Morality & The Market

Ethics & Virtue in the Conduct of Business

Eugene Heath

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Preface

This anthology is intended for use in classes in business ethics, at both the undergraduate and graduate level, though I would hope that the book might also prove suitable for either topical courses in social and political philosophy or for the general reader interested in the foundations, operations, and effects of business and markets. The book is unlike many other business ethics texts even as it covers many of the traditional concerns of the subject area. It is my aim to provide the reader with a selection of writings that communicate not only the philosophical but also something of the economic, political, sociological, and historical contexts of business ethics. In fulfillment of this aim, I also place particular emphasis on the philosophical relevance of virtue to the practice of business.

Most of the books and anthologies devoted to business ethics cover a fairly standard set of issues, including, for example, the nature and responsibility of the corporation (corporate agency, social responsibility); relations between employers and employees (privacy, whistleblowing, affirmative action, occupational safety); and relations between business and society (pollution and the environment, consumer protection, advertising). Interesting and worthy of examination, many of these topics can be found in this collection. However, this book attempts to address these questions with greater attention to both the economic and moral foundations of public policy as well as to the effects of market institutions in general.

The standard set of business ethics issues and topics, as typically presented within the field, is developed largely in terms of public policy and geared, frequently, toward the ethics of large corporations. However, the ethics of business is not exhausted by discussion of public policy, nor is it a matter of corporate ethics alone. Indeed, to the extent that business ethics focuses only on public policy or on corporations, it runs the risk of becoming increasingly irrelevant to the day-to-day conduct of persons who, as managers, owners, employees, or buyers and sellers, confront a variety of circumstances that call for the exercise of judgment or demand a particular quality of character. In this collection I seek to supplement the traditional slate of business ethics topics by offering a selection of writings on some of the virtues related to commercial life. It must be granted that there is not an abundance of writing on the virtues of commerce or business, nor can I claim to have exhausted the literature, even if it is small.

The structure of the text, distinct from that of many other collections, is organized into three broad topic sections (A, B, and C). Section A focuses on the foundational framework of business and commerce and includes readings on justice, regulatory policy, and, along with selections on philosophical ethics (Aristotle, Kant, Mill), readings on the (neglected issue of the) normative behavioral conditions for effective or successful markets. Section B focuses on the actual operation of business by taking up the way in which virtues may come into play in business life and by considering some of the preeminent ethical issues that arise in the operation of business. Just as Section A focuses on foundations, so does Section C focus on effects, whether these be moral, cultural, artistic, or technological and environmental. With the exception of the topic of the environment, the subjects and readings of Section C are found in no other collection devoted to the ethics of markets and business.

Sections A and C have exactly the same structure, with each subdivision commencing with a substantive introduction that provides background and context for the readings, as well as a brief summary of each selection. Section B has a slightly different structure: Its three subdivisions are divided into further subsections, each of which is preceded by a brief introduction and summaries of the readings. Whether in Section A, B, or C, any introduction can be read independently of the others. It is my hope that the readings will serve the interests of the inquisitive reader and that my introductions will provide helpful background to those new to these issues.

The idea for this text grew out of a desire to provide students in business ethics with a collection of readings of breadth, variety, and historical context. Many of the authors are philosophers or economists, others are sociologists, intellectuals, or writers. The reading selections are not narrowly philosophical, though the aim throughout is one of helping students to think more deeply and widely on the relevant matters—surely a philosophical aim. Many of the articles are from contemporaries but others are not. This is as it should be, for even if the questions of markets and commerce seem preeminently modern, they are not singularly contemporary and, so, we should not go galloping after the most recent article or the most current. Many of the relevant questions are *not* current and some of the most current writing provokes and resonates less well than that of earlier works. Throughout I have sought to include writers of diverse intellectual perspectives and opinions, and I have also readily sought to include thinkers whose work has been ignored or neglected. I lament the fact that the inclusion of so many topics and writers has meant that excisions have had to be made in so many of these selections. I have tried to err on the side of inclusion rather than exclusion, but I sympathize with the reader (or the author) who wishes to have available all of the essay, article, or book. Despite the breadth of the text, I am well aware of the omission of relevant topics, including that of globalization, sexual harassment, and drug testing, to mention but a few. I should have liked to include these, just as I would have preferred to have included readings on other topics too often ignored in the traditional business ethics texts: religious perspectives on markets and business; the relation between the U.S. Constitution and commercial laws and policies; and the possibility and problems of alternatives to markets (for example, market socialism). It has been impossible to include all of these, but what is included should prove both interesting and challenging.

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This anthology has suffered long periods of fermentation since it was first conceived and begun in the early 1990s. Several persons reviewed my early lists of reading selections for this text and made helpful comments or suggestions: Scott Arnold (University of Alabama, Birmingham); J. David Blankenship (State University of New York at New Paltz); Kenneth F. T. Cust (Central Missouri State University); Michael DeBow (Samford University); Robert Holyer (Randolph-Macon College); Zbigniew Rau (University of Lodz); Andrew Melnyk (University of Missouri, Columbia); Fred Miller (Bowling Green State University); David Schmidtz (University of Arizona); and Kory Tilgner. In particular, Andrew Melnyk directed me to the work of Samuel Smiles; Robert Holyer to that of Dorothy Sayers. In addition, the following reviewers provided valuable input and feedback on the manuscript: John Rowan (Purdue University, Calumet); Charles T. Hughes (Chapman University); Sally Hardwick (University of Nevada, Reno); Richard Lippke (James Madison University); Kelley C. Smith

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Reva Wolf had the nerve to say that this book would get finished even when I did not think that it would, and for this and for so much more, I owe a debt of gratitude. The book itself is dedicated to my parents, Foster E. and Doris P. Heath, two exemplars of unpretentious honesty, quiet industry, and devotion and dedication beyond self. The debt I owe them cannot be repaid, but I should like to think that one small recompense to them would be that this book would, in some small way, help to improve our thinking and conduct on matters of consequence and, thereby, do some good for some persons somewhere.

Eugene Heath

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A I

Introduction

Markets and Business

This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.

Adam Smith[1]

The bourgeoisie, during its rule of scarce one hundred years, has created more massive and colossal productive forces than have all preceding generations together. Subjection of Nature's forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalization of rivers, whole populations conjured out of the ground—what earlier century had even a presentiment that such productive forces slumbered in the lap of social labour?

Karl Marx[2]

Over the past four hundred years—during what has come to be called the "modern era"—the manner in which persons in the West have come to work and live has undergone dramatic change. Although it has always been the case that some form of trade was necessary if human beings were to meet their needs effectively and satisfy some desires, it has only been in the modern era that commercial exchange has become the primary manner in which we cooperate with one another in order to grow our food, make our products, and exchange our goods. Whether as a consumer who seeks to buy a manufactured article of clothing, a shop owner who searches for a well-trained and productive salesperson, a contractor who advertises quality buildings at inexpensive prices, or an investor considering whether to buy some shares of a multinational corporation, our lives are inextricably intertwined with commerce.

Because our lives are so enmeshed in commerce, it is of particular interest to consider the value of commercial relations and to examine, from a normative point of view, the foundations, operations, and effects of markets and commerce. One takes up the normative point of view when one considers, in general and without regard to attaining some particular purpose or result for oneself, whether something *ought* to be the case; for example, whether some action should be performed, a

1. *An Inquiry into the Nature and Causes of the Wealth of Nations* [1776], edited by R.H. Campbell, A.S. Skinner, and W.B. Todd (Indianapolis, Ind.: Liberty Classics, 1981) I. ii. 2 (p. 25).

2. *Manifesto of the Communist Party* [1848], in *The Marx-Engels Reader,* 2d ed., edited by Robert C. Tucker (New York: W. W. Norton, 1978), 477.

policy implemented, or some character trait cultivated. Such evaluations often take either a moral, political, or cultural form, or some combination thereof. As we explore the foundations, operations, and effects of markets, we will appeal to these types of normative evaluations and to others as well.

The first section of this text (Section A, foundations) emphasizes both the moral or ethical evaluation of the institutional framework that establishes and regulates markets and the ethical and psychological qualities necessary for conducting business in market societies. Section B (operations) focuses on the relation between virtue and commerce, exploring some virtues (and vices) relevant to commercial practice and considering these particular character traits in light of some of the main questions of business ethics. In the final part of the text, Section C (effects), we employ normative evaluations to consider the consequences of markets, inquiring into the effects of commerce on morals, culture and the arts, as well as into certain effects—environmental and technological—of economic growth more generally.

Because any normative evaluation requires some context and background, it is worthwhile to begin with some general observations on markets and business. After that we will examine more closely the nature of normative evaluations.

ECONOMIC SYSTEMS AND THE MARKET

Economic Systems

On any given day we undertake a variety of business exchanges or renew commitments born of commercial transactions—between customer and clerk, employer and employee, stockholder and manager, client and professional. When we meet as buyers and sellers who, generally speaking, wish to buy at the lowest price and sell at the highest, we interact within a particular kind of *economic system* that we call the market. An economic system involves a framework of rules and structures which either specifies or provides the basis for determining four constituents of social cooperation:

- *which* goods are produced (and their quantities and relative importance),
- *how* they are to be produced,
- *who* will produce them, and,
- *how* they can be acquired by, or allocated to, individuals.

These four matters acquire their significance because of scarcity. Our needs and desires seem limitless, but the resources required to make and distribute goods (to satisfy these needs and desires) are finite. Thus, any economic system—market or no—must provide some answer to each of the four preceding questions. The manner in which these questions are dealt with determines, to one degree or another, the kind of economic system in question.

Theoretically, if not historically, there have been at least three economic frameworks that respond to these four questions. In stratified economic systems, such as caste systems or feudal economies, the extent of private property is limited by law or custom, and other significant controls exist over prices as well as the individual's opportunity to alter or change vocation or status. In such systems, there is little room for economic competition among and between buyers and sellers, and many economic decisions are influenced by class or caste. In the fourteenth century prices were more often set by custom than by market forces, and individuals (whether serfs or nobles) were bound to a certain status and vocation. In centralized (or command) economies, the decision as to what is to be produced, how, and for whom, is determined by either an autocratic individual or a centralized decision-making body which may or may not attempt to reach its decisions on the basis of the needs and desires of the citizenry. Centralized economies, the characteristics of which may overlap with stratified systems, may exhibit distinct aims as well as different degrees of centralized decision making and can exist in either dictatorships or democracies. In either case, however, the decisions about production and distribution are determined not by the interaction of independent buyers and sellers but by some governmental body acting for the entire society.

The Market

The third economic system is that of a market. Though markets, or market systems, go by several other names (the free market, free enterprise economy, the competitive system, or capitalism), what unites these terms is that each specifies an economic system of privately owned property[3] in which the interaction of individuals

3. It is possible that a market could operate within a system in which property were not privately owned. Historically such markets have been rare, and, thus, as a historical phenomenon the term "market" has, at least informally, been taken to imply a private property market. However, it is at least possible that a market could operate within a system in which property in productive resources was not held privately but was "owned" by the nation as a whole and, accordingly, managed by the central government.

as buyers and sellers coordinates what is produced, how it is produced, who produces it, and how the goods are allocated. Under a market system, the individuals of a society manufacture or exchange goods or services—including inputs to production, such as land, labor and capital, as well as the final products—according to prices which result from their own interactive bargaining, including their decisions to buy or to sell. Neither the government nor the framework of laws specifies exactly which goods will be produced or by what method of production; rather, individuals and firms make decisions as to what to produce, and how, in anticipation of what others want and are willing to purchase. Individuals come together to trade because each places a greater value on the item (or service) to be gained than is placed on the item (or service) to be surrendered. Indeed, it is just because each party places a different, rather than an equal, value on the same item that the exchange occurs!

Business Firms and Profit

Although the exchange of goods often takes place among and between individuals, markets are distinguished by the presence of *firms,* hierarchically arranged (or vertically integrated) organizations devoted to business. Business firms may include single proprietorships or partnerships in which the owners assume responsibility for decision making and have legal responsibility for the actions undertaken in the firm's name. On the other hand, a third type of firm, the corporation (which began to emerge in the sixteenth century), is regarded, legally, as an entity unto itself. The owners (shareholders or stockholders) have a responsibility limited to the amount of money invested. Within the corporation a board of directors, elected by the stockholders, makes decisions about who is to run the firm.

In each of these businesses, the monetary criteria of success and failure are profit and loss. Each firm seeks to manage its resources so that the costs of its factors of production are less than the revenue it receives from the sale of goods or services. Spurred by profit, producers seek the lowest cost of production and are thereby led to commit their labor and resources to those activities that are most highly valued by others. In this way, resources are generally allocated to their most valued uses, and, ultimately, profit and loss are determined by whether or not what is produced is valued sufficiently highly by the consumers. Thus, it is the consumers who, relative to available resources and technology, determine what is produced. (Of course, one may question *how* consumers come to acquire their desires and preferences, the degree to which these desires and preferences are dependent on self or society, or the extent to which these desires are rational or express a consumer's best and long-term interest.)

In a sense, of course, the profit motive—or a motive analogous to it—also holds for any individual who participates in exchange: Each person seeks to trade an item of lesser value for an item perceived to be of greater value. Similarly, the "division of labor"—or who is to produce what (and who is to provide which service)—is determined by individuals who, bearing divergent talents, skills, and interests, seek to specialize in that area in which they can enjoy the highest return on their labor and effort. The total allocation of goods and services is then determined by the supply and demand for one's labor in conjunction with land rents, interest rates, and the prices of goods and services. What is common to all of the agents—whether as consumers, producers, or workers—is the issue of profit and loss. Will this trade or exchange (of land, labor, or capital) secure for me a higher value, under what conditions, and in what length of time?

The Market Framework

The market framework can be understood to include two related sets of conditions: legal rules and moral, cultural, and psychological conditions. The basic legal framework for a market includes laws that sanction individual private ownership of property, permit the free movement of capital and labor, define and enforce rules of contract, and provide for the administration of justice. In addition, of course, the government may provide goods or services that the market may not provide (for example, dams or parks)[4], regulate the production and sale of goods and services, institute a monetary system, utilize fiscal policies of taxation and spending in the attempt to lessen perceived fluctuations in the market, and redistribute income through taxation, cash payments, or subsidies. Obviously, the legal framework has significant effects on the range and success of markets as well as on the forms and sizes of business firms. However, along with the legal and political framework of a market are the moral, social, and psychological conditions and qualities that serve to en-

4. Interestingly, economists long assumed that a lighthouse was a clear and outstanding example of a service that could not be financed or operated by private agents, but in the nineteenth century there were private lighthouses! See, Ronald H. Coase, "The Lighthouse in Economics," *Journal of Law and Economics* 17 (October 1974): 357–376.