Lessons in Business Ethics

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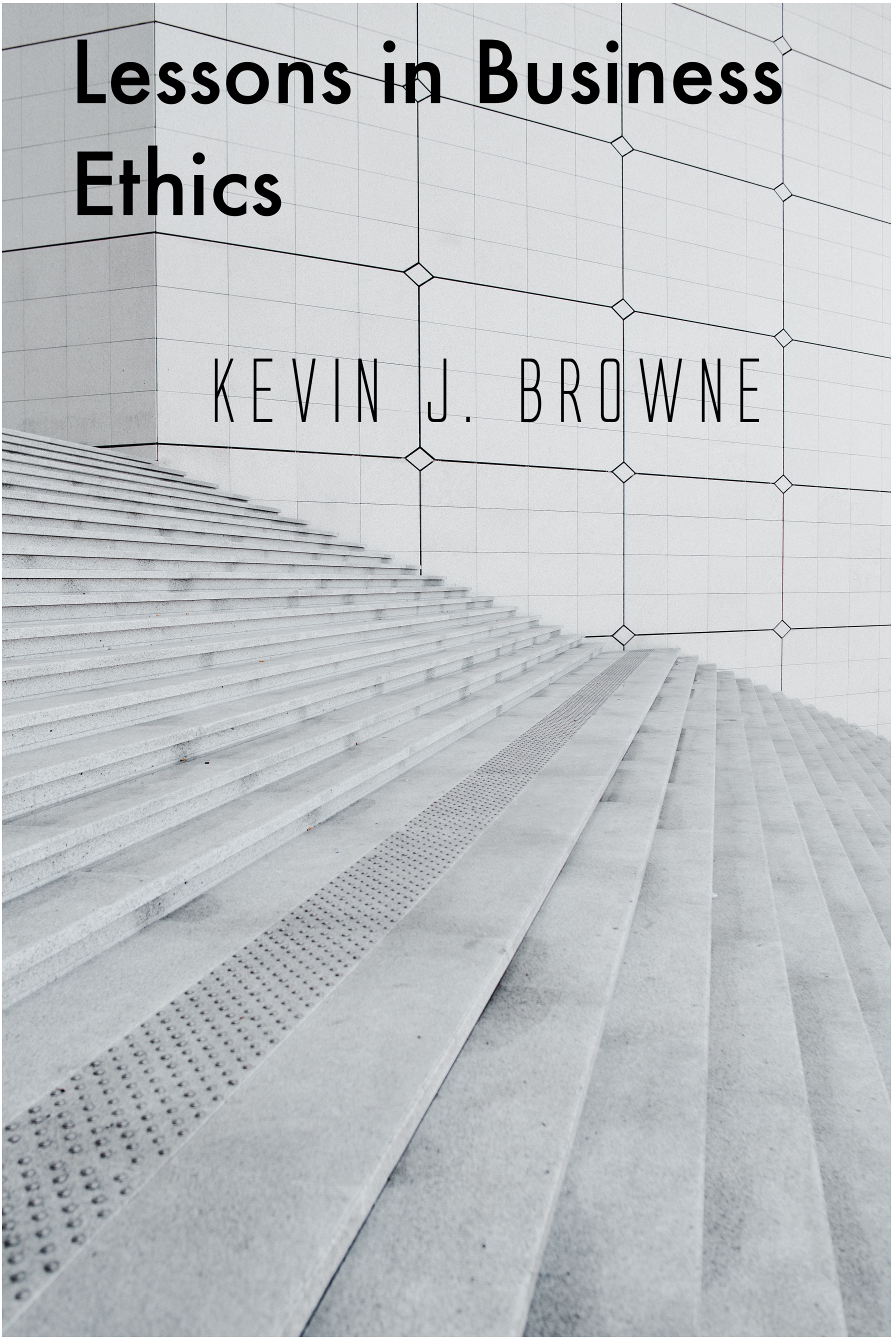

“Work keeps us from three great evils:
boredom, vice, and poverty.”
Voltaire

Introduction

Many of you may be reading this book with a dose of skepticism saying to yourself "there really is no such thing as business ethics" or "business ethics is an oxymoron." I hope to demonstrate that these statements are, in the main, untrue. Sure, some business executives and whole businesses perhaps act in unethical ways sometimes. But, by and large, the world of business runs according to some basic and universally held ethical principles. Just as well that the world of business is ethical since we all spend at least some of our time in this world daily as employees, employers, customers, or simply members of the community where businesses are located.

The main goal of this course, then, is not to indict all businesses for their lack of ethics nor is it to blindly maintain that there are no ethical problems or lapses in the business world. Rather, we will be examining some basic ethical principles and examine how these might be applied to the world of business. In so doing, we'll be looking at some issues that affect the business world in very specific ways. So, this course really can be seen as having two distinct parts: theory and practice. In the theory section, we'll examine such issues as truth-telling, the concept of justice, employee rights and responsibilities as well as corporate responsibilities. The application section will examine these questions in light of specific cases that have arisen in the business world. Some of the issues you are probably already familiar with from the news stories associated with them such as the Enron case. Others you may be unfamiliar with but would benefit from learning about simply because the ethical issues involved are always relevant to the world of business and learning how to resolve the conflicts that sometimes arise in business is another important aspect of what this course is about.

Business ethics provides a challenge because it requires that we draw information from two distinct fields and synthesize them. To do this it helps to know about the fields of economics and ethics. While neither class is a prerequisite for this one it goes without saying that the more we know about the two disciplines of economics and ethics the better we'll be at making decisions in business ethics. Throughout the book I'll draw your attention to relevant aspects of both of these fields and, of course, we'll be reading selections from both ethicists and economists.

To start let's examine exactly what is involved in each field and how business ethics attempts to synthesize them. Economics has been well defined by Thomas Sowell as the study of the allocation of scarce resources that have alternative uses. This definition will come up time and again in this class and be used to help address difficult problems of allocation. We can think of ethics as the study of values and moral beliefs and how these can be justified. So, with those two definitions in mind, we can think of business ethics as the study of which values and moral beliefs should guide us in our allocation of scarce resources which have alternative uses.

Two important points should be emphasized in this preliminary definition of business ethics. We are concerned about justifying our moral beliefs and this, as we'll see very soon, will require that we reason through various ethical theories. Secondly, we will never be free from the constraints of economics which entail that there are always alternative uses for inherently scarce resources. It is this scarcity that gives rise to many of the ethical problems encountered in business ethics.

This raises an important consideration that is well understood in economics but not often understood or applied in ethics. This is the concept of the trade-off. In a world where resources are limited and have alternative uses, there will always be cases where we have to decide among competing options each of which has advantages and disadvantages. We often don't have the luxury of an option that is the obvious best choice. We will have to be prepared to sacrifice some of one good for the sake of more of another. The question then becomes how much of one is worth sacrificing for how much of the other? This is always hard to deal with in specific situations which bring up ethical dilemmas.

One of the best examples of this concept of trade-offs and their effects on ethical decisions is in the world of budgets. Imagine being a member of Congress and your job is to decide how much money we should spend on what programs. Assuming (which is no safe assumption!) that you are not going to spend money you don't have (i.e. practice deficit spending) you have only a limited resource of capital to spend on a seemingly unlimited amount of useful projects. So, something must be sacrificed. What criteria should be used to determine what should be sacrificed and what should be funded? This is where ethics become helpful because this is, in part, a decision about values. The difficulty arises because we often think in terms of black and white when it comes to ethics. Ideally, each case would have only one right answer and one wrong answer and we would pick the right answer. This ideal is rarely a reality. Hence the need for some guidance when making these decisions. This is where a course like this comes in and hopefully helps in this difficult task.

In his book *Ethics and the Limits of Philosophy*, Bernard Williams points out the importance of setting priorities when addressing ethical values. Not only does this illustrate another example of trade-offs but also a point about our implicit ability to recognize right and wrong. Some actions are immediately recognized as right and wrong before any moral deliberation. This turns out to be a good thing. As Williams puts it “an effective way for actions to be ruled out is that they never come into thought at all, and this is often the best way. One does not feel easy with the man who in the course of a discussion of how to deal with political or business rivals says, ‘Of course, we could have them killed, but we should lay that aside right from the beginning.’ It should never have come into his hands to be laid aside. It is characteristic of morality that it tends to overlook the possibility that some concerns are best embodied in this way, in deliberative silence.” To the concerns that require our more vocal deliberation, we now turn towards.

Offense and Harm

Discussing controversial ethical issues can be difficult for many precisely because they have strong emotional content. While no one suggests completely ignoring one's emotions when addressing these issues, it is beneficial and constructive to be able to distinguish reason from emotion and to allow reason to guide and inform our emotions. This may sound like an impossible task but it can be done. Several useful philosophical insights might make this task easier. First, we should distinguish the person making a statement or argument from the person himself. Second, we should distinguish between offense and harm. Lastly, we can benefit from the insights of the Stoic philosophers who have had a strong influence on the psychological school of thought known as rational emotive therapy. I won't be able to address all of these points in sufficient detail here. But perhaps an introduction to each will help clarify the issues and inspire you to learn more about these useful insights so that you can benefit from them, not only in this class but also in other classes and perhaps in your life in general.

In logic, there is a fallacy of reasoning known as an argument against the person. The reason this is a logical fallacy (mistake in reasoning) is that there is a difference between the person and what that person says. If you disagree with something I say that doesn't mean you are disagreeing with me as a person. In other words, if you disagree with me it doesn't mean you are insulting me or attacking me personally. You may very well like me as a person but dislike something I think or say. For example, if I say I think golf is a great way to relax you may disagree with that. But does that mean you are insulting me or does that mean you dislike me? No. Now while that is a fairly tame example, logically speaking the same should hold for other issues as well.

Perhaps you disagree with someone's view of capital punishment. You can say that you disagree and argue passionately for your view just as they can. But that does not mean that you dislike that person or are insulting or attacking them. Recognizing this should allow us to engage in spirited discussions without worrying about offending anyone. We just have to remember that we can discuss an issue without personally attacking or insulting someone.

Another useful distinction that will help us is the distinction between offense and harm. A good resource on this subject is Lou Marinoff's book *The Big Questions*. In one chapter he asks the question "if you're offended are you harmed? The answer turns out to be no. Consider this. Suppose someone walks up to you and steps on your toe. You have no choice about whether that's going to hurt. It is! So, here you are harmed. Being harmed is involuntary, you have no choice about whether to feel pain or not. Now, offense is not like this. If someone walks up to you and says "wow, you have really big feet" you have a choice to make. The choice is how you will react to this comment. I'm sure you've heard the expressions "no offense intended" and "none taken." These are very revealing. Offense is something that can be offered and it's also something that can be taken. But, importantly for us, offense is also something that can be refused. You have a choice in this and that's what distinguishes offense from harm.

As human beings, we are emotional beings. But, we are not slaves to our emotions. We can reason and think and this can aid us in our emotional reactions. This was a very important insight of the ancient Stoic philosophers. The basic idea behind stoicism is that we have no control over external circumstances. What we do have control over is our attitude towards them. As Epictetus once said, "it is not things which disturb us, but our attitude towards them." This perfectly sums up the stoic idea as well as how to handle offense. Similarly, the Roman emperor and stoic philosopher Marcus Aurelius said "if you are pained by any external thing, it is not the thing that disturbs you, but your judgment about it. And, it is in your power to wipe out this judgment now."

Of course, this takes skill and practice but it can be learned. One good approach to learning this is discussed by the psychologist Albert Ellis who developed something called rational emotive therapy. His approach is very stoic since he maintains that what disturbs us is not our emotions themselves but our rational (or more correctly irrational) beliefs. We believe that in large part determines what our emotional response to a situation will be. If we can formulate rational beliefs then our emotional responses won't be ones of depression, anxiety, or offense. One way to begin is to reflect on why you're having the emotional reaction that you're having. As Ellis would advise, ask what beliefs you have that are contributing to your emotional response. Then ask whether those beliefs are reasonable. Chances are, if the beliefs are unreasonable then your emotional response may be causing you to become unhappy or upset needlessly.

It should go without saying that there is nothing at all wrong with emotions or having them. But, if our emotions are ones of depression and unhappiness then it's good to know that something can be done to address that. Notice as we go through the texts in our class that while we're discussing many emotionally charged issues the attempt is always being made to discuss them from the standpoint of reason. Of course, emotions inform our reason just as our reason informs emotions. The trick is not to allow either side to dominate to the exclusion of the benefits of the other.

Does Business Ethics Make Economic Sense?

Although this essay comes late in our text, it makes sense to address this question relatively early in the book. Given many people's belief that the term 'business ethics" is an oxymoron, the natural response to the question is "no." However, Amartya Sen argues otherwise. It's ironic really that we think business ethics does not make economic sense because many feel this was inspired by the father of classical economics, Adam Smith. However, it is often forgotten that before Smith wrote *Wealth of Nations*, he published a rather large tome on ethics titled *The Theory of Moral Sentiments*. Ethics was a central concern to Smith not only in everyday life but also in economics. As Sen points out, Smith says in *The Theory of Moral Sentiments* that "humanity, justice, generosity, and public spirit, are the qualities most useful to others."

But still, Smith is seen as the great exponent of self-interest in economics thus making business ethics unnecessary. The main passage in *Wealth of Nations* that is responsible for this is the passage about the butcher, the brewer, and the baker. "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard for their self-interest."

Sen maintains that Smith stresses the importance of self-interest in motivating exchange but that there are other factors at work in making exchange possible. Additionally, economics is also concerned with production and distribution which cannot be adequately explained by self-interest alone. In the example of the butcher, the brewer, and the baker self-interest certainly does provide a reason for their desire to enter into an exchange but more is needed to make the exchange successful. What more is a set of ethical institutions.

For example, trust is needed for an exchange to work. Think about credit for a moment. You go into a store and want to purchase some merchandise but instead of paying with cash you put it on your credit card. Now, for a merchant to accept this, there has to be some trust in place. This is because, in essence, you are simply promising to pay for the merchandise at a future time instead of right now. When you sign the credit receipt you are agreeing with the merchant. Now, you might say that this has nothing to do with ethics since you are obligated to pay the money, or else you'll end up being punished. But, think about what punishment is in this case. It is simply a consequence of your failure to hold up your end of this trust agreement. It is important not to confuse the consequences of your failure to uphold an ethical standard with the ethical standard itself. And this is part of Sen's point.

Ethics is also important in the realm of production. The two issues where non-profit motives become particularly important in economics are public goods and externalities. A recurring question in capitalist economics is how can public goods be provided since there seems to be little profit motive to do so? To see the problem, we should distinguish a public good from a private good. Private goods are things that individuals consume and this consumption excludes another person from consuming the same product. An example Sen uses is a toothbrush. Using the toothbrush precludes your use of it. But public goods don't work this way. For example, street lighting. My use of street lighting does not preclude your using them as well. The question is what economic incentive is there to produce such public goods since it is hard to see how anyone could make a profit from them? We'll see in a later lecture another example of a public good that was thought to be unprofitable, namely the lighthouse. But the question remains. To produce public goods, something else must be at work other than economic self-interest. This something else must be other ethical considerations.

The problem of externalities involves costs that are passed on without an easy way to compensate for them. Sen's example is pollution. If I live next to a factory I have to deal with the pollution from that factory and have no easy way to pass those costs back to the factory owner. So, what incentive do factory owners have to curtail their pollution if they are not paying the direct costs? The point of this example is that business without ethics not only provides no incentive to address this problem but that without ethics we run into the problem in the first place! So, we are much worse off as a community. But the point of an economic arrangement is to make us better off not only individually but also as a community. So, to do this other ethical considerations besides self-interest must come into play. Business ethics does make economic sense!

Finally, the area of distribution also benefits from business ethics. One could make the argument that here the market dictates how much of a product is produced and how the product is priced and distributed. But the question arises of whether this produces the optimal distribution. In economics, there is something called the Pareto Optimum (named for the economist Vilfredo Pareto). The idea here is that a given distribution of goods reaches the Pareto Optimum when any further change in the arrangement will make everyone worse off. Most arrangements of distribution are not optimum because some changes would make some involved better off. In an economic arrangement motivated ONLY by the elf interest, the Pareto optimum cannot easily if at all, be reached. Whereas in an arrangement where other ethical considerations are in

play, the arrangement is often improved, though it may still fall short of optimality.
So, it does seem that business ethics makes economic sense. But some might argue that whether it makes economic sense or not business ethics should be practiced. As Thomas Sowell puts it in his book *Basic Economics* some argue for "non-economic values" saying "economics is all very well, but there are also *non-economic* values to consider." Sowell calls this a fallacy since "of course, there are non-economic values. There are *only* non-economic values. Economics is not a value in and of itself. It is only a way of weighing one value against another. Economics does not say that you should make the most money possible." This may come as a great surprise to many including business and economics majors.

This relates to the point of Sen's article since it does seem to be a common misconception that economics dictates that one should make as much money as possible no matter what. This is simply untrue. Economics does not say that one should rob a bank, for example. No, what economics does is simply provide us with a way of calculating the costs of one action over another. Other factors must be involved in making the decision. Likely as not those other factors are ethical considerations.

Moral Muteness of Managers

It's a perennial problem in ethics classes of all kinds. Students seem reluctant to share their moral opinions. One of the benefits of an online class is that there is less reluctance perhaps because of the anonymity factor. But still, many people are reticent when it comes to discussing morality in public venues. This is all the odder since there are so many more forums now for such discussions: TV talk shows, news shows with commentary, and online blogs. And of course, there seems to be no shortage of issues to discuss with a moral component. So, for many reasons, it seems useful to consider the reasons for this reluctance to discuss morality. As Bird and Walters point out in their article, there are particularly important reasons to address this issue in the business world since the ability to discuss morality is important and relevant to many business decisions.

What exactly is moral muteness? As explained in the article this occurs when people behave according to moral principles yet do not talk about morality when discussing these decisions. That is, people are using moral principles to make the decisions they make but they don't say they're doing this. This is a unique situation since it is much less common than other cases outlined in figure one: Relations Between Moral Action and Speech. Of course, there is nothing particularly odd about a person who uses moral principles and talks about them. There's even nothing too unusual about a person who talks about moral principles but doesn't follow them. We usually refer to them as hypocrites. But, moral muteness is unusual because this is a case where moral principles are used. So, why not talk about them?

Bird and Walters identify three specific causes for this phenomenon: a threat to harmony, a threat to efficiency, and a threat to the image of power and effectiveness. In all three cases, the perception is that something bad will happen if we interject moral language into the business discourse. To avoid these problems moral speech is not often used. Let's consider each of these causes in turn.

1. Threat to harmony. Let's face it sometimes talking about morality leads to conflicts. People disagree about moral principles and how they should be applied and sometimes these disagreements can become personal. The business world is no place for such personal disagreements or tensions and so to avoid them managers refrain from casting their decisions and actions in moral terms. In private corporations, the moral discourse of this kind may seem self-serving or arrogant. In the public sphere, it can be perceived as crossing the line between the separation of church and state which often makes people nervous.

2. Threat to efficiency. In the business, world decisions must be made and often on very tight timetables. Moral discourse often has a way of slowing things down. We have to investigate moral principles, make sure they're justified and consistent, figure out how to apply them in a particular case, and reach a consensus about all of this. Needless to say, this can be quite time-consuming. Add to this the breakdown of harmony alluded to above and efficiency goes out the door. So, to prevent this, often moral discourse is not used even when it might be relevant and helpful to the issue at hand. As Bird and Walters point out, "many managers associate moral talk with rigid rules and intrusive regulations." Both of which are to be avoided. Also, many people seem to associate moral discourse with endless debate which leads nowhere and generates no solutions. But, business

decisions cannot be made this way. We need to make a decision and we need to make it yesterday!

3. Threat to the image of power and effectiveness. Lastly, moral discourse can be difficult to engage in well and many managers feel ill-equipped to deal with subtle moral concepts. It's not that they don't have the mental acuity it's mainly that they haven't been trained in ethics and cannot so engage in ethical debate or discussion. But this lack of ability does nothing to encourage people to think that you're an effective capable leader. It might only serve to heighten the perception that you're powerless and ineffective. No manager wants to convey this image and so to avoid the problem, managers avoid moral discourse.

At this point, it might seem that this is much ado about nothing since these are perceived threats but perhaps not real threats. However, put yourself in the place of a manager in a company charged with leading and making decisions. Are the risks worth the costs? The benefits of moral discourse (there are many) are not immediately obvious but the risks are all too clear. Whether they are probable or not they are not worth the potential benefits of moral discourse. So, the easiest option is to become "morally mute."

But, there are costs to moral muteness. These may be greater than the risks to harmony, efficiency, power, and effectiveness. But, because they're not as obvious they are often ignored. The text specifies five consequences of moral muteness:

Creation of moral amnesia
Inappropriate narrowness in conceptions of morality
Moral stress
Neglect of moral abuses
Decreased authority of moral standards

In a way, each of these leads to the next in the series on a slippery slope that can spell serious trouble for corporations. Who would be surprised to learn that moral muteness was prevalent at Enron? You would be hard-pressed to find a case where an abundance of moral discourse leads to ethical lapses. Yes, it may slow down efficiency but this may have positive consequences in the long run. Let's consider the consequences of moral muteness:

Creation of moral amnesia: This is a fancy way of saying that by neglecting moral discourse the impression is created that morality is not a part of the business world. That is business is an amoral (not immoral) activity. Business decisions are made purely based on profit and loss and shareholder concerns. But, these are moral values and moral discourse is relevant to each of them.

Inappropriate narrowness in conceptions of morality: This is closely connected to the first consequence. Look at the terms often used to describe business decisions. Terms such as feasibility, profitability, and practicality. They seem morally neutral; as if there are no moral issues here at all. Moral concepts are relevant to other decisions but not to business decisions. But, this is not the case. What criteria we use to determine whether something is feasible, profitable, and practical end up containing some moral component.

Moral stress: Think about how stressful it might be to be making decisions using one set of factors but feel unable to express these factors to your colleagues or subordinates. Worse, what if you're having difficulty making a moral decision? How can you discuss this within an environment where moral muteness reigns supreme? Not surprising, then, a consequence of moral muteness is stress. Of course, making decisions is stressful in any case but the stress can usually be lightened by discussing the issues. If such discussion is not possible the stress level can only go up. Potentially leading to…

Neglect of moral abuses: In a climate where morality is not discussed it usually doesn't take long for morality not to be applied. If moral muteness is the phenomenon of using moral criteria to make decisions but not discussing them, it seems that this can potentially lead to a much worse situation where moral criteria are ignored completely. Which will quite naturally lead to…

Decreased authority of moral standard: In a famous essay titled *On Liberty* John Stuart Mill argues that when we cease to discuss our liberties we cease to believe we have them or understand the reasons why we do have them. A similar thing can happen with morality. When we cease to have vigorous conversations which include moral concepts we cease to take moral concepts seriously and cease to recognize their authority. This also can lead to a sense of fatalism. Sure, things are bad but nothing can be done to improve them. This line of thinking is all too common in many corporate environments and often prevents much-needed improvements.

The irony of these consequences is that many leads to the very threats moral muteness sought to avoid. While moral muteness is practiced to avoid inefficiency and disharmony, moral muteness itself may in fact cause, or worsen these. So, what can be done?

The general remedy suggested in the article is to encourage moral discourse in the workplace. But, what about the threats to harmony, efficiency, power, and effectiveness? Perhaps the risk of these arising is worth it. But, it can be difficult to encourage moral discourse because of what this demands. In particular, we must be willing to allow for dissent concerning moral issues. One must recognize that there will be disagreements when discussing moral issues. There are ways to deal with these disagreements. In particular, if you're interested in this please read my posting on offense and harm. A second thing that must be done is to willfully interject moral expressions into the discussion of business issues. At first, this will seem awkward but with practice, it becomes easier and more natural. And, after a while, it also becomes wanted and expected. To further this many companies now bring in philosophers to run workshops on ethics. Some companies go one step further and hire philosophers full time for this. Finally, companies must be willing to sacrifice short term short-term efficiency for the long-term benefits of moral discourse. For companies that do this, it often turns out that long-term efficiency is improved once the initial phase of learning to use moral discourse is overcome.

Utilitarianism

There are two dominant approaches in ethical theory today. One approach maintains that we judge actions by their consequences and the other maintains that we judge actions by appeal to rules. The second theory, called deontology, will be addressed later. The first theory, utilitarianism, we will consider in this lecture.

The idea of applying utility to ethics has its roots in 18th-century philosophy. David Hume mentions it in his *Inquiry Concerning the Principles of Morals* and Adam Smith devotes a portion of his *Theory of Moral Sentiments* to the concept. However, as a fully formed ethical theory, utilitarianism was the product of two philosophers in the 19th century. The first of these was British philosopher Jeremy Bentham.

Bentham began with what he considered to be a self-evident psychological principle. Human beings act for two motives: the pursuit of pleasure and the avoidance of pain. This being the case, the principle of utility can be formulated as "the doctrine that we ought to act to promote the greatest balance of pleasure over pain." However, there are two problems with this initial formulation. First, it seems overly concerned with pleasure as opposed to the right action or behavior. The second problem is that this principle of utility doesn't address whose pleasure we should be concerned with.

From Bentham's perspective, the first problem was not a problem at all. Good, strictly speaking, is equated with pleasure. The pursuit of pleasure simply is the pursuit of good. And as we'll see momentarily, for Bentham what counts is the quantity of pleasure. However, the second problem needs addressing. Bentham was concerned not only with self-satisfaction but also with social reform. This being the case, Bentham reformulated the principle of utility to say "that we ought to act to promote the greatest happiness of the greatest number." Note also, the change in terminology from pleasure to happiness. This is to remind us that the utilitarians are not only concerned with physical pleasure and pain but all types of pleasure.

Bentham's version of utilitarianism emphasized the quantity of pleasure and he developed a way of calculating the quantity to determine the correctness of any given action. This "hedonic calculus" consisted of seven points which included the intensity of the pleasure, its duration, certainty, and extent. So from a purely quantitative perspective, various pleasures were identical as long as their numerical value on the calculus was identical. This is what led Bentham to say that "the game of push-pin is of equal value with the arts and sciences of music and poetry. If the game of push-pin furnishes more pleasure, it is more valuable than either.

If you're curious about Bentham's calculus here's the complete list of attributes:
Intensity: or how strong the pleasure is
Duration: how long the pleasure lasts
Certainty: how likely it is to occur
Propinquity: how near at hand the pleasure is
Fecundity: the ability of one pleasure to produce others
Purity: how free the pleasure is from pain
Extent: how many people are affected by the pleasure

Bentham even composed a poem to help remember the list:

"intense, long, certain, speedy, fruitful, pure
Such marks in pleasures and pains endure.
Such pleasures seek, if private be thy end:
If it is public, wide let them extend.
Such pains avoid, whichever be thy view:

If pains must come, let them extend to few."

As inviting as it might be to quantify ethical theory, there may be problems with this approach. First, how can pleasure or happiness be quantified? Whatever scale we might use seems inherently arbitrary. Even the choice of which scale to use is arbitrary. Plus, if we were to formulate some objective criteria to evaluate and quantify pleasure and pain, it would seem that this would be the foundation of ethical theory instead of utility. A second problem is that this quantitative approach implies a sort of relativism of values. Between two competing goods, for example, reading poetry and playing a game, is there no way to distinguish them? If so, then there seems to be no way of making sense of the central normative feature of any ethical theory. For example, if I were to say that you ought, to tell the truth, but you get just as much quantitative value out of lying, then you are perfectly justified in lying. To say the least, this seems odd. There may be an alternative.

The alternative was offered by a student of Bentham named John Stuart Mill. While he was deeply impressed by the utilitarian theory of Bentham, he did think that certain modifications were needed. In particular, Mill wanted to de-emphasize quantity in favor of quality for happiness. To illustrate the difference Mill asked whether anyone would rather be a pig satisfied than a human being dissatisfied. The idea is that when it comes to happiness quantity is not enough. It's not the amount of happiness that counts but the kind of happiness. Another way of putting this is to say that some pursuits are *inherently* better than others. How can Mill justify this claim?

The answer goes back to an idea developed by Aristotle. To be truly happy, human beings must fulfill their potential. Part of this potential is to be rational agents.

So any pursuits which require a rational component are inherently better than those pursuits which do not require such capacity. Here, better means more effective at creating happiness. So Mill's point is that the conditions for human happiness are different and related to our rational capacity. Still, we need clear criteria for deciding which actions to take to achieve happiness. For example, how can we decide between two activities if we've only tried one? The answer, for Mill, is simple. We rely on the expertise of those who have tried both. According to Mill, those who have tried both inevitably choose for the higher pleasure thus illustrating that it is the correct choice.

Utilitarianism has great potential for practical application and some form of reasoning based on utility is an important part of many decision models which address public policy questions.

Also, utilitarian principles are not restricted to human beings. The unifying criterion of morality for utilitarians is whether an action involves suffering or not. As Bentham points out the important consideration is not whether animals (or humans for that matter) can reason or talk, but "can they suffer." If so, we cannot justify actions that cause their suffering. This ethical theory has major implications.

Deontology

As we've seen, an ethical theory that focuses solely on consequences leads to serious problems. While consequences are important to consider, there may be another important aspect of ethical theory that needs addressing. For Immanuel Kant, this is motivation. We should judge the moral worth of an action by its motivation and, according to Kant, only those actions motivated by duty are morally praiseworthy. Strangely enough, inclination decreases the moral worth of an action. To see why let's examine deontology which focuses on the role of duty.

Kant begins with the claim that nothing is good without qualification except goodwill. Many things are good but they can be used for evil purposes. Consider intelligence. This is a good thing but, when put to use by a criminal, can be very dangerous. The same applies to wealth. It can be a good thing but when used to fund drug trafficking or terrorism is, indeed, evil. However, goodwill is good in all cases; it's good by definition. What is good will? By will Kant means our capacity for making decisions. The good will, then, is that will that acts by the moral law. That should pretty much answer all the questions about Kant's theory except one. What is moral law?

Kant believes that the moral law is an objective standard by which we judge the correctness of our actions. It does not depend on consequences and is not contextual. Instead, the moral law is universal and should be followed regardless of the consequences. This may sound strange since we would hope that following the moral law would have good consequences. And, indeed, Kant believed this. However, we should not judge the moral worth of our actions by the consequences.

Rather, we should follow our duty, and doing so will, in the end, generate the best consequences.

The moral law defines what our duty is and is expressed by the categorical imperative. Before addressing this, we should clarify something about imperatives which are simply commands to act in a certain way. There are two types of imperatives: hypothetical and categorical. Hypothetical imperatives take the form of conditional statements. For example, "if you want to be a good musician, you should practice a musical instrument every day." Now, when I give you this imperative have I obliged you to practice a musical instrument every day? No. After all, you could say, "I don't care anything about being a musician, good or bad." So you are under no obligation to follow the imperative. All hypothetical imperatives are like this and can be opted out of. They are, in a sense, optional and only hold in cases where you want to achieve the antecedent condition, be it becoming a good musician or whatever.

The interesting question for Kant's theory is whether the moral law could be expressed as a hypothetical imperative. An example of this might be: "If you want to be a good person, you should tell the truth." On the surface, this might seem acceptable but a closer inspection reveals a problem. If the moral law were expressed as a hypothetical imperative, then the moral law would be optional! You could choose to opt out of it. This seems wrong somehow. Certainly, it goes against Kant's claim that the moral law is universally binding. In fact, by being a rational agent we are all bound by the moral law. It is for this reason that moral law must be expressed as a categorical imperative.

The categorical imperative itself has two formulations. The first is called the principle of universalizability. This is a complicated term but the idea is pretty simple. The way Kant describes it is by saying that we should act such that the maxim of our actions can be made into a universal law. This still probably sounds complex. Consider the following example. I need some money and I'm coming to you for a loan. However, to convince you to lend me the money, I need to promise to repay it. The problem is that I have no way of repaying the money. So the question is, "Should I make a promise I know I can't keep?" To test whether this is morally correct I apply the categorical imperative. I ask whether I can make this maxim a universal rule of action: Make promises you know you can't keep. If we consider the logic of this we can see a serious problem. Pretend that we've made this a universal rule of action. Now, I say to you if you need help on the next exam I will be available to talk tomorrow at 7:00 P.M. You ask if we can meet then and I say I promise to be available. Would you believe my promise? You shouldn't since we've made it a universal rule to make promises you know you can't keep. Promising would be rendered contradictory in such a case. So this rule cannot be made universal and that's what tells us that my original action is immoral.

The second formulation of the categorical imperative is called the principle of respect. Simply stated, this says that we should never treat people, including ourselves, only as a means to an end. The important word in this phrase is "only." We use people as means to an end all the time. When I visit the grocery I use the grocer as a means to an end; the end of getting my groceries. Don't be too alarmed at this, since my grocer is using me to further the end of making a living. You are using me as a means to the end of furthering your education, but don't feel guilty about that since I am using you as a means to further the end of making a living. None of these arrangements are problematic. The trouble occurs when we use people only as means to an end. How can we tell whether we're doing this?

People deserve to be treated with respect simply by being human beings. People deserve our respect quite apart from what they can do for us. If we only treat them well because of what they can do for us, we are violating this principle. In addition, our interactions with others should be voluntary and uncoerced. However, according to this principle, we are obliged to treat ourselves with respect as well. One of the more controversial implications of this that Kant saw was that this renders suicide immoral. For Kant, suicide amounts to using oneself as a means to an end; the end of relieving one's suffering. In addition, suicide implies a "contradiction in a system of nature whose law would be to destroy life by the feeling whose special office is to impel the improvement of life."

As with utilitarianism, there are some problems with Kant's deontology. One of these, of course, is the radical separation from consequences. Kant tells us that the consequences of our actions cannot be used to judge the morality of the actions. What counts is the motivation. This, however, leads to a rather strange implication. According to Kant, an action is morally praiseworthy if it is done out of respect for the moral law and in accordance with our duty. But what if we are disposed to behave in certain ways that happen to coincide with our duty? For example, if my duty to my friend requires me to visit him in the hospital. But, since he's my friend I'm already naturally inclined to visit him whether it’s my duty or not. And so, I follow my inclination and visit him. In Kant's view, the action has no moral worth. Why not? Because it was not done out of respect for the moral law. So, it seems that the things we want to do are not moral even if they happen to be the right thing to do! It’s not that they're immoral. They simply have no moral worth. A peculiar situation indeed.

The Challenge of Relativism

The first ethical theory we'll consider is relativism. This is a very popular theory but also deeply flawed as well and it is because of these flaws that we'll have to move beyond relativism to find an adequate ethical theory to base our moral judgments upon. Relativism is an ancient ethical theory and has its roots in the Greek philosopher Protagoras who once said "man is the measure of all things." What he meant by this was that each individual is their arbiter for right and wrong. Relativism can be seen at this individual level and still has adherents. In his 1987 book, *The Closing of the American Mind* Allan Bloom wrote "there is one thing a professor can be certain of almost every student entering the university believes or says he believes, truth is relative." So, this view is pervasive still. But, being widely accepted does not make a view correct. Let's examine relativism and some of its problems with it.

As Rachels points out, relativism has several formulations:

Different societies have different moral codes.
There is no objective standard that can be used to judge one society's code better than another's.
There is no "universal truth" in ethics; that is, there are no moral truths that hold for all peoples at all times.

Are these claims correct? The first seems to be a mere observation and a correct one at that. The others seem to follow naturally and when we think about it seem equally true. The main argument for the truth of relativism is based on the seemingly obvious claim that different societies have different practices and codes of morality. Just consider the examples Rachels gives such as the difference between the Greeks and the Callatians in how they deal with death. Or the differences between us and the Eskimos when it comes to infanticide. So, from these differences, it follows that there are no objective moral standards. There are several problems with this line of reasoning which we'll consider in turn.

1. The premises do not support the conclusion.
2. Relativism implies that we cannot make moral judgments about our own culture or others.
3. Relativism implies that there cannot be moral progress.
4. There is no fundamental disagreement on moral values.
5. All cultures have some values in common.
6. Relativism is self-refuting.

Let's look at each of these in turn. First, the argument for relativism is not based on sound logic. From the premise that different cultures have different moral practices, it does not follow that there are no objective moral principles. The flaw in this argument can be seen in the following example. Did you know that there are still some cultures that believe the earth is flat? There is still an organization called the Flat Earth Society! So, different cultures (and even individuals within a culture) disagree about the shape of the earth. But from this, it doesn't follow that there is no objective shape of the Earth. This is nonsense. From the mere fact of disagreement, it does not follow that there is no objective answer. This is not only true for empirical questions like the shape of the Earth but also true for ethical questions as well.

TheThe very disagreement we witness implies that there are objective standards. The question is simply what these are and how they can be justified. If ethics were only a matter of opinion and cultural belief what would be the point of disagreement? Disagreement only makes sense if there's something objective to disagree about. But, relativism denies this.

From the perspective of relativism the mere fact that culture believes something makes it so. But, does believing something make it so? Not the last time I checked. If it did I could believe I'm on the beach in Hawaii and it would be true. Unfortunately, life doesn't work like this! You might respond to this by saying "well perhaps it's true for you." But what does this mean? What could it mean to say that something like this was true for me alone? We'll have to consider this issue later when we address subjectivism in ethics.

A second problem with relativism is that it implies that we cannot make judgments about our own culture or other cultures as well. You might think this is a good thing. After all, who are we to judge that another culture is doing something immoral? But if we cannot judge other cultures then we must condone things like enslaving people, genocide, gross violations of human rights, etc. Are we prepared to say that the mere fact that culture believes these are right means that they are right and morally justifiable?

To see the problem let's consider the fact that relativism implies that we cannot even judge our cultural practices. Around 1820 in this country slavery was practiced and even thought to be morally permissible by some. So, the culture said this practice was fine. Was it? Weren't there their people making well-reasoned arguments for abolition? If relativism is true then their arguments would have been for naught. They would have no basis for the claim that slavery was (and is) immoral. This leads to the third problem with relativism, the denial of moral progress.

Take the slavery example again. I'll also mention another example as well to help. In 1820 slavery existed in this country, now it doesn't. Are we better off without slavery? Also, in 1820 women did not have the right to vote, now they do. Are we better off because of this? I hope you answered yes to both questions! But, consider these answers from the point of view of relativism. How can you say one situation is better? You can't because this implies an objective standard by which to measure better or worse. But this is precisely what relativism denies. So, there can be no such this as progress in the realm of morality because progress implies the possibility of things getting better (or worse) which implies an objective standard.

Interestingly enough, the foundation for relativism that cultures have fundamentally different moral practices may be false. This may sound strange to say since all we have to do is look at a culture's practices and we can see they are fundamentally different. Look at some Hindu countries where the people don't eat cows even if they're starving. Look at the Eskimos who practice infanticide. But, as Rachels points out there may be more to the story than these surface observations. Consider the Eskimos. Shouldn't we ask *why* they do what they do? Shouldn't we examine the entire context of their practice before we judge it? If we do this and consider for example the harsh environment and the fact that they do not indiscriminately kill babies we can see that their moral beliefs are not radically different from ours, only how they practice them.

The example of a culture that doesn't eat cows provides another useful insight. As Rachels points out the difference here may not be their values but their beliefs. They share the same values as we do but because they have different beliefs, their practices are different. So we do have some moral principles in common after all.

And, for a complex society to exist, there must be some objective moral principles despite relativism's denial of these. Rachels points to three in particular.

1. truth-telling
2. caring for the young
3. no indiscriminate killing

Every culture must have these values in common otherwise they couldn't even exist. Sure, some people lie sometimes, some people do not adequately care for their young, and some people kill others. But, the general principles hold for the majority of cases. If they didn't we would likely not even be here!

What Rachels is arguing for here is what he terms a culturally neutral standard for judging right and wrong. ThisThis is the whole point of ethical theory to adequately formulate just such a principle. Rachels suggests a tentative first formulation as follows: we should ask whether the practice promotes or hinders the welfare of the people who are affected by it. This seems like a good first step and one we'll build on throughout the book.

Still, some people are reluctant to abandon relativism. One argument is that relativism encourages tolerance. We should be tolerant of other individuals and cultures. But, look closely at this argument and you'll see a problem. Tolerance is a moral value. By saying we should practice this we seem to be implying that it's a universal principle. But remember, relativism denies these! So, the relativist is contradicting themselves. Another way of saying this is to say that relativism is self-refuting.

The basic idea of relativism is that there are no objective moral principles. But this claim itself is an objective moral principle. So, if relativism is true, it must be false!

Of course, we can learn something from the basic sentiment of relativism. It's only when we take it to an extreme and use it as the basis for morality entirely that we run into trouble. Come to think of it, this problem of taking things to extremes might be the problem with many ethical theories. A wit once said "all generalizations are dangerous. Even this one." Relativism offers a correction to moral absolutism but taken too far breaks down. We've examined what happens when you take relativism too far at the cultural level. What happens when you take it to the level of the individual? This we'll examine next in the chapter on subjectivism.

Truth Telling

In one episode of Seinfeld George tells Jerry "it's not a lie if you believe it." This raises an interesting philosophical question: What constitutes telling a lie? Is a lie simply the communication of factually incorrect information? Many would say yes. Or, is a lie defined by the intent to deceive? This is a central issue not only in business ethics but also in public policy discussions of all kinds. Did President Bush lie to get us into the war in Iraq? Are environmentalists lying about global warming? Is it lying to plagiarize a term paper? Is it lying to puff up your resume? All of these questions hinge on the definition of a lie.

Furthermore, we should also investigate whether simply failing to disclose the truth constitutes lying. For example, suppose on my resume I put the following: MA in Philosophy (classes completed). What does this mean? Suppose I don't really have the degree (I do by the way!) and simply want to communicate that I have completed the classes only without receiving the degree. Is this at all misleading? Perhaps an employer will infer from what I have written that I do have the MA and if I do nothing to correct this might I be accused of lying?

This issue of truth-telling also relates to advertising. How many commercials or ads have you seen with fine print? In television commercials, there is hardly enough time to read the large print much less the fine print. OnIn radio ads the "fine print" is always read much faster and at a lower volume than the regular ad copy. So, does this constitute lying in some sense? After all, while the information is being presented there is no reasonable way of actually getting it.

Kant wants to maintain, in his *Lectures on Ethics*, that "not every untruth is a lie." To do so, he distinguishes a false statement from a lie. The difference hinges on our intent. This seems reasonable if we remember that for Kant an action's moral worth is determined by its intent. Remember the concept of goodwill in a lecture on Deontology? For Kant, an untrue statement is only a lie "if I have expressly given the other to understand that I am willing to acquaint him with my thought." On the other hand, if I intend to deceive, then I am telling a lie. Of course, this raises the question concerning how we determine what someone's intent is, but it does make an important point. Merely communicating something false is not the same as telling a lie.

Kant raises another interesting issue with his example of someone who knows I have money asking me if I have any. Suppose this person is intent on mugging me. The mugger cannot possibly expect me to tell the truth and so in this case my lie is justifiable. So, even for Kant, there are cases where lying is justified even though this is against the categorical imperative which we discussed in the deontology lecture. But, the more problematic issue here concerns the expectation of lying. It seems that the precedent Kant is setting here is that in cases where the truth is not expected, then lying can be justified. Perhaps the lie cannot be justified in all cases but still, the potential is there.

So, how does this relate to the examples we began with? Well, doesn't everyone expect that job applicants will puff up their resumes? Doesn't everyone expect that advertisers will use fine print and other gimmicks in their ads? If so, then these cases of lying may be justified. As we'll see in the business bluffing article by Albert Carr this is exactly what some conclude.

Still, for Kant, the lie cannot be a good thing even if it can, in certain cases, be justified. Kant recognizes that lying sets a dangerous precedent. In essence, lying in one case makes lying in general that much more acceptable which overall is a bad thing. After all, "a lie is a lie, and it is in itself intrinsically base whether it be told with good or bad intent." Not only does Kant maintain that a lie is "evil," but that "a liar is a coward." But, perhaps the best argument against lying is the famous quote which says: "The greater the lie, the more readily it will be believed." How does this argue against lying? It was written by Adolf Hitler.

The injunction against lying is nearly universal in different cultures' moral codes. A Hindu saying maintains that "a sacrifice is obliterated by a lie." Similarly, an ancient Egyptian boast says "I have not spoken falsehood." As James Rachels maintained in the article on relativism in our reading, truth-telling has to be a universal moral principle in any complex society. Cooperation and progress would not be possible unless the presumption were that most people told the truth most of the time.

But, even so, lying is a common problem not only in the business world but also in everyday life. And as Pontius Pilate famously asked, "What is truth?" It seems like an easy question on the surface but is often very difficult to get at especially in complex areas of debate that often surround business ethical issues. Samuel Butler offered an interesting answer to Pilate's rhetorical question: "Truth does not consist in never lying but in knowing when to lie and when not to do so." And, as we'll see in the Carr article what can make matters more complicated is when some scholars advocate lying in certain business situations based in part on this sentiment of Butler's. It is to the question of business bluffing that we now turn.

Is Business Bluffing Ethical?

Given what we've said about truth-telling this may seem like a strange question to ask. But, the issue does arise in business in many ways from one's first entry into the work world right through to the end of a career. What constitutes ethical practice when it comes to writing a resume or disclosing information in a job interview? What about negotiating business deals? It seems unlikely that anyone writing about business ethics would encourage "bluffing" in such situations. After all, that would be tantamount to encouraging them to lie! But, in 1968 that is exactly what Albert Carr seemed to do in his article by asking the question: Is Business Bluffing Ethical? Let's examine his argument and then some criticisms offered by Norman Gillespie in his article titled "The Business of Ethics."

The basis of Carr's argument seems to be that there is a difference between what he calls "private morality" and the moral context of the business world. The analogy he uses is the game of poker. Many of you perhaps are familiar with poker and perhaps have even played on some of the online sites or with friends. Of course, there are rules to the game and certain things constitute cheating. However, there is also an understanding in poker that "bluffing" is acceptable and within the bounds of the rules. If I am holding a pair of threes and you have a full house it is perfectly acceptable for me to bluff you out of your better hand and take the winnings. Similarly, there are cases, according to Carr, where bluffing is acceptable in the business world. His argument for this seems to rest on the presumption that the business world is, in some sense, fundamentally different than the world of private morality. We'll examine this presumption when we address the Gillespie article. For now, let's look at what Carr has to say.

The argument Carr makes seems to rest on two points. First, there is a strong pressure to deceive in business. Consider the example he cites about an applicant filling out a psychological profile. Sure, this is a small example but it does illustrate that the pressure to deceive enters the business world from the very start. If one wishes to be successful in the world of business, or in this case even enters the business world, one has little choice but to deceive. Or as Carr more politely puts it, bluff.

A second point is that businesses in general only must follow the law. There is no good reason for any business to go beyond the law or to consider what might be ethical if it demands doing more than the law requires. So, in a sense, he is equating, the business world, law, and ethics.

The two points seem to go hand in hand. Given the competitive nature of business (like the competitive nature of poker), there is a strong pressure to only follow the law. After all, you can be sure that your competition will do this and nothing more so if you decide to run your business by extra-legal moral principles you will suffer as a result. Not only is this the case, but also everyone expects that you will only follow the law. As an extreme case in point remembers the Italian Tax case. There, it was expected that everyone would bluff on their taxes. Look at all the trouble that was caused when someone told the truth!

But then what explains all the talk about ethics in business? According to Carr, this is partly good PR and prudent. After all, no one wants to deal with a business that talks about bluffing. But also, talking about business ethics and codes of ethics might just protect a business from government regulators. If you talk a good game of ethics today you might save yourself from more intrusive laws and regulations tomorrow. Sounds sort of Machiavellian doesn't it?

You might think that business people would have loved Carr. After all, he seems to be giving them a license to behave just as they please. But businesspeople were among the first to protest Carr's argument. Perhaps you can guess why. Here he is giving away their cover! But the strategy of bluffing is less effective the more it becomes known that you are bluffing or intending to do so. Also, once you equate ethical behavior with following the law you send a signal that if businesses need ethical improvement that means there needs to be more laws and regulations for business. But, that is the exact opposite of what businesses want. So, Carr's effort to be honest about bluffing won few friends in business. Well, perhaps they agreed with him but wished he hadn't said anything.

The central point of criticism that Norman Gillespie raises in his article is that the business world is not, as Carr seems to think, *fundamentally* different from the rest of our lives. So, the claim that business ethics must be different to accommodate this is unjustified. Gillespie's main points are that a) business is not a game, b) the exceptional cases that occur in the business are already handled by ethical theory and do not warrant a separate "business ethic," and c) if there is pressure to violate ethical principles in the business world then this indicates that "something is wrong with the business."

The simple truth of the matter is that business is not a game. To call it a game is to trivialize what amounts to the method people use to make a living. In other words, the analogy Albert Carr makes between business and poker is weak. One of the central weaknesses is that the poker analogy "while informative of the way things are, seems to have no bearing at all on the way they ought to be." Another way of putting this is that Carr's argument violates the is-ought problem in ethics. You cannot say that because bluffing occurs in the business world it should occur.

Carr seems to take as his starting point a catch-22. That is, if everyone in the business world is bluffing then the only rational strategy for me is to bluff. But, Gillespie makes the point that this doesn't mean business represents a different set of moral principles. In fact, "our ordinary moral reasoning does, indeed, make allowance for just such cases." As Gillespie puts it, we have moral rules for determining what one's duty is when one should do one's duty, and, contrary to Carr's claim, when it is justifiable not to do one's duty. Gillespie specifically outlines three of these cases.

First, if "the *moral* cost of obeying a standard moral rule is too great" we are justified in not obeying the moral rule. The examples here are pretty standard such as lying to save someone's life. The cost of telling the truth, in this case, is too high so we are not obliged to tell the truth. Of course, we do need to address what counts as too high of a cost but this is an issue that has been addressed in standard ethical theory. One good example is W.D. Ross's book *The Right and The Good.*

Secondly, "when the cost to the *individual* of fulfilling that duty is too high" we are justified in not obeying the moral rule. This may sound identical to the first case but the difference is that in the first case the cost involved is to a moral principle (such as the principle of truth-telling) and in this case, the cost is to the individual. The example Gillespie gives is instructive.

Thirdly, if "the morally desirable state of affairs can be produced only by everyone, or virtually everyone, doing his part" and if they're not doing their part, then you are not obliged to do what your duty dictates. After all, it would be ineffective. Ideally, your duty is not dictated by what others are doing but the simple fact is that if doing your duty puts you in danger and would be wholly ineffective there is a good case to be made on practical grounds for you not being bound by your duty.

This seems to be the point most directed towards Carr's argument since Carr maintains that the business world is precisely such a case at all times. However, Gillespie's point is that the fact that the business world might fit this condition doesn't mean it is operating on *fundamentally* different moral principles than our ordinary conception of ethics. Instead, he argues that the principles governing our ordinary life also govern the business world.

And if they don't then this indicates that something is wrong with the world of business. This raises an important point regarding business ethics in general. So much of the discussion of issues in the business world relates to how things are. Gillespie's point is simply that we should be addressing ourselves to what *ought* to be the case. Yes, people lie, cheat, and steal. Sometimes. The question is whether this is justified. Should they lie, cheat, and steal? What makes business ethics so difficult for many people is to recognize that what we are trying to do here is get some clarity about how the business world ought to function. Some things might be fine as they are. Others need to be changed because changing them would make things better for everyone involved. And, what is not a trivial reason, because changing them is the right thing to do from an ethical standpoint.

Property, Profit, and Labor

We turn now to an examination of the important concepts in economics as well as business ethics. The importance of profit and labor to business should be obvious but perhaps not the importance of property or its connection to the other two. As Richard Pipes points out in his book *Property and Freedom,* there is an important connection between property and our fundamental rights and liberties. In an economic sense, these would include the ability to work and earn the fruits of one's labor. But, while these are important subjects, they have often been misunderstood. We'll begin with the standard philosophical justification for private property by John Locke. Then we'll examine the argument for profit and its origins in labor put forward by the classical economist Adam Smith. Finally, we'll examine Karl Marx's critique of the capitalist foundations of these institutions. We have a lot of issues to cover so let's get to it.

You might be wondering why we need to bother philosophically justifying private property in the first place. Isn't it obvious that we all have a right to own things and dispose of them as we see fit? For us now this may be obvious but it wasn't always so. Additionally, if our rights are intrinsically connected to the institution of private property we would do well to understand the justification for the institution to better defend it if (or when) it comes under assault.

Locke's argument for the private property begins with a problem. The world is given to us in common which means that at some point in the beginning no one owned anything. But, to *use* anything one has to take possession of it; i.e. own it. So, how do we go from a state of non-ownership to ownership? This question is answered by the justification of private property.

Locke begins with what he regards as a self-evident proposition: I own my own body. This is self-evident since if I don't own my body who does? If anyone else does then I'm a slave. Since I'm not a slave, it follows that I must own my own body. From this, it is easy to deduce that I own the labor my body performs. Since this is true it follows that anything I mix my labor with becomes my private property. That's essentially it! Labor confers ownership.

There are other considerations though that we must address. Locke recognizes that there is a potential problem here because I could mix my labor with many things and it would seem that I would then own them. This raises two problems. First, can I own things I cannot use? Secondly, what about cases where there is prior ownership?

Locke is careful to point out that there are limits to how much one can acquire. Suppose there is an apple tree somewhere that no one owns. I come along and mix my labor with some of the apples which make them mine. As Locke points out the apples become mine at that point. After all, if mixing labor did not make them mine no subsequent act (such as eating them) could. But, it doesn't follow that I can mix my labor with all the apples on the tree to make them mine. Doing so would constitute a waste of resources. So, the limit is connected to how much I can use. If, on the other hand, I collect all the apples and then sell them or barter them, they have not been wasted. Locke also points out that this doesn't necessarily apply to all things equally. "Again, if he would give his nuts for a piece of metal, pleased with its color; or exchange his sheep for shells, or wool for a sparkling pebble or a diamond, and keep those by him all his life he invaded not the right of others, he might heap up as much of these durable things as he pleased." Collecting these things would not detract from anyone or be a waste since I am not depriving anyone of collecting other "pieces of metal." This passage could be interpreted in many ways one of which would be that there is no rational justification for limiting one's income inasmuch since one person's income is not depriving anyone of their income.

The second character in our property and profit story is the classical economist Adam Smith who is responsible for at least one of two important historical events in 1776. I'll give you a hint, it wasn't the American revolution or Declaration of Independence! No, Smith's contribution to the history of that year was the publication of *The Wealth of Nations*. You may be tempted to think that this event was insignificant in comparison to the other but don't be so quick. Smith revolutionized economics and, in essence, wrote the first "how to become rich" book. In a sense, America is founded as much on Smith's economics as on Jefferson's Declaration.

The historical context of Smith's work was a world where mercantilism was the norm. This was the view that nations became wealthy by amassing gold and taxing imports (thus limiting free trade). Smith stands against these ideas by advocating free trade and the value of the division of labor as a means of increasing not only national wealth but also individual wealth. Indeed, the opening sentence of the book alludes to the importance of labor: "THE greatest improvement in the productive powers of labor, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed, or applied, seem to have been the effects of the division of labor."

What's so great about the division of labor? Well, first it allows for greater productivity. If you take a task (like making pins which is the example Smith uses) and divide it into many little tasks each given to one person the amount of pins you can make in a day is greatly multiplied. We can see this daily in an automobile factory. Think about how many cars you could make in a day if you had to do everything yourself. Perhaps not even one. But how many cars get produced each day by just one car plant. Hundreds? Thousands? Certainly, whatever the number is, it is more than you could make on your own.

Now, who does this increased productivity benefit? Your first answer might be the owner of the factory (this will be Marx's answer) but Smith points out that this productivity also benefits the worker. The more productive a worker is, the more he can earn. Additionally, the more a worker can specialize the more that worker can improve his skill (thus increasing his productivity and marketability). Finally, Smith points out that the more a worker can specialize, the more incentive they will have to improve their methods of production and make them more efficient by introducing labor-saving devices. So, contrary to what we might think about how automation puts workers out of business and that this is bad for them, Smith points out that it is the workers themselves who are the innovators of such devices!

The subject of free trade was a contentious one in Smith's day and to some extent still is today with the worries over outsourcing. It was Smith who pointed out that free trade (like division of labor) is not only a benefit to the owners (and consumers by the way; we shouldn't forget about them) but also to the workers. Today the benefits of free trade are best explained by the theory of comparative advantage. Those who have taken economics are probably already familiar with this concept. But for Smith, the whole idea of free trade and its benefits can be seen as a direct outgrowth of the division of labor.

Given that I need certain basics to survive (food, clothing, shelter) I have to find the most efficient way of procuring these things. One option is to do everything myself. But, this would lead to gross inefficiency and perhaps poor quality products. I might be a good cook but a poor builder. So, the result would be good food but not so good accommodations. The alternative is to let someone take care of my housing. But, what incentive do they have to do this? In the most famous passage in *Wealth of Nations*, Smith addresses this:

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard for their interest. We address ourselves, not to their humanity but their self-love, and never talk to them of our necessities but their advantages.

That is, it is in the builder's best interest to supply me with good housing as this will be rewarded by the food I provide him. So, we each benefit more by cooperating than by working alone. But, the incentive we have for cooperating is not necessarily to benefit our fellow citizens, but ourselves. This finally leads to the insight that Smith is most famous for: by pursuing our interests we can benefit society more so than if we directly attempt to benefit society. Here's how he puts it:

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his advantage, indeed, and not that of the society, which he has in view. But the study of his advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society.

And we are, says Smith, led by an “invisible hand” to benefit society even as we intend to benefit ourselves. Smith goes so far as to say that attempting to directly benefit society often has negative consequences. As he puts it, “I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.”

But, no good theory is without critics and for our story, the main critic is Karl Marx. Part of Marx’s criticism is based on the fact that it seems that everything Smith is saying is counterintuitive. Don’t we need people to work for the benefit of society? If we only pursue profit won’t the only people benefit from the owners? What incentive do they have to pay anything more than subsistence wages to their workers?

Marx has had a profound influence on society, if not economics, even though he is notoriously difficult to read and understand. If you have read the text you have already noticed this! Let me attempt to clarify Marx's criticism. He begins "from a contemporary economic fact. The worker becomes poorer the more wealth he produces." From this, he derives the concept of alienated labor. The basis of the Marxist criticism is that workers are exploited and deprived of the profit they create. It is a stirring criticism and insofar as Marx is speaking to his contemporaries it is valid in part because of the unspeakable conditions workers endured in the first years after the industrial revolution. Unfortunately, the criticism is based on an invalid idea. This is not entirely Marx's fault since the idea (the labor theory of value) was borrowed from Adam Smith!

From Marx's perspective what seems to be occurring in the free market is that the capitalists (the owners of the means of production) are paying their workers a subsistence wage and reaping all the profits. This is what he means by saying that the worker becomes poorer the more wealth he produces. But, when examined in real economic terms this "fact" seems false. The worker's wages *increase* as his productivity increases. Yes, perhaps the owner's profit increases faster but in absolute terms, the worker also benefits. But, let's look at the labor theory of value and how it leads to alienated labor.

The labor theory of value was a staple of classical economics (though it did turn out to be wrong). The basic idea is simple. The value of any product comes from the price of the raw materials plus the price of the labor used to produce it: raw material + wages for labor = final price. The problem is that this didn't add up. The final price was always higher than the cost of materials and labor. What accounted for the "surplus value?' This was profit. In Marx's view, the ultimate source of this profit was labor, but they did not receive this profit. That is, they were separated from it (alienated). So, while the labor was responsible for the profit (and so rightfully entitled to it) the capitalists reaped the profit and this was the problem.

But, as I've mentioned, the criticism is based on a faulty theory of value. This was shown to be faulty by the Austrian economists in the 19th century. The final price of any product is not determined solely by the cost of materials and labor. There is also a subjective element involved. For example, suppose I manufacture a product; a book example. I write the book and send it to the printer for publication. Suppose it costs me $5.00 per book for printing. Suppose my labor as the author is $5.00. So, I should sell the book for $10.00. But wait! When you go to the bookstore to purchase it you pay

$25.00. What's going on here? Well, there are several factors involved. First, if I were to sell the book myself I might charge $10.00 to cover my costs but it is unlikely that I will sell many books. I don't have the means to generate publicity or widely distribute the book. Were I to hire someone to do this I would have to pay them. This is in essence what authors do when they make their books available through bookstores. But the bookstore is taking a risk by offering a book because they can't be sure it will sell but they still have to carry the costs of making it available. Now, suppose the book just sits on the shelf and no one purchases it. Then, it will be relegated to the clearance table where you will be able to purchase it for $5.00. Now, what's the real value of the book? The answer (and this is where the subjective element of value comes into the story) is partially given by what a buyer is willing to pay. The cost of a product is then never the sole source of its value. The source of value has much to do with how much demand there is for the product. This may seem like an obvious insight to you but at the time this was revolutionary in economics.

There are several factors here that explain the problem with Marx's criticism. The most important is the explanation for why the worker receives less in wages than the owner receives in profit. The simplest way to understand this is to put yourself in the position of joining my company. I offer you the following deal to join my new company. You have your choice. I will pay you $35,000 a year as a worker or I will pay you 50% of the profits we make. Which would you choose? Many would choose the security of the wage over the potential for profits. Why? Well, since my company is new there are NO profits at this point so your income would be 50% of Zero. Sure, eventually there may be huge profits but these are not assured. In economic terms, workers are paid a discounted rate because they are not carrying any of the risks. The more risk you are willing to carry the more you can make (or lose).

So, what happens to the wealth? What should happen to the wealth? What about the huge disparity that is created in a free market economy? To answer these questions we'll next examine the writing of one of the wealthiest Americans of the 19th century: Andrew Carnegie.

Andrew Carnegie

The worry over the disparity of income and wealth is probably as old as the institutions of income and wealth. It may even be a necessary consequence of what Adam Smith calls our propensity to "truck, barter, and exchange." There are even some scholars such as Richard Pipes who postulate that there may be an innate component to acquisitiveness. Still, there's no question that the disparity of wealth taken to an extreme can cause (or be the symptom) of many problems. What may not be as obvious are the many benefits to the disparity itself not to mention wealth in and of itself. One of the more famous defenders of wealth is Andrew Carnegie. While the benefits to the wealthy individual (like Carnegie) are obvious we should examine the possibility that there are also benefits to those who are at the bottom of the income curve.

What are the benefits? The disparity of wealth creates competition as individuals strive to reach the top of the income curve. But, in a free-market economy, they do this by striving to produce better products for customers which is the real benefit of competition. As economist Walter Williams puts it, think of the areas in your life where you're satisfied with the products such as groceries, computers, and cell phones. There is competition in these areas. Contrast these with areas where you find dissatisfaction such as the post office or public education. No competition.

Another benefit of the disparity of wealth is the incentive it creates mentioned above. If everyone earned the same amount of money what incentive would there be to work harder or produce more? Some people work very hard to become doctors and lawyers; occupations we need. But, without the incentive of making more money, there would certainly be fewer people motivated to pursue these occupations.

Another important benefit is that wealth creates demand. People who have money rarely just let it sit in the bank; they spend it! This infusion of consumption not only is good for the economy but leads to lower costs for the rest of us. Why is it that big-screen televisions are less expensive now than a few years ago? Partially because the people who could initially afford them decided to purchase them early. Their consumption then makes our consumption now more affordable.

Finally, the only way to fund such public goods as hospitals, universities, and libraries is to accumulate vast sums of wealth in the hands of a few. Some of the most successful universities (ever heard of Carnegie Mellon?) and museums (Speed art museum in Louisville is one example) are the result of very wealthy individuals.

Exactly 70 years after Carnegie's essay the Austrian economist Friedrich Hayek published an academic tome titled *The Constitution of Liberty* where he addresses the underlying economic and philosophical basis for wealth in general and disparity in particular. Though this is not the only point of the book it does figure importantly in his treatment of economics. Not surprisingly (based on the title) wealth is an important component of our liberty. As Hayek points out one of the prices we pay for this liberty is the propensity of some people to spend their wealth foolishly. But this can only mean they are spending it in ways that we don't approve of. However, if the wealth is theirs then how it is disposed of is also theirs (cf. John Locke). As Hayek sees it a large part of the problem with the disparity of income is envy. We wish we made as much money as Bill Gates. We wish we had a house as large as Bill Gates. And so it goes. The question is whether Bill Gates' having wealth is the cause of our lack of wealth. In simple economic terms, the answer is no.

One of the perennial criticisms of wealth is that it can only be obtained by taking from someone else. This is why the disparity of wealth is seen as such a problem and one that Andrew Carnegie was keen to address. But Carnegie is quick to point out, as did Adam Smith, that the real source of wealth is an increase in productivity which increases prosperity for workers as well as owners. It is the owner's prosperity that is a direct *cause* of the worker's prosperity. Contrary to Marx, the worker becomes richer the more he produces.

For more on this, we can fast forward to the year 2000 and a book published by Dinesh D'Souza titled *The Virtue of Prosperity.* Like Carnegie, D'Souza is an immigrant though not as wealthy as Carnegie. But, just as Carnegie defended wealth and prosperity D'Souza attempts to show that there are very real benefits to the increase in wealth and prosperity not only for those who are on top but for the rest of us as well. One benefit, in particular, is that we can eliminate material poverty. That we aren't succeeding is not a function of lack of wealth. The other factors involved have more to do with the restriction on liberty which Hayek worried about and still affects many people the world over.

As D'Souza points out, prosperity has become so prevalent that we've had to add new categories to our classification of wealth. What we still need is a way of understanding the nature of the causes and the consequences of this prosperity. One of the fallacies in economics is thinking that economics only stresses one kind of value when in fact there are other "non-economic values." Thomas Sowell addresses this fallacy in his book *Basic Economics* and is a similar point to the one made by D'Souza. As Sowell puts it "of course there are non-economic values. There are *only* non-economic values. Economics is not a value in and of itself." In short, what we need is a way of putting prosperity into a proper moral context. This is part of the point of a course in business ethics. Carnegie attempts to do this by showing that wealth can have positive effects. As we saw in a previous lecture Adam Smith makes the same point though he is sometimes criticized for illustrating that these positive effects are unintended. But, as we know, wealth can have potentially negative effects as well brought on in some cases by the belief that money can buy happiness.

Sure, up to point money can affect one's well-being and therefore happiness. But, once certain basic needs are met money really cannot increase one's overall happiness very much. The law of diminishing return takes effect around an income level of $50,000 a year. Beyond this level, more money doesn't make one happier.

This is not a new insight at all. The ancient Stoic philosophers were well aware of this. Seneca once said, "He that is not content in poverty, would not be so neither in plenty; for the fault is not the thing, but in the mind." Like many things, our attitude towards money is more important than the money itself and this is particularly true when it comes to how much we earn in comparison to others (remember what Hayek said above about envy). The 14th Dalai Lama makes the same point about money and happiness. Given that our desires are without limits we cannot find happiness in fulfilling them. We will always want more. This holds especially true for money. As Epicurus pointed out "nothing satisfies a man who is not satisfied with a little."

All of this does beg the question about poverty though. Are we simply supposed to allow people who are poor to remain poor? As we have seen, the wealth created by people like Andrew Carnegie can help all of us, including those who are poor. However, two other points should be remembered regarding wealth and poverty. First, most people who start poor do not remain poor for their entire lives. Secondly, what counts as poor, at least in this country, is not whom you might think.

In 1995, 41 percent of all "poor" households owned their own homes. The average size of that home was three bedrooms, one-and-a-half bathrooms, a garage, and a porch or patio. Three-quarters of a million "poor" owned homes worth over $150,000; some of those homes sported Jacuzzis and pools. The average "poor" American has one-third more living space than the average Japanese, 25 percent more than the average Frenchman, 40 percent more than the average Greek, and four times more than the average Russian.

Seventy percent of "poor" households own a car; 27 percent own two or more cars. Ninety-seven percent have a color television; nearly half own two or more televisions. Two-thirds of "poor" households have air conditioning. By contrast, 30 years ago, only 36 percent of the entire U.S. population enjoyed air conditioning. America's "poor" people aren't hungry, either."poor" people are more likely to be overweight than higher-income people. The average consumption of proteins, vitamins, and minerals is virtually the same for poor as middle-income children, and in most cases above government recommended minimums.

Part of the problem is in how the Census Bureau computes statistics factoring in income but missing things like the value of estates which often include homes and stocks. Also uncounted are transfer payments. Listen to any politician for any length of time and it will become clear that rich and poor are not so much objective economic terms but subjective political terms. A good reason to discuss them in a business ethics book!

Moral Mazes

This may at the same time be one of the most familiar and helpful articles in the entire text. Familiar because if you've ever worked in a company of any size you will recognize some of the features Jackall talks about in this article. Helpful because even if you haven't worked in such a company you probably will at some point and will benefit from an understanding of the bureaucratic form of organization. It seems to me to be no mistake to call this a moral maze! Here once again we are treading on that thin line between is and ought. Jackall warns us at the beginning of his piece that he will not make any suggestions for reform. What he is attempting to give us is a clear outline of the form of organization that dominates the business world today. But, because we're in an ethics course, we might want to also ask the question concerning what ought to be the case. As pointed out earlier in the book this is sometimes a difficult question for practical-minded business people to ask. After all, what good does it do to ask how things ought to be if there's no hope of changing them?

If you've not worked in an organization with a bureaucracy you may still recognize some of the features Jackall speaks about especially if you've read Dilbert! First, is the flow of credit and blame. We might call this corporate physics: credit flows up and blames flows down. That is, the higher placed executives get the credit for anything good that happens while lower placed managers or workers receive the blame for anything bad that happens. This can happen, as Jackall points out on page 288, because of the vagueness in policy statements.

Jackall talks about a related point under the heading "gut decisions." Because of the form bureaucracies take the rules for successful executives when it comes to making decisions are: "(1) Avoid making any decisions if at all possible; and (2) if a decision has to be made, involve as many people as you can so that, if things go south, you're able to point in as many directions as possible." The point of decision making here is not necessarily to make the correct decision but rather to know "who is going to get blamed if things go wrong." A cynical view perhaps but one which may explain a lot that occurs not only in the business world but also in the world of government bureaucracy.

Another familiar feature is what Jackall calls "fealty to the 'King.'" I experienced a very similar situation years ago working in retail. The President of the company was coming for a visit and everyone stopped what we were doing (including our actual jobs!) to clean up the store. While Jackall explains this behavior and even says that it "makes perfect sense," I must confess a certain uneasiness about this. I can't help imagining how I might behave if I were the President of a large company making such a visit. This example is very instructive for Jackall's point. How would you want your employees to behave? You might say, as I do, I want them to continue doing their job and not stop making unneeded improvements just because I'm visiting. I might even say this to the manager of the store I'm visiting. But, how should my employees respond to this? If they're smart, they'll ignore this! Why? Look at it from their perspective of having incomplete information. They can take me at my word but then they run the risk that I will become angry when I visit and see the place looking like a mess. That might lead to firings. Or, they can ignore my word and make massive efforts to clean up. What's the worst I would do in such a case? I could say something like "you shouldn't have," but it's unlikely I'll become angry and fire anyone. So, this represents the moral maze of a bureaucracy.

This might make you think that competence is the last thing required to be a manager in a bureaucracy. Look at whose running things at Dilbert's company! But the reason competence is not emphasized as part of success (or failure) for upper-level management is that, as Jackall points out, it is already built into the system from the beginning. Once you attain a certain level in the company it is a given that you are intelligent, competent, and effective. So, this being the case, further success is defined in more social terms.

These social terms not surprisingly include such things as appearance and dress, self-control, being a team player, having a certain style, and also having what Jackall calls a "patron;" someone who is above you in the hierarchy and who will act as a mentor. It is very important to remember that these social terms of success sometimes take precedence over more objective definitions of success such as "hitting your numbers." You might be able to relate to your own experiences here to make sense of this point. Maybe you've worked with someone who is very efficient and good at their job but doesn't get along with co-workers. Despite their efficiency, they still may not get promoted.

If you've read Scott Adams' book *The Dilbert Principle,* much of what Jackall is saying sounds familiar. In one chapter of Adams' book he addresses what he calls "great lies of management." One of these is the claim that "performance will be rewarded:

Is it likely that this year the officers of your company will say, "To hell with the stock prices and our bonuses? What were we thinking? Let's distribute more money to the employees!"?

Or is it more likely you'll be put through a tortuous Performance Review process that would result in approximately the same tiny raise whether you were Mother Teresa or the Unabomber?"

As Jackall counsels when you go through such a performance review it is important to understand the real meaning behind certain stock phrases which he catalogs on page 297. Of course, two can play the language game! Here's another insight from *The Dilbert Principle:*

"Exaggerate your talents:

Everybody exaggerates his or her talents. There's no trick to that. You need to take it to the next level: complete fantasy. It's not enough to say you performed well at your assigned tasks; you must take credit for any positive development that ever happened in the company or on earth.

What you did: Attended some meetings, ate donuts, nodded head to bluff comprehension.

What you can claim: Created a strategy to bring the company into the next century. Increased revenues by $25 million."

Sort of reminds you of business bluffing again! Jackall has a section in his article titled "Playing the Game." In particular, one aspect of playing the game well must be what he calls adeptness at the inconsistency. The real question in a business ethics class is whether "such adeptness at inconsistency, without moral uneasiness" should be "essential for executive success?" Jackall's purpose is to point out that this is how things are; our question should be whether this is how things should be. Jackall contrasts protestant Ethics with Bureaucratic Ethics and illustrates their many differences. An important question this article raises creates a dilemma.

The question is whether should we preserve bureaucratic ethics given its ethical problems. The dilemma is that if we eliminate the ethical problem we must eliminate the bureaucracy or radically change it. But this seems impossible in the business world as we now have it. Many people's jobs depend on the existence of bureaucracy. So, we're left with the question of how to navigate the moral mazes this creates.

The Social Responsibility of Business is to Increase Its Profits

Thomas Sowell tells the following story in his book *Basic Economics:* A tourist in New York's Greenwich Village decided to have his portrait sketched by a sidewalk artist. He received a very fine sketch, for which he was charged $100.
"That's expensive," he said to the artist, "but I'll pay it because it is a great sketch. But it took you only five minutes."
"Twenty years and five minutes," the artist said.

One of the main agendas in any business ethics class is to encourage individuals going into business to be socially responsible. One of the main goals in business is to make money but we also hear many times that business people also have other responsibilities. So, it may come as a surprise to read Milton Friedman's essay where he equates social responsibility with making profits.

As some of you may know, Milton Friedman was a Nobel Prize-winning economist and a defender of free-market capitalism for many years. Needless to say, he was very much against the sort of talk that we often hear about social responsibility. He thought it was nothing more than propaganda for socialism. As he puts it, "businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades." Pretty strong talk! If you're curious about these intellectual forces or how they've been undermining liberty we can talk about this later. For now, we should examine Friedman's argument for businesses pursuing profit (and only profit) as their exclusive social responsibility.

First, we need to clarify the concept of responsibility. Can businesses have responsibilities? No, says Friedman, mainly because responsibilities only adhere to individuals. This is similar to the claim that businesses do not pay income taxes. We can address this below, but Friedman's point here is more than just semantics. A corporation is not an individual so much as a legal fiction so it cannot have responsibilities. Rather, it is the individuals in the corporation who have responsibilities. So, the claim that a company has a social responsibility is a claim that an individual (such as a manager) has a responsibility.

So, what could it mean to say that a manager has a social responsibility? Well, in the conventional sense it must mean that the manager has a responsibility to do something other than what he is being paid to do. If it meant he had a responsibility to do exactly what he is doing there'd be nothing to talk about! But, what's the problem with this? Why shouldn't businesses also worry about things like unemployment and pollution as well as profits? Many times we hear precisely these claims. A business has a responsibility to keep the environment clean and provide jobs and a living wage. Friedman argues that businesses (or rather individuals in the business) have no such responsibilities. He argues this for three reasons:

First, pursuing social responsibility violates the relationship between shareholders and the company. After all, it is the shareholders who own the company and they have hired the CEO or manager to do a specific job. This job is to increase profits. By not doing this job the individual is violating the agreement. Interestingly, this argument seems to imply that if the shareholders were to hire someone specifically to fulfill social responsibility, then they would be justified in doing so. While Friedman does not address this directly, he does admit that such companies do exist for "eleemosynary purposes" (you can look this term up in our glossary on Bb). Of course, non-profit companies exist for just such purposes.

Secondly, a manager or CEO who pursues a social responsibility is infringing on the liberty of the shareholders of the corporation. This is also tied to the fact that the shareholders are the owners of the company and the capital of that company. Perhaps an analogy will illustrate Friedman's point. Suppose you give me $5.00 and ask me to go to McDonald's to buy you lunch. You want a Big Mac, Fries, and a Coke. When I come back I give you a salad and a glass of water. You are quite understandably confused and angry. After all, you didn't ask for a salad. My response is simply that the lunch you ordered wasn't good for you so I decided to get you a salad instead. Now, are you going to thank me or still be angry? In all likelihood, you'll still be angry because I have taken your money and purchased something with it you didn't freely choose to purchase. Of course, you could have just purchased it yourself but this misses the point of the analogy. The shareholders are hiring the CEO or manager to run their company for them which means they are merely agents of the shareholders. The shareholders have the final say as to how their money is spent. A CEO who chooses to spend it otherwise is infringing on the freedom of the shareholders to spend their money as they choose.

Thirdly, Friedman argues that there is no reason to think that the efforts of the individuals in the company who are acting "socially responsible" will even be effective. For all they know, their efforts may have the opposite effect. A good example of this is the oil companies. Since they have become everyone's favorite target for abuse we can spotlight them to understand Friedman's point. Suppose a particular executive of a particular oil company (say Exxon) decides that they will act socially responsible and work to lower the price of gas. So, they choose to keep their price some measure below what the market dictates. First, will this have the intended effect? Unlikely since it is only one oil company. Second, even if the intended effect is realized what is the cost? The cost to the shareholders will be significant and so a benefit to one group is paid for by a cost to another. This sort of trade-off is very common in economics as we've talked about from the beginning of this class.

To put Friedman's argument in perspective it will be useful to examine profits and the role of profits in an economy. While we have examined some of the benefits to profit and wealth before, this will allow us to take a more contemporary look at things.

What are profits? Remember Marx claimed that profits were a surplus-value that should be excised from the economic system. However, profits are more accurately seen as prices, just like wages and rents, and interest. Specifically, they're the price we pay to entrepreneurs to take risks and develop products and services for us. Since it's very unlikely that entrepreneurs will provide this service for free (would you work for free?) these costs are necessary for any viable economic arrangement. But, as the story of the artist above illustrates sometimes it's not obvious what we are paying for. After all, the artist only took five minutes to finish the picture! But, doesn't he deserve to be compensated for the time he put into becoming an accomplished artist? But, how much? The next question then is what makes some profits large and others small?

In general, profits average around 6% in any given business which is a very small price to pay for the benefit we receive. However, there is no question that some companies sometimes reap much larger profits. Why is this? The short answer is that large profits indicate important needs that are not being met. This addresses an important underlying point in Friedman's article. Companies that make a large profit are fulfilling a need in the community. This sounds about as socially responsible as you can get! Imagine a company that finds and provides a cure for AIDS or cancer. They'd make a huge profit! They would make this profit because they would be fulfilling a need. If a company made no profit it simply means that they are producing something no one wants. To Friedman, this sounds very irresponsible.

In a free market, profits fulfill another very important role. They signal where the community's resources need to be directed. Planned economies (like in the former Soviet Union or North Korea) have a very hard time directing resources and thus there are always problems of shortages. In a free-market economy, high profits cause other companies to come in and compete for these profits thus bringing more resources to bear on the unmet need. Sure, their motivation is profit but the net benefit is there in any case (remember Adam Smith's invisible hand?). As one commentator pointed out recently about the oil companies, yes they're making large profits now but not too many years ago they were operating at huge losses. In addition to this, the last time we had shortages in the oil supply in the 70 the prices were kept low and there were gas lines. Yes, you're paying high prices for gasoline today, but at least you can purchase gas. Which brings up another trade-off: Would you rather have low gas prices and no gas to purchase or higher prices and gas in the tank? Mind you, you don't necessarily get to choose your ideal option: low prices and plenty of gas!

Still, it's tempting to think that companies should be doing something besides making huge profits and when they make huge profits it's tempting to think they're doing something wrong to make them. But, in general, high profits always indicate one thing in an economy: low supply relative to high demand. This brings us back to the issue raised in the Andrew Carnegie article about inequality of wealth. To take a fashionable example, isn't it terrible that athletes make so much more than school teachers since the latter is far more important? The simple answer to this question about profit is that there is a higher demand relative to supply for athletes than for teachers. We don't have to like this but who is to blame? The athletes? No. The teachers? Of course, not. So who's left to blame? Ourselves! If we demand athletes more than schoolteachers we have only ourselves to blame for their great wealth relative to schoolteachers. The same goes for the profits of oil companies, drug companies, or Wal-Mart! Companies cannot create profits out of thin air. They need people to consume their products to generate profits. Milton Friedman's point is simply that the companies who are making the most profit are the companies who are fulfilling our most pressing demands the best. And that, in his view, is a social responsibility.

Stakeholder Theory of the Corporation

We saw earlier the stockholder theory advocated by Milton Friedman in the article titled "The Social Responsibility of Business is to Increase Its Profits." Now, we'll examine the alternative which has come to be called the stakeholder theory. As we'll see this model does address some of the issues raised by the stockholder model, but it also contains some problems which are addressed in the article by Kenneth Goodpaster.

The basic idea is to offer a contrast to the model which says that a corporation is solely responsible to its shareholders and no one else. There are many other groups for which the corporation should have responsibilities. These include the local community, the employees, regulators, customers, and suppliers. Each of these groups has different claims on the corporation and has a "stake" in the actions of the corporation. Therefore, it follows that the corporation has some responsibility to each of these groups.

To illustrate the nature of this relationship, R. Edward Freeman outlines six principles that should govern the relationship between the stakeholders and the corporation. These principles are:

- Principle of entry and exit
- Principle of governance
- Principle of externalities
- Principle of contract costs
- Agency principle
- Principle of limited immortality

Let's address each of these in turn.

Principle of entry and exit: This principle simply states that there must be clear rules governing how one enters into an arrangement with a corporation and how one may exit if they so choose. For example, with employees, there are clear conditions regarding hiring and firing. These conditions should be known, transparent, and available before one enters into an arrangement with the corporation. This holds for other stakeholders as well.

Principle of governance: This principle addresses how the rules governing the relationship between stakeholders and the corporation can be changed. This rule regarding rules must be transparent as well and according to Freeman, any changes must be agreed upon by unanimous consent.

Principle of externalities: The concept of externalities is very common in economics. The idea is that there are certain costs imposed on a group that does not directly benefit from the actions of the corporation. The simplest example of this is pollution. If you live in a community with a factory you will bear the cost of the pollution whether you work there or not or whether you purchase products from the company or not. So, this is an externality. The company doesn't compensate you in any way for you bearing this cost. Given this, the principle of externalities says "if a contract between stakeholder groups A and B impose costs upon members of group C, group C has the option to become a party to the contract." So, if you bear the costs of other stakeholders you have the right to become a stakeholder as well. This is directly implied by the concept of the stakeholder which is anyone who affects or is affected by a corporation.

Principle of contracting costs: The nature of contracts involves costs and this principle simply says that each party to a contract should bear the costs equally or in proportion to their advantage in the corporation. To the extent that some of these costs are non-monetary, this will become difficult to measure and quantify. This principle is based on the notion of fairness which we will have occasion to investigate later.

Agency principle: This principle is the most direct challenge to the corporation. A CEO or manager of the corporation acts as an agent of the corporation and as such has responsibilities not only to the shareholders (as in the Milton Friedman model) but also to every other stakeholder as well.

Principle of limited immortality: The success of the corporation and the welfare of its stakeholders depend on the corporation existing through time. In other words, the intent of the corporation cannot simply be a "fly by night" company. This serves the interests of some of the stakeholders at the expense of the others which violates the entire concept of the stakeholder. Therefore, the principle of limited immortality maintains that the corporation should be managed in such a way as to continue its existence. Of course, a corporation cannot be immortal any more than an individual (hence the seemingly strange term "limited immortality"). A company can certainly outlive its founder though and many successions of stakeholders. This principle intends to ensure that the corporation is managed such that this is the intent.

These are the basic principles of the stakeholder theory and the model certainly offers us an alternative to the stockholder model. The main benefit is that it forces the corporation to act in the interests of *all* the stakeholders. But, does this create a problem? Kenneth Goodpaster seems to think so and his article tries to address this

problem. Unfortunately, he does so with a sea of jargon which I will try to help you navigate through!
The problem can be stated simply enough as follows: How can the ethical principles of stakeholder theory be implemented without betraying the fiduciary relationship between stockholders and the corporation? In short, the relationship between the corporation and the stockholder is a particular relationship that is different from other stakeholders and has always been treated as such. But, elevating the other stakeholders to this position seems to betray the nature of this relationship and in doing so potentially damage the central feature of corporate structure, namely private ownership.

To illustrate the problem, Goodpaster outlines several possible ways that stakeholder theory could be implemented and how each of these leads to problems. The two basic approaches he terms stakeholder analysis and stakeholder synthesis. Synthesis is further divided into two categories: strategic and multi-fiduciary. These terms come from a decision model Goodpaster calls PASCAL.

Stakeholder analysis: This occurs when the stakeholders which are affected by a decision are identified and their influence is "taken into account." But, Goodpaster claims that this is only done in a formal sense with no real interest taken in the stakeholders themselves or what effect the corporation has on them. The analysis may be done for simply informational purposes but is rarely acted on. The problem here should be obvious. If the point of stakeholder theory is to take seriously the responsibilities the corporation has towards the various stakeholder groups this has to entail more than simply enumerating them. But this is all stakeholder analysis seems to do. Therefore, it is insufficient for the task of stakeholder accountability.

Stakeholder synthesis: In general this is where the stakeholders who are affected by a corporate action are taken into account more seriously. Their opinions are taken into account and even acted upon when the corporation makes a decision. There are two ways this can be done:

Strategic stakeholder synthesis: This occurs when the stakeholders who most affect the corporation are identified and integrated into the decision-making of the corporation. However, they are taken into account only in a strategic sense. What Goodpaster means by this is that they are taken into account to the extent that they affect the shareholders but their welfare in and of itself is not seen as important as the welfare of the shareholders. So, there is a hierarchy of stakeholders with the shareholders being regarded as the most important and the ones for whom corporate decisions are made. However, this differs from the standard stockholder model insofar as the stakeholders who will affect the shareholders are integrated into the decision process. The problem here, of course, is that the stakeholders are seen as having only strategic value and not even all of the stakeholders need to be taken into account. So, it is a highly selective and biased process.

Multi-Fiduciary stakeholder synthesis: This mouthful of jargon simply means the arrangement which most closely approaches the ideal of stakeholder theory. All stakeholders are treated as fiduciaries in the corporation. A fiduciary is defined as a person to whom property or power is entrusted for the benefit of another. For stockholders this means they invest money in a corporation and for this money, they earn certain rights including the right to dividends. What does this mean to the other stakeholders? This is unclear since they differ in an important respect from stockholders; they do not invest money. Of course, some stakeholders invest capital of some other kind but this is not necessary. So, as Goodpaster points out, this raises a problem which he terms the stakeholder paradox: "It seems essential, yet in some ways illegitimate to orient corporate decisions by ethical values that go beyond strategic stakeholder considerations to multi-fiduciary ones." The reason it seems essential is that this is the only way to truly implement stakeholder theory. But, it seems illegitimate since it violates the basic relationship between the corporation and its stockholders.

So, where does this leave us?. That too is unclear. What Goodpaster seems to advocate is an arrangement that recognizes the moral obligation that a corporation has towards all stakeholders even as it recognizes the special relationship (fiduciary) between the corporation and its stockholders. This might leave you wondering how this differs from Milton Friedman's stockholder model. The answer lies in the recognition of moral obligation. What seems to underlie this obligation is the philosophical concept of justice which we'll examine in the next lecture.

Socially Responsible Firms

One of the perennial problems in any interaction is the problem of incomplete information. Think about such situations as your first day in class, going on a job interview, buying or selling a car or a house. In each case, you are dealing with someone about whom you have incomplete information. On the case of your first day of class, you're not quite sure what the professor expects from you. When you go on a job interview you're not quite sure what the interviewer is thinking about you as you answer the questions. When engaging in the purchase or sale of anything really (not only cars and houses) you are dealing with situations where you have incomplete information. The reason this raises a problem is that in such situations the incentive is to take advantage of the other person in the situation. Just consider the prisoner's dilemma you dealt with. There was a powerful incentive to betray the other person even though the maximum benefits for each would only come about through cooperation. Robert Frank attempts to show how this situation is relevant to the business world and how it illustrates that socially responsible firms can survive in a competitive environment.

Frank reinterprets the Friedman idea of social responsibility to mean any firm which chooses to cooperate in a prisoner's dilemma type situation. To clarify this, a prisoner's dilemma type situation is any case where two people (or entities such as corporations) engage in a transaction one time, for example, when you sell your car through an ad in the newspaper. The buyer and you will only have this one transaction. In this case, there is a powerful incentive for each of you to take advantage of the other. To guard against this each of you will take steps to protect your position but in doing so, each person may end up in a worse position than if you had cooperated. While this situation is not an example of a serious problem in the worst-case scenario you end up not selling your car and the buyer ends up without a car. This would happen in a case where you ask for much more than the car is worth (hoping to take advantage of the buyer) while the buyer claims to only be able to afford a lesser amount (hoping to take advantage of you as the seller).

So, how can there be any chance for cooperation, what Frank calls socially responsible behavior, in such situations? The key is to solve what he calls a commitment problem. To do this, it helps to be able to identify the cooperators and the defectors. Think about it in terms of a simple situation. You live in a society with other people some of whom cooperate and some of whom defect. Say you are in the position of being able to lend someone some money. Suppose you are a cooperator which means you will lend money to someone if they ask you. In return, the deal is that if you need money someone will lend it to you. You have an incentive to lend to other cooperators because you can expect that they will repay the favor if needed. But, a defector will simply take advantage of your generosity and take your money with no intention of repaying you (the money or the favor!). If cooperators and defectors are indistinguishable you are pretty much on your own. Of course, once you discover someone is a defector you won't make the same mistake twice. But, if you had a clear way of identifying *a priori* the defectors you would stand a much better chance.

Frank suggests several ways that socially responsible firms can prosper even in situations where there are pressures to defect from agreements. This involves solving certain commitment problems with employees, customers, and other firms. In each case, the solution hinges on reputation. This is a central point in business ethics and one we've addressed before in our discussions on truth-telling and will discuss on employment at will. Though individual employees may have incentives to cheat employers and vice versa, the reputational costs of doing so tend to be high. Think about it. If you were looking for a job you wouldn't want to apply to a company with a reputation for mistreating employees or forcing them out just before they retire to avoid paying benefits. And, as an employer, you would be hesitant to hire someone known to be dishonest.

The same issues hold for relations with customers. When you look through the phone book think about how many businesses advertise and how long they've been in business using slogans like: In business since 1954. Why do they do that? Well, longevity is one indication of a solid reputation and a way to solve a commitment problem with customers. No one wants to engage in business with a "fly by night" company. Similar problems can be solved with organizations like the Better Business Bureau and Consumer Reports. These are another way for companies to address the commitment problems raised by the incentive to cheat customers.

When you think about how companies relate to one another you can see that similar issues arise. While some companies are in direct competition others are in a relationship with customers. Frank mentions particular subcontractors but you can think of others as well. In each case "material incentives are inadequate to solve the commitment problems" and so companies need to rely on reputation. In other words, those with a reputation for trustworthiness will be at an advantage in such situations.

Will consumers pay a premium to do business with socially responsible firms? Conventional economic theory suggests that the answer is no, but there are good examples of consumers doing this. The case of Star-Kist Tuna is mentioned as well as Ben & Jerry's Ice Cream. In these and other cases consumers will pay a premium to support a company that engages in socially responsible behavior there is an incentive to engage in such behavior. Not only will consumers support such businesses but employees will seek out such companies to work for. Studies show that employees will sacrifice some earnings to work for companies with a reputation for socially responsible action. Think about it. If you could land a job earning $50,000 a year working either for a tobacco company or the Red Cross which would you choose? Studies show that a large majority will choose the Red Cross. Now, suppose the Red Cross job only pays $40,000 compared to the $60,000 for the tobacco job? Will that change your answer? At what price would you take the job with a company that has less of a socially responsible reputation? Something to think about!

The Idea of a Social Contract

So far we have examined several options for a foundation for ethical theory and moral judgments. Many have been found wanting due to serious problems. But can we maintain that there is no basis for morality? If this were true wouldn't we still need to invent some basis just to prevent social disorder? Perhaps not. One possibility is that the need for social order and certain inherent constraints might provide us with a natural basis for morality. While it might seem that there are strong incentives for social anarchy without an outside objective (and perhaps supernatural) source of morality, according to some philosophers like Thomas Hobbes, the incentive is built into the social system by the very nature of our existing among each other. The need naturally exists for us to form some sort of agreement to treat each other with basic respect and follow certain basic rules. That is, we find it most advantageous to form a social contract to base our lives in general and our moral judgments.

What would life without such a contract be like? According to Hobbes, it wouldn't be pretty! Unbounded liberty can be very dangerous and life without any rules at all would, according to Hobbes, be "solitary, nasty, brutish, and short." But why should this be? Can't we just live and let live? In a word, the answer is no due to four important factors which together conspire to put us at odds with one another unless we form some sort of social contract to mitigate these factors.

1. Equality of need: We all have certain basic needs in common such as food, clothing, and shelter.

2. Scarcity: Factor one wouldn't be a problem at all except for factor two which is scarcity. There is not an unlimited supply of food, clothing, and shelter just to

name the essentials. Economists know this all too well and often define economics as the study of the scarce allocation of resources that have alternative uses.

3. Equality of human power: Here is the factor that creates a serious problem when combined with factors one and two. For a time, a few can perhaps take control and take what they want at the expense of everyone else. But, in the long run, this power cannot be sustained because one person's weakness is another person's strength. One person may have force on their side, but perhaps others have another advantage. In the end, these differences tend to even out which creates a situation where everyone is, in Hobbes' phrasing, at war against everyone else for the same scarce resources.

4. Limited altruism: One solution to the problem is to rely on the kindness of strangers (to paraphrase the famous play). But, this won't work either since we all have limits to how altruistic we are. Let's face it we are not infinitely compassionate towards our fellow human beings.

So, taken together these factors create real problems in the absence of any social order or moral rules. How can we prevent these factors from leaving us in the brutish position Hobbes calls the state of nature? What incentive do we have to come together or cooperate in any way to mitigate these factors? The strongest incentive is to avoid the state of nature and the "war of all against all" that Hobbes warns us about. To do this we need to establish a mutual agreement that involves two factors. First, that we will not harm one another, and second that we will keep our word with one another. These two factors, which Hobbes saw as the primary responsibility of government, would allow us to come together and cooperate socially as well as economically.

Escaping the state of nature has its benefits but the social contract does come with a price. We must be willing to give up some of our liberty to secure a stable social context. We must give some of our power to a centralized authority to enforce the rules we agree to for not harming one another and keeping our agreements. For Hobbes, this central authority had to be very strong and ideally in the hands of one or a few people. Hobbes advocated a monarchy as the best form of government. Other advocates of the social contract like John Locke saw that it was possible to gain the benefits of cooperation within the framework of a democratic republic. Lucky for us, Thomas Jefferson recognized this as well. As did Madison, who authored many of the Federalist papers which argued for the ratification of our Constitution, which turns out to be a tangible form of the social contract. Interestingly one of the co-authors of these papers, Alexander Hamilton, was more sympathetic to Hobbes' beliefs in the need for a strong central government.

In either form though, social contract theory says that "morality consists in the set of rules, governing how people are to treat one another, that rational people will agree to accept, for their mutual benefit, on the condition that others follow those rules as well."

Another argument for the social contract is known as the prisoner's dilemma. As you've seen from answering the question concerning this, there is a powerful incentive to defect to preserve your interest. Of course, everyone else thinks about it the same way and also defects. But the result is that we're all worse off than we would have been had we chosen to cooperate. And that's the point. To see this we must look beyond the short-term consequences of our actions to their long-term consequences.

Again, economists have known this for many years and have written eloquently about this. The best example of this is Henry Hazlitt's book *Economics in One Lesson* where he exposes a lot of faulty thinking in economics and attributes much of it to a specific fallacy which he calls the broken window fallacy. As it turns out this fallacy is very similar to the faulty reasoning much used in the prisoner's dilemma which ends up making them worse off.

Briefly, the broken window fallacy occurs when we only look at the short-term, visible consequences of our actions instead of the long-term consequences. The name comes from the following story. A shopkeeper becomes the victim of vandalism when a young hoodlum breaks his window. As people gather around the shopkeeper's store they begin to reflect on how unfortunate the incident is. But someone points out that it might be a good thing after all since this way glassmakers stay in business. If it wasn't for broken windows what would glassmakers do for business? So, there has been an economic benefit to the unfortunate incident. From this, we might conclude that destruction is a good thing since it creates jobs.

What this line of reasoning misses is that the very day the shopkeeper was going to get a new suit from the tailor just down the street. So, now instead of having a window and a new suit the shopkeeper just has a new window. So, there's been no net addition to the economy. There has been a loss overall. Economics is replete with examples of this fallacy and it turns out that the prisoner's dilemma is vulnerable to the same mistake. No one is better off by defecting and choosing not to cooperate though in the short run it seems that we are better off. And of course, this makes sense if we consider that we could end up in a worse situation if we cooperate and the other person defects.

We have two choices. Either we act benevolently or we are egoists. Of course, everyone else has this choice as well. While the best situation would be if I were an egoist and everyone else was benevolent, that's very unlikely. What's more likely is that everyone will think this way and we all end up as egoists which is not the worst scenario but only one step better. This, of course, is Hobbes' state of nature. We can improve on this by cooperating.

The social contract theory has advantages but also disadvantages. The major benefits toof social contract theory are that it provides very clear answers to very difficult questions in ethical theory. For example: What moral rules are we bound to follow and how are those rules justified? Why is it reasonable for us to follow the moral rules? Under what circumstances are we allowed to break the rules? It also seems to provide an objective basis for morality.

The major disadvantages involve questions about whether the social contract ever had a basis in history and how it addresses non-participants in the contract. More recent defenders of the social contract such as John Rawls are clear about the fact that the social contract does not necessarily refer to a real historical event. The point of the social contract is to act as a test for the justification of moral principles. Also, it can be said that were implicitly participate in such a social contract by acting cooperatively in our social arrangements. We vote and those who don't tacitly assent by going along with the outcome.

The second objection has to do with non-participants in the contract. Here he seems to have two groups in mind; non-human animals and non-rational humans. Strictly speaking, both groups are left out of the social contract and so our treatment of them need not be guided by the moral principles within the contract. This seems problematic at the very least and disturbing at worst. Remember that the utilitarians pointed out that the only criterion necessary for claiming that certain treatment was immoral was the capacity for suffering. Whether certain parties are involved in the social contract seems irrelevant to how we ought to treat them. Even Kant would have recognized that we owe respect and decent treatment to people (and animals) regardless of their capacity for entering into contracts either explicitly or implicitly.

Having now laid the foundation of social contract theory we can examine in some detail two important contemporary examples of this idea: John Rawls and Robert Nozick.

John Rawls & Robert Nozick

Suppose you wanted to form your society from the ground up; write your Declaration of Independence and Constitution. What would you emphasize as the important values in your society? What rules would you come up with to order your society? How would you know if they were just rules or not? This is the question that John Rawls addresses in his book *A Theory of Justice*. Written in 1971, Rawls's book outlined a theory to determine what would constitute a just society. Three years later Robert Nozick wrote a book titled *Anarchy, State, and Utopia* designed to offer an alternative and raise objections to Rawls' work.

Rawls begins with what he calls the original position. This is a conceptual place to begin the analysis of society's rules to determine what these rules should be and whether they are just. As Rawls puts it:

> Thus we are to imagine that those who engage in social cooperation choose together, in one joint act, the principles which are to assign basic rights and duties and to determine the division of social benefits.
>
> This original position is understood as a purely hypothetical situation characterized to lead to a certain conception of justice.
>
> Among the essential features of this situation is that no one knows his place in society, his class position, or social status, nor does anyone know his fortune in the distribution of natural assets and abilities, his intelligence, strength, and the like.

> The principles of justice are to be chosen behind a veil of ignorance.

Why begin with this original position behind a "veil of ignorance?" This is designed to decide on first principles in an unbiased manner. Think about it. If you knew going into the arrangement that you would be educated or wealthy or disabled or homeless this knowledge would affect your judgment about these principles. You would be inclined to choose principles that would benefit you at the expense of others. What we need is a set of principles that are fair to everyone.

This raises the question why not use a pre-existing theory, such as utilitarianism? After all, the principle of utility requires that our actions maximize the greatest happiness for the greatest number. What could be wrong with this? Isn't it exactly what we need? Rawls maintains that there is a serious problem with using the principle of utility. We've addressed this problem before. The principle of utility says that we should maximize the greatest happiness of the greatest number but this could be done by making everyone equally happy or a few people very happy and everyone else miserable. As long as the minority is very happy, this happiness can, in theory, offset the misery of the majority. Or to reverse the problem, the majority could be happy and offset the minority's unhappiness. Both are serious problems that Rawls' theory attempts to solve.

One way to think of Rawls' approach is to use an investing metaphor: hedging. When you invest money you want to increase your wealth, of course. But, you don't want to take too many chances with your money. You'd like the chance to make more money but not at the expense of the money you already have. So, you want to maximize your gains and minimize your losses. These seem to be competing goals. They are because to minimize the losses you have to give up some of the chance for gains. This is called hedging. I'm willing to sacrifice the chance for very large gains (in favor of medium gains) if I can insure against very big losses. This is what Rawls proposes for his principles of justice.

To see this, let's consider the two areas where Rawls sees the need for principles of justice. In our new society (remember the one we are creating from the ground up) we need to address what kinds of rights and liberties people have and we also need to address how the wealth will be distributed. So, there are two principles of justice Rawls proposes.

> "1. The Liberty Principle: Each person engaged in an institution or affected by it has an equal right to the most extensive liberty compatible with a like liberty for all.
>
> 2. The Difference Principle: Inequalities are arbitrary unless it is reasonable to expect that they will work out to everyone's advantage and provided access is open to all."

The first principle addresses the rights and liberties each person has. The basic limit to any person's rights is where it infringes upon another. So, for example, my right to free speech extends just so far. I cannot extend my right to free speech to the extent that it infringes on your right to free speech. One way of thinking about the liberty principle is to say that my right to swing my arm stops at your nose!

The second principle addresses access to wealth and the issue of inequality. While the ideal social arrangement might be one where wealth is distributed equally, this might be very difficult to realize. Rawls recognizes this and concedes that inequality might be unavoidable. The question then becomes whether the inequality is justified. We've seen other attempts to address this such as Andrew Carnegie's argument. Rawls gives us what seems like a different answer (though it may turn out to be very similar).

The inequality in a given arrangement can only be justified if there is equal access (to wealth, health care, education, jobs, etc.) and the inequality benefits the least well off. Access must be open to everyone. There can be no just arrangement without this element. Of course, even with equal access, there will still be differences in outcome. So, the equality Rawls is emphasizing here is an equality of opportunity, not an equality of outcome. As we'll see these two values are in tension with one another.

Rawls also points out that for these principles to be implemented, there must be some mechanism in place to accomplish this. This he outlines as the four conceptual branches of government:

- Allocation branch: keeps the economy competitive and prevents "unreasonable market power"
- Transfer branch: guarantees a certain level of well-being and meets the claims of need.
- Stabilization branch: strives to maintain full employment
- Distribution branch: preserves an approximately just distribution of income and wealth over time.

Rawls's theory outlines one part of a recurring debate in political theory in this country as well as in every other. In political terms, Rawls' position is often termed "liberal," with its emphasis on governmental intervention in the economy. It is an interesting historical irony that the term “liberal” was used to refer to the free-market economics of Adam Smith and the laissez-faire economists who regarded governmental regulation of the economy with suspicion.

The other side of the debate is represented by Robert Nozick’s criticisms of Rawls’ theory of justice. You can see the difference at the beginning of *Anarchy, State, and Utopia* where Nozick says “the minimal state is the most extensive state that can be justified.” Any more intrusive state will have the effect of diminishing the very rights that Rawls is interested in protecting. To demonstrate this Nozick points out three problems with Rawls’ theory of justice:

- Wealth is not distributed except in a statistical sense.

- Historical principles should be used to evaluate just distribution, not end-result principles.

- Liberty can diminish equality.

The first criticism addresses the concept of the distribution of wealth. This has been a recurring misunderstanding in economics for many years. Is wealth distributed? Nozick says no. If by distribution we mean that there is somewhere a huge pile of money that someone doles out to everyone, then wealth is certainly not distributed. Of course, we can speak of the statistical distribution of wealth which is what income statistics show (though some argue these are misleading). But, this is a different sense of distribution. What Nozick disagrees with is the concept of someone (or the government) being responsible for distributing wealth. The problem with this view is that if wealth is distributed in this way and the distribution is unjust, then there must be a redistribution to correct this problem. This seems to be Rawls' contention. However, if wealth is not originally distributed at all, then re-distribution cannot solve this problem.

So, if wealth is not distributed how does money circulate in a free market economy? According to economist Walter E. Williams, wealth is created and earned. How does any individual make wealth? Well, they could steal it but this is not recommended! The other option is to do something to serve others. Doing this will provide them an incentive to compensate you for this service in monetary terms. Of course, this will lead to inequality concerning different individuals' wealth. The question then is how can we determine if this inequality is unjust?

Remember, Rawls answers that inequality is unjust unless it benefits the least well off. Nozick's question is whether inequality is a true measure of injustice. You might be thinking how could inequality not be a true measure of injustice? Well, think about this. Suppose the only thing you know about two individuals is that one makes $10,000 more each year. Based on this can you determine if this is an unjust arrangement? Of course not. What you need to know is not the result (that there is a gap in their income) but the cause of this; which Nozick refers to as historical principles.

It does us no good to criticize an arrangement such as the statistical distribution of wealth unless we know where this came from. If the history of the arrangement is just then the arrangement itself must be just even if there is a disparity. The problem is that Rawl seems to focus only on the outcome rather than the process of arriving at the result.

Closely connected to this point is Nozick's third objection. Liberty inevitably upsets equality. Though it’s a bit of a dated example consider this from *Anarchy, State, and Utopia:*

Now suppose that Wilt Chamberlin is greatly in demand by basketball teams, being a great gate attraction. He signs the following contract with a team: in each home game, 25 cents from the price of each ticket goes to him. Let us suppose that in one season one million people attend his home games, and Wilt Chamberlin winds up with $250,000, a much larger sum than the average income and larger even than anyone else has.

Is he entitled to this income?

His income will far exceed his teammates. But, is this unjust? Nozick says no. If the arrangement came about due to just historical principles, then the outcome will be just even if there is a disparity. The only way to prevent inequality is to restrict the liberty of the individuals involved.

When Nozick says that liberty upsets equality he is specifically referring to equality of outcome, not equality of opportunity. It is important to keep this distinction in mind.

One final interesting note in the debate between Rawls and Nozick. In *A Theory of Justice,* Rawls says “A market economy ignores the claims of need altogether.” Is this true? Consider the example of the lighthouse. This is often used as the classic example of a service that free-market economies cannot provide since there is no profit incentive to do so. However, as economist Mark Skousen points out in his book *Economics on Trial: Lies, Myths, and Reality*, lighthouses started as privately owned! It was only later that they were taken over by states (in part to make money!) as were other industries from time to time. The debate continues

Whistleblowing

One might wonder why an entire article is devoted to the concept of whistle-blowing. After all, it seems reasonably obvious what the concept is and what constitutes a whistleblower. But, as is true of so many ideas, whistle-blowing is only obvious after someone has explained and defined it. In a sense, this is what Sissela Bok has done for the concept.

The heart of the article describes the nature of whistle-blowing in three features: dissent, breach of loyalty, and accusation. Each of these is crucial to the very concept of whistle-blowing. For example, if someone in a company makes public a fact that everyone already knows about the company this can hardly be called whistleblowing. Likewise, if everyone agrees the information is being made public there is no sense in calling this a case of blowing the whistle. With that said, let's examine each of these features in turn.

The essence of dissent is to "make public a disagreement with an authority or majority view." However, the intent of whistle-blowing is not merely to make public this disagreement but to point out something not already known which could be a danger or threat to safety. In other words, if someone merely voices their disagreement with the President of the United States this is not whistle-blowing. However, if someone makes something public which is not known to alert the public to harm then this is.

The central conflict here, as Bok points out, is between "conforming and sticking their necks out." In this respect, all whistle-blowing involves a risk. One's job could be at risk or in extreme cases one's life. Always at risk is one's reputation which brings us to the second element of breach of loyalty.

Since blowing the whistle involves making public something about a company or organization you belong to, the other members of your organization will likely view you as being disloyal. After all, loyalty doesn't seem to imply "ratting out" your comrades. How is it possible to be a whistleblower and a loyal employee at the same time?

A useful analogy may shed light on this since it is a crucial element in blowing the whistle and always a source of difficulty for those contemplating blowing the whistle. Suppose you have a close friend who is on drugs and perhaps even manufacturing them (in a meth lab) or selling them. Now, as a loyal friend what should you do? One option is to say nothing and if asked about it, cover for your friend. But, is this a loyal friend? Wouldn't it be better to alert the authorities to get your friend some help? Or suppose the authorities already know about your friend and are closing in. Would loyalty dictate that you tell your friend so they could avoid trouble? Again, a plausible case could be made that true friendship and loyalty would best be exhibited by blowing the whistle on your friend. Sure, the short-term consequences would be bad but in the long run, your friend might be better off.

This raises another point we've discussed before, that is, the concept of trade-offs. Here the decision is between potential harm to one's career, reputation, and life versus harm to others. There is no perfect answer for every case and doing one thing may make matters worse somewhere else. It is at this point that many decide the trade-off is not worth it. Often people believe that their actions as individuals cannot make a true difference. What can one person do? Of course, there are cases throughout history where the actions of one individual made all the difference. This is what decides to blow the whistle all the more difficult. Your actions could make all the difference. But to make a difference involves the third element which is an accusation.

This is probably the most difficult element in that it involves the actual act of blowing the whistle. As Bok points out, the accusation must be relevant and timely. It does no good to accuse in regards to something that happened years ago about which we can do nothing. And warning of long future risks is ineffective as well. It would hardly be blowing the whistle to point out what might happen in the year 2070!

There are, of course, other considerations involved in analyzing the nature of whistle-blowing. These include the credibility of the whistleblower, the motives behind their action, and any biases they might have. Are their accusations anonymous or made in public and verifiable? One should also consider whether every other option has been explored before making a public accusation. Whistleblowing should not be seen as the first course of action. In most cases, it is the last act when all other options have failed.

As we pointed out in the section on truth-telling and business bluffing, the fact that business sometimes makes demands such as the need to bluff or in this case whistle blow does not necessarily indicate that business operates on fundamentally different rules from the rest of our lives. Rather, it may indicate something seriously wrong with the business world. For whistleblowing, the indication is often that there is something wrong with a specific business. In such cases, ordinary ethics may demand that someone blow the whistle as difficult and costly as it may be.

Employment at Will

One of the things that everyone wants from their job is security. But, except for a relative few in the job market, security is something most employees do not have. This is because they are "at-will" employees. This arrangement means that a company has the right to terminate your employment at any time for any reason with or without cause. You may find this arrangement startling, more so when you discover that employees actively choose this arrangement because it is the best of all possible employment arrangements. Today we'll consider two articles one of which argues against this "at-will" arrangement and the other which offers a defense.

The article by Radin and Werhane outlines several objections, in principle and practice, against at-will employment. Among these are the claims that it violates certain rights that employees have, it violates the principle of fairness, and there are certain legal objections. Finally, they argue that successful employers operate according to practices that violate the concept of at-will employment thus indicating that it should be changed in significant ways if not eliminated.

The first argument against at-will employment is that it violates certain basic rights that we all have and these rights are not forfeited when you are hired. For example, the right to free speech, privacy, due process, and certain property rights. The reason they claim at-will employment violates these rights is that in such arrangements employers can fire you for no cause. So, you might say something that your boss finds objectionable and because of this, you could be fired. But this seems to directly violate your right to free speech. Another example is that you could be fired for not submitting to a random drug test or search of your desk. But these seem to violate your right to privacy. Do you forfeit these rights when you become an employee?

In addition to these violations, at-will employment seems to go against the basic right to fairness that we have. In doing so, at-will employment tends to support arbitrary treatment of employees. If I am an employer and I don't like how you dress I can fire you. Or if I don't like the sound of your voice (never mind what you might be saying) I can fire you.

At this point, you might be thinking that there are certain legal restrictions put on employers to guard against such treatment. To a certain extent, you are correct which brings up Radin and Werhane's next objection. There are certain legal restrictions on at-will employment which do tend to reduce the number of arbitrary treatment employees can be subjected to. However, before enumerating these I should probably state what might already be obvious. If an employer is determined to terminate an employee there are ways around many of these legal restrictions and since at-will employees have no right to due process or appeal the true cause of their termination may never be known.

In any case, there are laws against discrimination that restrict the causes for termination (or hiring) of an employee. Anytime you fill out an application you will notice a statement to the effect that in hiring the employer does not discriminate based on race, color, national origin, age, religion, marital status, sex, and so on. Hiring or firing for any of these reasons is illegal.

In addition, many states are now passing "just cause" laws which demand that employers who wish to terminate an employee do so for a just cause and that the cause be known to the employee. In essence, these laws are codifying your right to know why you are being terminated and your right to appeal this decision. These laws severely restrict the at-will arrangement.

In some states, courts have ruled that employers and employees are bound by "implied in fact" contracts. What this means is that the act of hiring an employee implies a certain good faith arrangement that the employee will not be treated arbitrarily. One of the things this implies is that they will not be fired for no reason or without cause.

Finally, there are other legal restrictions in place against arbitrary hiring and firing procedures. These include jury duty for example. You cannot be fired simply for being called to jury duty. You also cannot be fired for exercising your right to vote. And, since we've already discussed whistleblowing you might find it comforting to know that you cannot be fired for blowing the whistle.

Finally, Radin and Werhane point out that many successful companies engage in practices that go against the spirit of at-will employment. Many companies engage in such practices, such as training and retraining, not because of any legal requirement but because this is the best way to get and keep highly qualified employees. Not surprisingly, a company that gains a reputation for fair treatment of its employees, as well as just compensation, will tend to attract more highly skilled employees. This represents an implicit argument against the at-will arrangement.

On the other side, Richard Epstein wishes to argue in favor of at-will contracts and offers several points in their defense. His main arguments in favor of will contracts are that they encourage the right to freedom of association, they lower the cost of hiring and firing, they increase the flexibility employees have, and finally, they are the result of a rational bargaining process between employers and employees. That is to say, the at-will arrangement has not been imposed on unwilling employees but rather chosen by them as the best arrangement.

Some of these advantages may be obvious. In an at-will arrangement, an employee has greater flexibility simply because they can quit at any time they wish. This matches the employer's right to fire at any time so the argument goes that there is parity here. This upholds the freedom of association. I can work for whom I choose and I can change jobs when I choose.

To see some of the other benefits which might be less obvious Epstein encourages us to see them at will arrangement as the best answer to some basic questions regarding employment. It is important to remember that at the beginning of the employment arrangement each party has to deal with certain unknown variables concerning the other party. In other words, there are things the employee doesn't know about the employer and there are things the employer doesn't know about the employee. These things are difficult to get by simply asking for disclosure. So, with that in mind we need to answer three questions:

How does each party create incentives for the proper behavior of the other?
How does each side insure against certain risks?
How do both sides minimize the administrative costs of their contracting practices?

According to Epstein, the answer to each of these questions is the at-will contract. He outlines the answers in five areas:

1. Monitoring behavior: Here abuse can be minimized since the right to fire that the employer has is matched by the right to quit that the employee has. While employees under contract do have certain advantages there are also risks of abuse. Employers can be prevented from abusing these contracts if they know the employee can and will quit under such circumstances. But aren't there still incentives for arbitrary treatment? This brings us to…

2. Reputational losses: Epstein argues that there are reputational costs that employers suffer for arbitrary treatment of employees and employers bear the burden of these much more than employees. There are also reputational benefits to good treatment and once again the employer realizes more of these. So, in both cases, there is a strong incentive for employers to protect their reputation under at-will arrangements by treating employees fairly and not arbitrarily firing them for no reason or without cause.

3. Risk diversification and imperfect information: One of the best ways to minimize risk in investing is to diversify your investments. In other words, as your mother always told you, don't put all your eggs in one basket. In terms of employment, the at-will arrangement allows for this kind of diversification in employment by allowing an employee to diversify employers over time. A corollary to this is the idea that the best form of job security is multiple sources of income. As Epstein points out one of the benefits of at-will contracts is that they see employees as independent contractors. Employers knowing this recognize that if they do not justly compensate an employee, the employee can simply contract their services to someone else. They are like free agents.

Closely connected to this is the fact that the at-will arrangement protects against imperfect information. An employee knows little about the true conditions and requirements of a job until they are hired. But, if they are under contract it may be difficult to get out of this if the conditions are not to their liking. At will, contracts can be broken much easier.

4. Administrative costs: One of the obvious benefits to employers of at-will employees is that it lowers their costs both in terms of hiring and firing. At first, this may seem to be only a benefit to the employer. However, it is important to remember that anytime you raise the cost of something you get less of it. So, if you raise the cost of employment you get less employment. In other words, you get more unemployment. This is a huge disadvantage to the prospective employee so lowering costs is a benefit to both employers and employees.

5. Distributional concerns: Here Epstein is arguing that there is no good reason to think that eliminating or modifying the at-will arrangement will produce any benefit in the distribution of wealth in society as a whole or even to individual employees. If such modifications would produce such benefits employees would have voluntarily sought these changes long ago. This again ties into his claim that the at-will arrangement exists because it has been chosen as the best arrangement among all other competing ones. While this may seem counterintuitive to those looking in from the outside, it is not so for the employees participating in their at-will contracts.

Finally, it is important to remember that employees have just as much of a stake in the success of a company as the employers. Remember when we discussed stakeholder theory? Many employees are also shareholders in their company because of the investment plans that employers offer. So, the success of the company is an important interest not only from the standpoint of someone’s employment but also for other stakeholder roles that the same person plays. To see this one must look at the entire context of the employment arrangement and the environment in which this takes place.

The Art of Happiness at Work

The Art of Happiness at Work is the best-selling book by The Dalai Lama, the spiritual leader of Tibet. It may seem strange in a business ethics class to discuss the work of such a person but I think that it is certainly relevant to discuss happiness at work! Oddly enough, while this is an immensely practical subject area in both ethics and business it is rarely discussed in business ethics classes or addressed in texts. I'm not sure I know why this is the case but I hope these brief comments will rectify this important missing element.

It is crucial to point out that while the Dalai Lama approaches the question of happiness from a Buddhist perspective, you do not have to believe in the principles of Buddhism or practice Buddhism to benefit from his insights. The Dalai Lama himself points this out quite often in his teachings and books. He often counsels people to remain within their spiritual tradition even if they take something useful from his own. So, with that in mind, I want to give you a brief overview of the Dalai Lama's view beginning with a brief overview of Buddhist principles.

Just like any other religious tradition there are many different sects of Buddhism but they all agree on the central tenets known as the Four Noble Truths:

Life is suffering.
Suffering is caused by selfish cravings.
Selfish cravings can be overcome.
The eightfold path to overcoming selfish craving is:

- Right understanding
- Right purpose
- Right speech
- Right conduct
- Right livelihood

- Right effort
- Right alertness
- Right concentration

It is important to notice that the basic principles here identify not only the cause of our suffering but also a way to overcome this. After all, what would be the point of dwelling on suffering if it could not be overcome. Notice for our context that one of the eight points is the right livelihood. Our work affects our happiness either positively or negatively.

Given that our work can affect our happiness where do we begin? In *The Art of Happiness at Work* which was co-written by Howard Cutler the Dalai Lama is asked, "If you met a stranger and they didn't know you or had never heard of the Dalai Lama and they asked you, "What do you do for a living?" what would you tell them?" This is an interesting question for us all to consider and even more interesting is the Dalai Lama's response: "Nothing. I do nothing."

What makes this answer so interesting is that the Dalai Lama is famously busy but he feels as if he does nothing. What's the secret? It's all in how you perceive your work. Psychologists have studied this and determined that people see their work in one of three ways:

- Job: primary focus is on financial rewards.
- Career: primary focus is on advancement, prestige, social status, and power.
- Calling: Primary focus is on the meaningfulness of work and its contribution to society.

While it is possible to be happy in any occupation people tend to be happier the more they feel their work has meaning and purpose. As it turns out there is no correlation between the type of work and happiness. What counts is one's attitude towards the work. And the important point here is that you have control over your attitude. This means you have control over whether you are happy or not, at work and in life in general.

This is the central message of the Dalai Lama's book, a message which is shared among other schools of philosophy such as Stoicism. In both cases, the emphasis is on attitude as the determining factor of happiness. As the Roman Emperor and Stoic philosopher Marcus Aurelius once said "the happiness of your life depends upon the quality of your thoughts."

But, it is tempting to believe that external factors cause happiness. In the work world, this usually translates into money. But, you know the old saying "money can't buy happiness." It turns out that there is some psychological validity to this. Once your basic needs are met, money doesn't increase happiness. If you are making $25,000 a year and all of the sudden double your salary to $50,000, you will become happier; maybe even double your happiness. But if you go from making $50,000 to $100,000 you will not double your happiness. Studies have shown that beyond around $50,000 money doesn't affect happiness at all.

So, what does contribute to happiness? For the Dalai Lama, the answer is serving others. "If you contribute to other people's happiness, you will find the true good, the true meaning of life." Finding happiness is best done by not focusing on your happiness. Instead, focus on helping others.

Despite how it sounds this goes right along with the ideas of free-market capitalism advocated by Adam Smith and other economists. As economist Walter Williams puts it in one article:

“In a free society, income is neither taken nor distributed; it is earned. Income is earned by pleasing one's fellow man. The greater one's ability to please his fellow man, the greater is his claim on what his fellow man produces. This claim is represented by the size of his income.

“Let's look at it. Say I mow your lawn. When I'm finished, you pay me $20. I go to my grocer and demand, "Give me two pounds of sirloin and a six-pack of beer that my fellow man produced." The grocer asks, "Williams, what did you do to deserve a claim on what your fellow man produced? I say, "I served him." The grocer says, "Prove it." That's when I pull out the $20 I earned. We might think of those twenty dollars as "certificates of performance", evidence of service.”

This seems to be a good way to tie in the various aspects of our investigation of business ethics. I’ll try to sum up some of those in the final lecture. For now, I want to leave you with one other thought on the subject of finding happiness. One will inevitably become frustrated from time to time in one’s work. The key to getting through this is attitude. The Stoic philosopher Epictetus once said, “don't demand that things happen as you wish, but wish that they happen as they do happen, and you will go on well.” A major cause of our unhappiness is when things don’t go our way. But what the Stoics counsel (as well as the Dalai Lama) is to focus on what you can change about a situation. Of course, sometimes changes need to be made as we’ve seen in various cases. But, one has to distinguish between what one can change and what one cannot. Not only is this the counsel of the Stoics and the Dalai Lama, but it is also the essence of the Prayer of Serenity. And an important key to happiness at work.

Final Thoughts

I began the book with a quote from Henry David Thoreau's essay "Life Without Principle." In it, he says, "if I should sell my forenoons and afternoons to society, as most appear to do, I am sure that for me there would be nothing left worth living for." This may have sounded like a strange quote to make in a business ethics class and perhaps it still seems strange. After all, isn't the business world all about making money? Doesn't economics encourage us to do precisely this? As you will remember from an earlier lecture, economist Thomas Sowell says no. Economics does not tell us to make as much money as possible. It only allows us to judge the costs and benefits of various actions. To the question of whether there are "non-economic values," Sowell says that there are. As he pointed out there are only non-economic values. These values are the central point of any business ethics class. And it is for this reason that I quoted Thoreau, to remind us of that fact.

A more recent example of such a mindset is offered by Fox business reporter Neil Cavuto in a book titled *More Than Money*. In it, he points out that "after all my years of covering Wall Street and the business world in general, I've discovered that the tools we use to measure financial success fail miserably when used to define deeper success." This is the exact sentiment that Thoreau expressed when he pointed out "I wish to suggest that a man may be very industrious, and yet not spend his time well. There is no more fatal blunderer than he who consumes the greater part of his life getting his living."

So, where have we been? How shall we conclude? We've looked at quite a lot of material and different perspectives on the questions raised in business ethics. But one thing they all seemed to have in common was a desire for business to be practiced with integrity and honor. Hopefully, if we've shown anything at all we've shown that this is possible. Yes, we can all cite examples of businesses and individuals who behave very badly and violate central principles of ethics (and also break the law). But, from this, we should not conclude that business cannot be practiced without violating ethics and the law. After all, as economist Walter E. Williams points out, the whole point of business, and the best way to earn money, is to serve your fellow man. Remember the quote from the last lecture?

The concept of service is at the forefront these days in almost every business. Every time I turn on the TV another business is claiming to offer better service. But, is this such a bad thing? I hardly think so. If you think about the trend in business over the last few decades it is one where serving has come to the forefront and we have largely benefited from it. Yes, many people have become fabulously wealthy in the process (like Jeff Bezos of Amazon.com) but we have also benefited immensely. The point I am making is simply that at the heart of our world of commerce is an important ethical concept: service.

As we have covered many issues in the world of business ethics we have, because of the constraints of time, ignored others. This is not because the issues are unimportant. However, in an introductory class, we can only do so much and covering basic principles and theories necessarily came before other issues. These included issues relating to diversity, affirmative action, equal pay, and issues relating to marketing and advertising. But while we did not address these issues in detail what we have done is set forth some ideas which are relevant and may help in working through these issues.

In particular, we've addressed the concepts of justice, property rights, the responsibilities of corporate leaders, employee rights, and the role of profit in business. Each of which provides a conceptual foundation for other more "practical" issues in the business world. The idea behind ethics is to allow us to formulate a set of principles and the means to apply them in specific situations. Given that each situation and issue is different the best we can do is to cultivate (for lack of a better word) a proper attitude towards business ethics in general. The attitude will inform the decisions we make.

It is to remind us of the importance of the attitude that explains why I began with another quote that might have seemed strange. This one from the Stoic philosopher Seneca: "He that is not content in poverty, would not be so neither in plenty; for the fault is not the thing, but in the mind." As was pointed out in the art of happiness at work lecture, the key to happiness, both in life and work, is this attitude. Money in and of itself does not make one happy. Lack of wealth does not make one unhappy. Happiness comes from the proper attitude and as Aristotle would have said this proper attitude is, in part, one inspired by living according to the virtues. In other words, happiness comes from acting ethically.

The key to success in the business world is perhaps best summed up by George W. Merck Business in general, strangely enough, "is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear." Here he can be seen as arguing for a general business and life strategy. Pursue what you're passionate about and strive to help others. The rewards will follow. But, not without persistence. As Calvin Coolidge once said: "Nothing in the world can take the place of persistence. Talent will not. Nothing is more common than unsuccessful men with talent.

Genius will not; unrewarded genius is almost a proverb. Education will not; the world is full of educated derelicts. Persistence and determination alone are omnipotent. The slogan 'press on' has solved and always will solve the problems of the human race"..."If I had permitted my failures, or what seemed to me at the time a lack of success to discourage me, I cannot see any way in which I ever would have made progress.”

Useful Books on Economics

Henry Hazlitt	Economics in One Lesson
Tom Harford	The Logic of Life
Robert Frank	The Economic Naturalist
Michael Shermer	The Mind of the Market
Frederic Bastiat	Economic Fallacies
Lawrence Gitman	Fundamentals of Investing
Juliet Schor	The Overspent American
Barry Schwartz	The Paradox of Choice
Richard Conniff	The Natural History of the Rich
Ted Klontz	The Financial Wisdom of Scrooge
David Gordon	Economic Reasoning
Adam Smith	The Wealth of Nations
Ludwig von Mises	Socialism
Steven Levitt	Freakonomics
	Super Freakonomics
George Gilder	Wealth and Poverty
	The Spirit of Enterprise
Mark Skousen	Economics on Trial
	The Power of Economic Thinking
	The Making of Modern Economics
	Economic Logic
Thomas Sowell	Basic Economics
	Applied Economics
	Knowledge and Decisions
F.A. Hayek	The Road to Serfdom
	The Fatal Conceit

Useful Books on Ethics

James Rachels	The Elements of Moral Philosophy
James Q. Wilson	The Moral Sense
Robert Wright	The Moral Animal
Randy Cohen	The Good The Bad and the Difference
Michael Shermer	The Science of Good and Evil
Anita Allen	The New Ethics
The Dalai Lama	Ethics for the New Millennium
David Callahan	The Cheating Culture
Rita Manning	A Practical Guide to Ethics
Alasdair MacIntyre	After Virtue
James Hunter	The Death of Character
Matt Ridley	The Origin of Virtue
Marc Hauser	Moral Minds
Elliot Sober	Unto Others
Sam Harris	The Moral Landscape
Plato	The Republic
Aristotle	Nicomachean Ethics
G.E. Moore	Principia Ethica
W.D. Ross	The Right and The Good
J.S. Mill	Utilitarianism
Immanuel Kant	The Critique of Practical Reason

Useful Books on Leadership

Dan Pink	Drive
Sun Tzu	The Art of War
Doris Goodwin	Team of Rivals
Jerry Muller	The Tyranny of Metrics
James Hunter	The Servant
Faisal Hoque	Everything Connects
Denise Brosseau	Ready to be a Thought Leader?
Robert Sutton	The No Asshole Rule
M. Csikszentmihalyi	Good Business
Safi Bahcall	Loonshots
Seth Godin	Tribes
Faisal Hoque	Everything Connects
Stephen Covey	7 Habits of Highly Effective People
Brene Brown	Dare to Lead
Barry Schwartz	Practical Wisdom
Sheryl Sandberg	Lean In
Daniel Goleman	Emotional Intelligence
Susan Cain	Quiet
The Dalai Lama	The Leader's Way
Daniel Coyle	The Culture Code
Adam Grant	Give and Take
	Originals
Simon Sinek	Leaders Eat Last
	Start With Why
	The Infinite Game
Henry Cloud	Integrity
	The Power of the Other
Stephen Carter	Integrity
	Civility
Tom Morris	If Aristotle Ran General Motors
	If Harry Potter Ran General Electric

Useful Books on Work

Ricardo Semler	The Seven Day Weekend
Timothy Ferris	The Four Hour Work Week
Alain de Botton	Pleasures and Sorrows of Work
Martin Lindstrom	Ministry of Common Sense
Jennifer Aaker	Humor, Seriously
Lisa Gansky	The Mesh
Reid Hoffman	The Startup of You
Kimberly Palmer	The Economy of You
Dan Schawbel	Me 2.0
Devon Price	Laziness Doesn't Exist
Thomas Moore	A Life at Work
Thich Nhat Hanh	Work
Laszlo Bock	Work Rules!
M. Csikszentmihalyi	Good Business
James Hunter	The Servant
Eric Bailey	The Cure for Stupidity
Marianne Cantwell	Be a Free Range Human
The Dalai Lama	The Art of Happiness at Work
Claude Whittmeyer	Mindfulness & Meaningful Work
Howard Garner	Good Work
Simon Sinek	The Infinite Game
Chris Guillebeau	Born for This
	Side Hustle
	The Art of Non Conformity
	The $100 Startup
Don Tapscott	Wikinomics
	Macrowikinomics
Dan Pink	To Sell is Human
	Drive
	Free Agent Nation
Seth Godin	The Purple Cow
	Linchpin
	Tribes

Economics Resources Online

I, Pencil: http://www.thefreemanonline.org/featured/i-pencil/

Rinkonomics: http://www.econlib.org/library/Columns/y2006/Kleinorder.html

EconTalk: http://www.econtalk.org/

Economics for the Citizen: http://econfaculty.gmu.edu/wew/misc/econcitizen/index.html

Your Job as Spiritual Work: http://www.researchchannel.org/prog/displayevent.aspx?rID=1990

Origins of Money: http://www.hughlafollette.com/radio/origins.of.money.htm

Ludwig von Mises Institute: http://mises.org/

Common Sense Economics: http://www.commonsenseeconomics.com/