for democratic moral sensibility, teaching that long-term cooperation and social solidarity are in everyone's best interest.

Doux-commerce, however, rarely figures in contemporary thinking about markets. In large part, this can be attributed to the very success and familiarity of the allocative view, which eclipsed doux-commerce in mainstream discourse. Once markets came to be seen as instruments of economic efficiency, their harmonizing properties were largely relegated to the margins. Sweeping changes, however, call for reexamining what has become familiar. With the rise of moral capitalism, the allocative view on its own has become too narrow to fully understand markets.

[21] Doux-commerce also found a strong opponent in the Marxist "self-destruction thesis," under which capitalism erodes rather than supports society's moral foundations. Yet, both views were eventually eclipsed by the allocative perspective. Hirschman, *The Passions and the Interests*, 110.

[22] Amartya Sen, "Foreword," in Hirschman, *The Passions and the Interests*, xi.

[23] Perhaps the best illustration of this is in Voltaire: "Take a view of the Royal Exchange in London, … where the representatives of all nations meet for the benefit of mankind. There the Jew, the Mahometan, and the Christian transact business together, as though they were all of the same religion, and give the name of Infidels to none but bankrupts; … and all are satisfied." Voltaire, "The Presbyterians," in *The Works of Voltaire*, vol. XIX (Philosophical Letters) (1733; repr., New York: E. R. Dumont, 1901), https://oll.libertyfund.org/titles/fleming-the-works-of-voltaire-vol-xix-philosophical-letters.

Reconsidering the familiar

As we note elsewhere, "corporations are [now] set to change the world, one pressing social issue at [a] time."[24] Supporters of this shift argue that it should be embraced as a positive force: moral capitalism makes us more attuned to important shared concerns, prompting desirable social change. Under the prevalence of the allocative view, this position mainly attracts criticism for its alleged incompatibility with economic efficiency, as we will see in the next section. Yet, the new focus on social solidarity in market conduct clearly echoes the lesson of doux-commerce, suggesting a harmonizing thesis for moral capitalism.

In the aspirations of its supporters, this thesis proposes that markets can achieve stronger harmonizing properties by replacing commercial other-regard with social other-regard. Unlike the former, where social solidarity was understood as an indirect consequence of engaging in reciprocal self-interest, social other-regard explicitly places solidarity at the center of market conduct. Today's corporations deliberately integrate ethical practices and social considerations into their business operations. Under this shift in focus, moral capitalism would foster even stronger social cohesion than the doux-commerce ideals do.

Furthermore, commercial other-regard was built on a principle of "benign indifference" toward political and moral commitments, intended to limit conflict in market interactions. In contrast, social other-regard brings disagreement to the forefront through "corporate activism," which represents the true transformation brought about by moral capitalism. Although classic CSR initiatives—such as being employee-friendly or reducing pollution—have grown in scale and importance, what distinguishes modern CSR is corporate engagement in highly contentious political and moral issues: gun control, gender and race equality, immigration, abortion, reproductive rights, and free speech. Markets have become a forum for aggregating moral and political preferences and determining the "right" action. In short, they now serve to settle—not ignore—disagreement.

Within this broader view of markets, we argue that the normative question is not only whether moral capitalism is economically efficient, but also whether the harmonizing thesis holds. If critics are right that moral capitalism incurs economic losses, could its promise of enhanced political benefits help compensate for them? Conversely, if moral capitalism aligns with the allocative view, shall we just assume that this is a moral and financial jackpot? Alternatively, does a trade-off exist between maintaining efficiency and fostering democratic moral sensibility? The remainder of this essay explores these questions, first by examining the economics of moral capitalism and then the validity of its harmonizing thesis.

Profit meets purpose

The economic objection

Friedman's "doctrine" represents the classic economic objection to the prioritization of social purposes over profits. As he famously puts it, "there is one and

[24] Masconale and Sepe, "Citizen Corp.," 260.

only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."[25]

Clearly rooted in the allocative view, Friedman's argument is that "the rules of the [market] game" require firms to focus on making profits. Profit serves as a clear signal that firms are competitively responding to consumer preferences. If a company earns money, this means that its products or services are valued more by customers than the cost of producing them. At the same time, prices guide market decisions. If demand increases, prices rise, encouraging companies to invest more in those areas. If demand wanes, prices fall, prompting a reallocation of resources. Combined, these mechanisms lead to efficient allocations.

Conversely, when corporations prioritize social purposes, they disrupt the competitive process. Focusing on social objectives requires companies to divert attention from price signals that drive allocative efficiency, resulting in price distortions and capital misallocations. Without clear guidance from the price mechanism, managers struggle to weigh different initiatives against one another and may even opportunistically exploit this uncertainty for their own personal gain. As a result, focusing on broader purposes can undermine not only a firm's competitiveness but also, ultimately, markets' allocative properties.

Critics of moral capitalism argue that Friedman's consequentialist objection can be extended to it, suggesting that the unrelenting expansion of CSR initiatives comes at the expense of corporate profitability. On this view, the proliferation of such initiatives amounts to mere managerial opportunism, jeopardizing corporations' capacity to increase overall wealth.[26] To rebut this argument, moral capitalism's supporters at times reiterate the same deontological counterarguments used against Friedman's objection. They emphasize that values such as fairness and justice should not be sacrificed for efficiency; rather, businesses should forsake profits if necessary to uphold moral principles.

Both positions, however, rely on economic assumptions that have grown descriptively inaccurate. There is no conflict between moral capitalism and economic efficiency once we recognize the rise of the *new* market demand for corporations' social other-regard. Although often characterized merely as consumer demand, we use the term 'new' here because the demand for social other-regard now comes from *all* corporate stakeholders, including shareholders. In fact, the rise of ethical shareholderism is the real game changer in discourse on the economic efficiency of moral capitalism.

Profitable CSR

CSR initiatives are now profitable, as they respond to a growing demand for social other-regard that makes corporations engaging in these initiatives more, not less, profitable. This is an increasingly popular argument among defenders of

[25] Friedman, "The Social Responsibility of Business."

[26] See, e.g., Vivek Ramaswamy, *Woke Inc.: Inside Corporate America's Social Justice Scam* (New York: Center Street, 2021), 21.

moral capitalism, as it easily defeats Friedman's objection as well as deontological counterarguments to it. According to Mario Juarez-Garcia, "Friedman was at least partially wrong. There is no contradiction between seeking to maximize profit and having more robust moral duties, ... [when] being good is good for business."[27]

We agree with the argument's bottom line: moral capitalism is economically efficient. However, its economics remain unclear. *When* and *how* exactly does "being good" translate into "good for business"?

The demand for social other-regard is most frequently described as consumer-based: consumers reward companies that engage in it by buying more and punish those that do not by buying less.[28] However, ethical consumerism has existed since the time of Friedman's objection, with mixed success. Hence, those who conclude that consumer demand is the main transmission channel for the newly found profitability of CSR seem to make unrealistic assumptions about the scale of this demand. While more consumers these days are increasingly willing to pay a premium for CSR initiatives, this increased willingness alone does not seem sufficient to explain the dramatic rise in the supply of such initiatives. Put differently, if ethical consumerism were the sole driver of this rise, we would expect a massive increase in consumers' disposable income to support the premiums that make CSR profitable—but we do not observe this.

A more compelling explanation is that the rise in today's CSR initiatives stems from a broader shift in *stakeholder* preferences, driven by a similar internalization mechanism. Ethical consumerism operates on the idea that consumers' willingness to pay for social initiatives raises their reservation price for a corporation's regular goods—for instance, consumers may pay more for coffee when a company commits to fair trade policies. Similarly, "[s]hareholders may be asked to accept a lower return on their capital, employees may accept a lower wage per hour, [in the same way as] consumers ... pay a purchase price ... that exceeds what they would otherwise pay."[29] The "ethical stakeholderism" account more plausibly suggests that the increased *aggregate* demand for social other-regard is the market mechanism that makes modern CSR profitable.

This account, however, mistakenly treats the demand of different stakeholders as egalitarian. It assumes that consumers, employees, and shareholders all have similar economic power to influence corporations' CSR decisions, overlooking the *asset price effects* generated by sustained investor demand for social other-regard. Asset price effects refer to the impact that changes in the prices of financial assets, such as stocks and bonds, have on the cost of capital and overall market dynamics. As an illustration of these effects, consider what

[27] Juarez-Garcia, "When Moral Talk Becomes Profitable," 287.

[28] See Sam Arnold, "The Democratic Case Against Corporate Activism," elsewhere in this volume (referring to this account of moral capitalism as the "consumer demand" account).

[29] M. Todd Henderson and Anup Malani, "Corporate Philanthropy and the Market for Altruism," *Columbia Law Review* 109, no. 3 (2009): 588–90. On this view, the bundling of intangible "moral" goods (e.g., fair trade) with other commodities the corporation produces (e.g., coffee) or claims it issues (e.g., shares) is the "technology" that enables the internalization of the demand for social other-regard.

https://doi.org/10.1017/S0265052525000147

happens during a financial bubble. Even with no changes in the underlying fundamentals (that is, firm value), a surge in investor demand can drive up asset prices dramatically. The growing flow of investor capital into "CSR assets" (equity and other financial instruments issued by corporations engaged in CSR initiatives) suggests that a similar dynamic is at work in moral capitalism. The capital flow toward CSR-friendly corporations produces positive asset price effects for those firms through increased share prices, while companies that are not aligned with CSR experience corresponding negative effects through reduced share prices.[30] But then, given the disproportionate impact of asset price effects on corporations' economic viability, ethical shareholderism emerges as the primary driver behind economically efficient moral capitalism.

Being good is good for business when corporations' social other-regard aligns with shareholder preferences because those preferences are economically weightier than the preferences of other stakeholders. Put differently, ethical shareholderism is the market mechanism that makes moral capitalism compatible with the allocative view of markets. Unfortunately, this mechanism also risks undermining—not supporting—our capacity for civil ethical reflection, contradicting moral capitalism's harmonizing thesis.

Ethical shareholderism and civic unity

Old and new political objections

Studies defending the new alignment of profit and purpose in business tend to *assume* that efficiency goes hand in hand with enhanced civic harmony, concluding that when individuals choose to reward morality, we can aim higher than the doux-commerce ideal: "[S]ocieties can create wealth and not only be tolerant but become morally better."[31] These studies call this a "sweet spot" and a "moral and financial jackpot," "where business can [both] make money and do good in the world."[32]

This is a Panglossian conclusion, however; it ignores differences in stakeholders' ability to reward morality and the market mechanisms that translate moral demand into the corporate supply of moral initiatives. When we recognize that asset price effects give shareholders disproportionate influence over those initiatives, the harmonizing thesis of moral capitalism comes to face both old and novel political objections.

[30] Technically, the starting point here is portfolio theory, under which all investors diversify their holdings by weighing assets based on expected risks and returns. In a stylized representation, one can then pose that all investors will include in their portfolio *some* CSR assets for diversification purposes. Ethical investors with a taste for CSR initiatives, however, can be expected to alter their allocations so as to include *more* activist assets in their portfolios relative to the equilibrium portfolio choices of "non-ethical investors" who are not interested in CSR initiatives. Moral portfolios then trigger an increased demand for the shares of CSR corporations, resulting in a corresponding share price increase. For a detailed account of these dynamics, see Masconale and Sepe, "Citizen Corp.," 298–303.

[31] Juarez-Garcia, "When Moral Talk Becomes Profitable," 288.

[32] Juarez-Garcia, "When Moral Talk Becomes Profitable," 288.

First, ethical shareholderism revives and amplifies concerns about market vigilantism, under which the wealthiest few can impose social change on others without democratic consent. Second, because divisive corporate activism is at the core of ethical shareholderism, a new concern arises. Corporations that engage in activism cannot take both sides of highly charged social issues if they want to profit from it, as doing so would undermine their credibility. Instead, they have strong incentives to align *exclusively* with the moral perspectives of their most influential investors. Far from fostering social cohesion, this moral conformity deepens division: companies catering to the moral priorities of dominant investors will primarily attract like-minded "friends" who share their views, while actively alienating "foes" who feel excluded or opposed. As a result, markets increasingly become sites of ideological alignment, reflecting and entrenching partisan divisions rather than bridging them.

Shareholder vigilantes

Concerns about market vigilantism—originally elaborated in the context of ethical consumerism—stem from a widely accepted premise in political philosophy. This premise is that in market societies, there exists a division of labor between the private sphere of markets and the public sphere of democratic institutions.[33] The private sphere is the domain for economic decisions and efficient allocations. The public sphere is where collective decisions on normatively significant outcomes are made, with procedural values such as democratic deliberation and political equality ensuring the legitimacy of these decisions.

Using economic power to drive social change risks violating these procedural values. In democratic societies, matters of common concern should be resolved through public discussion and egalitarian collective decision-making to determine the outcome that best serves the common good. Ethical consumerism bypasses this process by incentivizing companies to prioritize consumer preferences over those of nonconsumers, giving better-endowed and better-organized citizens disproportionate influence over the evolution of the social world they share with all fellow citizens.[34]

With ethical shareholderism as the main driver behind the shift to moral capitalism, we argue that concerns about market vigilantism become even more pronounced, particularly when we move from abstract shareholder representations to the realities of U.S. capital markets. Due to rapid indexation, equity ownership in these markets has become increasingly reconcentrated. The "Big Three"—the largest index funds: BlackRock, State Street, and Vanguard—now hold the dominant equity positions in 40 percent of all U.S.-listed companies. That figure rises to nearly 90 percent when considering the largest U.S. companies.[35] Thus, when we say that ethical shareholders have disproportionate power to influence corporations' social other-regard, we are really saying that the small, board-sized

[33] Berkey, "Ethical Consumerism, Democratic Values, and Justice," 237–38.

[34] Berkey, "Ethical Consumerism, Democratic Values, and Justice," 248.

[35] See, e.g., Saura Masconale, "ESG and Boundary Risks: A Social Welfare Approach," *European Business Law Review* 35, nos. 3–4 (2024): 594.

group of people at the helm of the Big Three wield that power. This evidence supports the existence of a heightened risk of market vigilantism, which intuitively grows larger when a small group of investors holds enough economic clout to use corporations as vehicles to impose unilateral decisions on others.

But how exactly can corporations impose unilateral decisions on others? While we have elsewhere examined the risk-transmission channels of the new market vigilantism[36] (and Sam Arnold expands on them in this volume[37]), briefly mentioning these channels here helps counter a major objection. This is the claim that corporate spending has an overstated influence on voting behavior, when in reality, given the complexity of political decision-making and the many factors that shape public opinion, its impact would be only marginal. While corporate expenditures might not directly dictate election results, this reasoning overlooks the broader mechanisms through which corporations—and, by extension, their largest shareholders—can shape public discourse and influence policy priorities.

Beyond direct political contributions, corporations have the "corporate megaphone" at their disposal, which is the ability they have to leverage their vast financial resources and communication platforms to advance preferred positions on hot-button matters.[38] This monopolization of the public debate through pronouncements, social networking, and media messaging undermines equal access to participatory deliberation not just through the distortion of public beliefs. It also produces what we called the "Stevens effect," drawing on concerns first raised by U.S. Supreme Court Justice John Stevens in *Citizens United v. FEC*.[39] This refers to the risk that ordinary citizens, perceiving their voices as drowned out by powerful corporate actors, might lose faith in their ability to influence public policy, eventually disengaging from it and further eroding the legitimacy of democratic deliberation.

The second channel is more direct—Arnold aptly calls it the "veto button"[40]—and involves interfering with democratically adjudicated decisions. While corporations may have limited influence on voting behavior, they can exert pressure through reputational and economic retaliation against voting *outcomes* they disagree with. Although it might be tempting to dismiss this as unlikely, ample evidence suggests otherwise. Corporations are increasingly using their economic power to challenge state laws that conflict with shareholder preferences. Consider, for instance, the backlash against North Carolina's bathroom law or abortion restrictions introduced by several southern U.S. states, both of which prompted major U.S. corporations to respond with boycotts and other forms of economic retaliation.[41]

[36] Masconale and Sepe, "Citizen Corp.," 305–11.

[37] Arnold, "The Democratic Case Against Corporate Activism."

[38] Masconale and Sepe, "Citizen Corp.," 270–72.

[39] *Citizens United v. Federal Elections Commission*, 558 U.S. 310 (2010), 437 (Stevens, J., concurring in part and dissenting in part).

[40] Arnold, "The Democratic Case Against Corporate Activism."

[41] See Jason Zengerle, "Can the Black Rifle Coffee Company Become the Starbucks of the Right?" *The New York Times Magazine*, July 14, 2021, https://www.nytimes.com/2021/07/14/magazine/black-rifle-coffee-company.html, who offers several other examples.

It could be objected, however, that consumer boycotts also interfere with voting outcomes and yet the literature on market vigilantism suggests there are circumstances in which such interference is morally permissible. A common argument is that because consumers are a representative cross section of society (everyone is a consumer), the social outcomes of consumer boycotts do not significantly differ from those produced through democratic processes. Under this assumption, even if boycotts formally violate procedural values, they would not result in their substantive breach.

This objection, however, is misleading, as classic counterarguments to consumer-driven market vigilantism do not apply when vigilantism is shareholder-driven. The assumption of representativeness collapses once we acknowledge that the demand for social other-regard is not egalitarian but instead largely shaped by asset price effects and a small group of index fund managers who play a pivotal role in driving those effects.[42] In the era of equity reconcentration, ethical shareholders are *not* representative of citizens at large. To argue otherwise is to equate a system where a few wealthy individuals wield disproportionate influence with an egalitarian one where everyone counts equally. However, this is akin to claiming there is no difference between the nineteenth-century English householder franchise and modern voting systems based on political equality.

Christian Barry and Kate McDonald also articulate a popular argument in defense of market vigilantism, which they see as a means to counterbalance power inequities in the democratic process and remedy its occasional failures.[43] We are sympathetic to the idea that, under assumptions of representativeness or rough egalitarianism, the use of purchasing power can be a valid defense against democracy's justice deficits. As we argue elsewhere, consumer boycotts may be morally permissible if they aim to remedy rights infringements by corporations (such as with environmental pollution or gender discrimination) when state enforcement is lacking.[44] However, when this remedial power is concentrated in the hands of a few individuals, the immediate concern is that it may pave the way for forms of oligarchic control—a cure worse than the disease, as it deepens the very power and access inequities it aims to address.

The illusion of pluralistic corporate activism

Unlike ethical consumerism, where market-driven social change is at least shaped by a broad cross section of society, ethical shareholderism consolidates

[42] In addition to the economic pressure exerted by the largest funds on corporations, shareholders also possess disproportionately high voting power to influence the internal decision-making processes regarding such issues. Because of this additional power, the largest investors have the ability to remove corporate managers, vote them out in a control context, or deny voting support in decisions requiring shareholder approval. Furthermore, failure to comply with the funds' demands can also risk having firms excluded from the funds' portfolios, as fund managers can create portfolios that meet certain criteria, even in the context of index investing. See Masconale and Sepe, "Citizen Corp.," 304.

[43] Barry and McDonald, "Ethical Consumerism," 295–96, 322.

[44] Saura Masconale and Simone Sepe, "The Morality of Market Activism" (unpublished manuscript), 4.

this influence in the hands of a few investors, increasing the risk that they will act as vigilantes of moral and political preferences. At this point, however, objectors may argue that we are overstating the negative implications of ethical shareholderism by overlooking two key considerations.

First, even if we acknowledge a heightened risk of market vigilantism, does this really matter when CSR is typically framed as a means to make the world a better place? Why oppose such initiatives? Regardless of whether consumers, shareholders, or other stakeholders support them, isn't this a scenario where business can both generate profit and advance the common good? As long as CSR initiatives deliver benefits that are universally understood and valued by all citizen-stakeholders, the claim that the economic efficiency of moral capitalism intrinsically leads to stronger civic harmony would still hold, even under ethical shareholderism.

This objection, however, fails when we recognize that ethical shareholderism does not set aside disagreement, as doux-commerce does. Instead, it brings it to the forefront through corporate activism on divisive issues—issues on which, as Jeremy Waldron puts it, "it is not reasonable to expect that there would be consensus."[45] That expectation might have applied to older, largely consumer-driven forms of CSR, such as being employee-friendly, reducing pollution, or supporting philanthropic causes, initiatives that can be seen as implementing societal choices backed by broad consensus in liberal societies. But ethical shareholders are not merely interested in uncontroversial social responsibility; they have both the interest and the power to influence society's most divisive choices, choices deeply tied to political and religious beliefs, on which reasonable and principled people might strongly disagree. This is precisely why such matters are entrusted to democratic processes, undermining the claim that there are no (or low) costs to using purchasing power as a vehicle for social change. Instead, there are democratic costs: an erosion of participatory decision-making and political equality, triggered by the very mechanism that shields moral capitalism from an economic loss.

Yet, we may still be overstating the magnitude of these costs, which raises a second objection. After all, while shareholders have the lion's share of influence over corporations' activist initiatives, other stakeholders retain a degree of influence as well. In theory, this is a valid point. As long as there is a diverse demand for corporate activism, corporations can be expected to respond with a pluralistic range of initiatives, mitigating the democratic loss arising from ethical shareholderism.[46] Under a pluralistic supply model, the market would

---

[45] Jeremy Waldron, "The Core of the Case Against Judicial Review," *Yale Law Journal* 115, no. 6 (2006): 1368.

[46] Arnold argues that pluralistic corporate activism is undesirable to the extent that it might lead to the excessive politicization of markets. See Arnold, "The Democratic Case Against Corporate Activism." Hussain, "Is Ethical Consumerism an Impermissible Form of Vigilantism?" 122–24, raises a similar point against ethical consumerism, supporting instead "managed politicization," which is the confinement of political disagreement to formal democratic politics. We do not disagree with either of them, but it is important to emphasize that, despite these complexities, corporate pluralism helps mitigate market vigilantism; corporate conformity exacerbates this risk.

cater to a broad spectrum of moral preferences, allowing stakeholders to align with corporations that reflect their values. If these choices remain sufficiently granular, concerns about market vigilantism are mitigated, as stakeholders would not be forced into accepting any particular social change. Instead, they would be able to select from a wide menu of social initiatives based on their own heterogeneous views of what is desirable.[47]

This additional objection, however, incorrectly assumes that markets can internalize our heterogeneous moral preferences in the same way they do with other preferences. It is true that capturing universal economic demand for goods and services is a core feature of the modern corporation's global business model. From this, it seems reasonable to predict that corporations will engage in market-segmentation strategies that cater to different demands, reflecting both the "majoritarian" (that is, economically weightier) preferences of ethical shareholders and the "minority" ones of other stakeholders. But this prediction overlooks that divisive activism, unlike other goods, has an *exclusionary* nature. If you like red shoes and I like blue shoes, corporations will produce both. But if a corporation engages in initiative X—catering, for instance, to progressive preferences (for example, supporting gun control)—it cannot simultaneously support the "contrarian" initiative not-X—catering to conservative preferences (for example, opposing gun control)—without undermining its credibility. Pursuing both initiatives would prevent the corporation from satisfying either moral demand, thereby undermining the economic value of its activist efforts.[48]

Nor is it economically viable for corporations to try to replace market-segmentation strategies with a mass-production strategy, as suggested by some scholars.[49] Trying to endorse "messages that everyone can embrace regardless of political and ideological affiliations"[50] is a call for moral neutrality that is likely to be as unprofitable these days as trying to capture a universal demand for conflicting activist initiatives is.

Divisive corporate activism thus imports an exclusionary constraint that leads to moral *conformity* rather than pluralism. Under this constraint and striving to remain competitive, corporations will have incentives to cater exclusively to the

---

[47] Under pluralism, that (i) a stakeholder interacts with corporation A when corporation B is also available and (ii) the two corporations are identical but for the fact they offer different CSR initiatives, provides adequate evidence that the stakeholder has voluntarily expressed her intention to support corporation A's social stances. In other words, with pluralism, one can assume efficient sorting. Cf. Canice Prendergast, "The Motivation and Bias of Bureaucrats," *American Economic Review* 97, no. 1 (2007): 180.

[48] "Moral trade-offs" also expand the class of divisive CSR issues. Under the reasonable assumption that individuals' utility function is constrained by their budget, one can posit that a substitution effect exists between the demand for CSR initiatives and other commodities (or services). This means that stakeholders' moral demand is affected by changes in relevant prices and hence admits trade-offs with the demand for other goods. Furthermore, even independent of budget constraints, individuals might order moral concerns differently and hence admit trade-offs between these concerns. For example, we can assume that we all have a reason to share environmental concerns, but one's propensity to care for the environment might well change if caring entails losing one's job.

[49] See Juarez-Garcia, "When Moral Talk Becomes Profitable," 283, 292.

[50] Juarez-Garcia, "When Moral Talk Becomes Profitable," 283, 292.

demand that pays the highest premium for activist initiatives, which we know comes from a small group of asset managers.[51] This conclusion helps rationalize the largely progressive connotation of current activist initiatives, rejecting that this outcome might be a reflection of managerial opportunism, as claimed by anti-woke critics. Rather, given the exclusionary nature of corporate activism, partisan activism is a predictable result when corporations seek to operate a successful business.

Market polarization and social division

Ethical shareholderism, equity reconcentration, and divisive corporate activism push corporations toward an equilibrium of moral conformity, where firms striving to stay competitive are incentivized to promote a single moral ideal. While economically rational, this equilibrium risks undermining the formal democratic process by sidestepping procedural values and interfering with its adjudicated outcomes. But moral conformity also carries a deeper democratic cost: rather than fostering the social cohesion essential to a stable democracy, it erodes it. This erosion exposes a novel political objection to using markets for social change, one that fatally undercuts the moralizing thesis of moral capitalism.

The root cause of this erosion is the polarization that moral conformity produces in market life. As corporations align exclusively with the moral priorities of their most influential investors, they may still attract like-minded "friends" who share their vision of the "right action." After all, while corporate activism today leans heavily progressive, nearly half of Americans hold progressive moral preferences. The cost, however, is the alienation of "foes" with opposing views, roughly the other half of Americans. Economically, this production calculus is efficient. The benefits of aligning with dominant shareholders and their ideological allies must outweigh the costs of alienating their opponents; if it weren't, we would not see the current widespread embrace of progressive activist initiatives.

Yet, from a perspective that considers the harmonizing role of markets, this is deeply disruptive. In replacing commercial other-regard with social other-regard, moral capitalism transforms markets into political arenas, dividing market participants into opposing camps rather than training them to harmonious interactions in their reciprocal self-interest. Almost paradoxically, the shift from self-interest to social solidarity may end up pushing participants to adopt conflicting positions even when they might otherwise have had no immediate reason to disagree—or could have profitably ignored those differences. More critically, this shift may exacerbate societal rifts, as individuals deeply committed to their values may

[51] But why couldn't the largest shareholders hold divergent views on contentious issues? For the same reason corporations cannot. If we reasonably assume that index funds themselves respond to a moral demand—the demand coming from their beneficiary investors—they will also be constrained by the exclusionary nature of activism. If the funds supported progressive initiatives at some corporations and conservative ones at others, this would destroy their ability to attract either progressive or conservative beneficiary investors.

actively resist efforts to change them, sometimes resorting to extreme measures to defend what they perceive as virtuous norms.

Furthermore, market polarization might provoke political reactions—both in support of and against corporations' moral conformity. Notably, in 2024, we witnessed an outpouring of new CSR regulations, including a European directive promoting expanded CSR practices and various state-level regulations in the United States that largely align with political affiliations. "Blue" states (that is, those that largely vote Democrat) have advanced CSR-friendly policies, while "red" states (that is, those that largely vote Republican) have introduced measures to curb or counteract corporate activism.[52] More recently, these partisan divisions have been further exacerbated by the Trump Administration's equally ideological stance on corporate activism, which has taken the inverse route—pushing deregulation and executive actions aimed at dismantling progressive CSR initiatives. While framed as a defense of economic freedom and profit maximization, this inversion risks being no less disruptive than the progressive moral conformity it opposes, entrenching rather than resolving ideological divisions and further politicizing the role of markets.

Market segmentation, once a strategy for tailoring products to consumer preferences, now extends to moral and political identities, reinforcing separate spheres of engagement for different ideological groups. Rather than serving as a neutral space for cooperation, markets are increasingly functioning as mechanisms that reflect and amplify political divides, embedding ideological fragmentation into everyday economic interactions. These divisions are likely to spill over into the social and political spheres, influencing interactions beyond the marketplace, with moral capitalism contributing to a vicious cycle of social erosion rather than a virtuous one of social cohesion.

Yet, one could object that as long as these risks remain confined to certain commercial contexts—particularly big business—their consequences may be limited. If the broader landscape of commerce continues to operate under a cohesive practice of commercial other-regard, this could mitigate the risks posed by moral capitalism in the public corporation context. In theory, ethical shareholderism might have less of an impact in private companies with a controlling shareholder. For controlling shareholders might be willing to internalize the negative asset price effects triggered by not conforming to moral pressures coming from other stakeholders. Similarly, in small businesses, owners would not have to worry too much about this pressure. In practice, however, it is uncertain how much help the broader landscape of commerce might provide in mitigating moral capitalism's cohesion risk.

First, public corporations control an increasingly large share of the global economy; they are "large economies," endowed with means and resources that are comparable to those of some among the wealthiest Western countries. The net worth of even the largest private companies is smaller by the trillion. Second, given that the demand for sustainable business keeps growing, it is also unclear whether smaller businesses can afford to remain immune from this demand.

[52] For an analysis of new CSR regulations on both sides of the Atlantic, see Masconale, "ESG and Boundary Risks," 570–72.

In this context, private companies could also end up endorsing progressive market activism or they could go in the opposite direction of supporting increasingly conservative small-business activism. In either case, the result would be a heightened rather than reduced risk of social erosion and spillover effects.

There is one more objection. One could say that the long-prevailing Friedmanesque conception of the corporation embodied a consequentialist approach where profit maximization was instrumental to bring about good consequences. But then why wouldn't a model where the right action is to maximize profits be as likely to engender disagreement as a model focused on shareholder-driven corporate activism? That is, why would a consequentialist model à la Friedman not raise a cohesion risk?

This objection, however, does not consider the organizational complexity of the corporation. Corporations are different from other market actors; they are complex entities: "bureaucracies." Thus, while the doux-commerce thesis is premised on a model of freedom of contract, where market actors are only "constrained" by their reciprocal self-interest, this model cannot be applied "as it is" to the complexity of the corporation. Who is to decide how to exercise this freedom of contract? The managers? The shareholders? Why not other stakeholders? Friedman's consequentialist postulate is the operational expedient that enables corporations to overcome these difficult questions. That is, in markets that also include complex organizations such as corporations, it is the "constraint" of profit maximization that enables the positive role of (self-) interest across both economic and political dimensions. But to be fully viable, this constraint requires that markets do *not* aggregate moral preferences.

Closing remarks

Can heterogeneous liberal societies "afford" moral capitalism, where corporations take on the task of fostering our democratic moral sensibility through broader social pursuits? Recent discussions often interpret this question in strictly economic terms, assessing moral capitalism's compatibility with economic efficiency. In this essay, we argue that moral capitalism's harmonizing aspirations deserve deeper scrutiny and, therefore, take a broader approach—examining not only its economic viability, but also its political implications.

This broader approach reveals that moral capitalism is compatible with profit maximization, thus escaping classic Friedmanesque objections to importing social purposes into the corporate world. However, the market mechanism that ensures this compatibility—the rise of ethical shareholders—may erode the very democratic moral sensibility moral capitalism purports to strengthen. By elevating the preferences of the largest shareholders over all others, it risks consolidating political influence in the hands of the wealthiest few and turning markets into arenas of ideological contestation. When commerce ceases to be a neutral space for reciprocal self-interest, as envisioned by the ideals of doux-commerce, and instead adjudicates moral disputes, it will likely reinforce allegiances among ideological allies while deepening hostilities with dissenters. The result is not a harmonizing force, but a market-driven polarization that spills over into the broader social fabric, jeopardizing the liberal ideal that no one moral view should dominate our collective living or suppress competing viewpoints.

While this might seem like an overly pessimistic conclusion, recent developments suggest otherwise. In response to shareholders' progressive influence, "foes"—now holding the political majority—are pushing back through state coercive power. This reaction should not be mistaken for a remedy. If our analysis is correct, a genuine corrective intervention would have been more likely to take the form of antitrust action targeting equity ownership reconcentration and the disproportionate influence it commands. Instead, under the guise of restoring market neutrality, this intervention merely perpetuates the same vicious cycle—one in which markets no longer sidestep our divisions but become a new battleground for ideological dominance.

Competing interests. The authors declare none.

Cite this article: Masconale, Saura and Simone M. Sepe. 2025. "Economic and Political Objections to 'Moral Capitalism'." *Social Philosophy and Policy* 42, no. 1: 37–55. https://doi.org/10.1017/S0265052525000147