

Business Ethics and the Austrian Tradition in Economics

Hardy Bouillon



Routledge Frontiers of Political Economy

Business Ethics and the Austrian Tradition in Economics

Stakeholder value, corporate social responsibility and sustainability: Are these, and similar, concepts sufficiently clear for fruitful research in business ethics? What is the benchmark to prove their utility? *Business Ethics and the Austrian Tradition in Economics* is a treatise on the fundamental questions of business ethics and addresses significant shortcomings in the field. It is the result of correlating reflections on phenomena, resulting from an intersection of ethics, economics, methodology, and political and social philosophy. Sparked by the business ethicists' tendency to consider certain areas outside their field and accept others unquestioningly, this book provides answers in the tradition of Austrian Economics and, in particular, of Hayek and Popper.

Through detailed examination and reflection, this book presents the thesis that many themes in business ethics are discussed either unduly intensely, unbalanced or rarely, measured against what business ethics as a science should deliver. It does so by offering an answer to one of the most crucial questions in business ethics, namely that of justice in moral economic actions. Bouillon develops an original definition of morally just economic action in the course of three chapters, and subsequently uses it as a yardstick, from which, in Chapter 4, he reads which of the relevant concepts and topics in business ethics ask for restatement. As a side-product Bouillon discloses logical inconsistencies in prominent political philosophies, and the consequences of these inconsistencies for maldevelopments in business ethics.

Business Ethics and the Austrian Tradition in Economics illustrates and analyzes the business ethics' peculiarities particularly within German literature, providing the reader with a focus rarely found elsewhere. This book should be of interest to economics postgraduates and researchers looking at business ethics, economic theory, and social and political philosophy.

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Introduction

As mentioned in the preface, the actuators to this study were a series of peculiarities and omissions in business ethics. Meeting the aspiration to eradicate these inadequacies, it seemed advisable to place an introductory chapter on a number of *preliminaries of ethics*. Equipped with these preliminaries, many of the subsequent arguments are easier to follow than without them. Apart from this, the gentle reader will learn about the assumptions taken by the author. Knowing of these assumptions makes it easier for the reader to critically appraise the arguments and suggestions that are put forward here.

The fundamental suppositions of Chapter 1 of this treatise belong to the distinguishability of classes of propositions, namely of analytic, empirical, and normative propositions, as well as the logical impossibility to infer from representatives of one class of propositions to representatives of one of the remaining two classes. This logical impossibility derives from, what we call here, the *implications compliance rule*, saying, that a conclusion cannot have implications that are not already implied by its set of premises. To put it differently, a logical conclusion may not smuggle in new information and claim validity at the same time. As we shall see later, the distinguishability and the logical gap between the classes of propositions mentioned above are of particular importance for the relation between empirical and normative propositions in business ethics.

Moreover, what is proposed here is what I call *methodological individualist ethics*, an ethics that corresponds with the fundamentals of *methodological individualism*. That is to say, I assume that all actions, which can be classified as moral actions, are executed by (or retraceable to) individuals alone, and not by any other entities *sui generis*, be it groups, nations, cultures, or similar collectives. This assumption is important insofar as business ethics stress is laid on the morality of firms (and many other types of economic organizations); collectives which, following *methodological individualist ethics*, are not actors in themselves, but rather the

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outcome of the interplay among individual economic actors. Hence, before talking (unless metaphorically) of the responsibility of an enterprise (or any other economic entity), and before asking if it is applicable at all to look at the action in question as moral action one needs to clarify to which individual action or default it is retraceable, given it is retraceable at all.

An additional assumption for the deliberations to come is that sufficient constitutive characteristics of moral action must be named. Without a sufficiently clear definition of moral action (and moral action in economics in particular), each proposition of morality would be so imprecise that the testing of empirical assertions or the rational acceptance of normative recommendations in business ethics would be doomed to fail. Neither could one (with sufficient determination) say that the moral action, subject to empirical testing or moral recommendation, is a moral one, nor that it is an action at all.

Closely connected with the constitutive characteristics of moral acting, and the requisitions of the *methodological individualist ethics*, is the Hayekian distinction between natural, designed, and spontaneous orders, and the insight based on this, namely that interacting individuals, each acting morally (for instance by keeping or breaching contracts¹), may bring about a result that does not necessarily have to be a moral one.² This insight becomes important in conjunction with what I call an intact *triad of moral action*, namely a steady connection between intention, exertion and result of a moral action.

The preliminaries named here and subsequently explored in the following sections of Chapter 1 are not the only assumptions that will be used throughout this book. Other more specific ones, for instance the *argumentum pro libertate*, will be introduced in later chapters, because their meaning will unfold more easily when put into conjunction with the topics discussed there.

Chapter 2 proceeds, step by step, from the definition of *economic action* to the definition of *morally economic action*. As we shall see, in the process of this undertaking it will be necessary to give precise definitions of 'freedom' and 'property' and to explain which conditions are to be considered in order to avoid inequitable obligations. The core elements of the argument presented here are the *presumption of liberty* (*argumentum pro libertate*), the *finders keepers principle*, and the assumption based on both, namely that it is not the bringing about of a status quo that asks for legitimacy, but rather the change of it.

Chapter 3 provides the foundations of a proper understanding of *morally just business*. The starting point of our reflections rests in insurmountable difficulties of justifying norms. Rather than troubling with the (scientifically fruitless) *justification of norms*, we look at various modes of

establishing norms and argue for a *modus operandi* – namely negative selection – that presumably causes the least problems, namely establishing norms by contract (unanimous agreement among contracting parties). Thereupon we examine if (and, if so, how) the understanding of morally just economic action has to be curtailed or complemented by modern conceptions of ‘social justice’. The chapter closes with a definition of morally just economic action.

The aim of Chapter 4 is to illustrate with the help of prominent conceptions in business ethics what is meant by peculiarities and omissions in the field of business ethics, namely the insufficient and incoherent consideration and sometimes downright ignorance of the criterion of justice in business morality, when it comes to the examination of pivotal themes in our discipline; the neglect of reflections on our science, when it comes to the use of significant key terms; and the careless and defective labeling of the analytic, empirical, and normative parts, when it comes to the core propositions of the various schools of business ethics. Chapter 5 concludes.

1 Ethical preliminaries

1.1 Preliminaries – what for?

For a better understanding of the ideas on the relation between economics, ethics, and justice presented here, it is advisable, first, to extensively elaborate the assumptions mentioned in the preface and, second, to explain some effective habits and rules of grammar in ethics, which can be used fruitfully throughout business ethics. The latter applies in particular regarding the relation of ethics and morals.

1.1.1 *'Ethics' and 'morals' – and other rules of grammar*

The concepts 'ethics' and 'morals' are often used interchangeably in ethics (and in business ethics). This holds for propositions in everyday language as well as for those in professional jargon. Nevertheless, within the German speaking community, it is still common practice to reserve the concept 'ethics' for the philosophical discipline or to denominate a certain ethical school¹ and by 'morals' to mean their subject (or content).² Following this tradition, several mistakes and misunderstandings can be avoided. Therefore, and unless severe reasons for deviance are given, this tradition is kept up throughout the book.

Linguistically induced misinterpretations in ethics and business ethics have other reasons as well. Occasionally in literature, authors talk of *immoral* behavior (action),³ while it is not revealed to the reader what meaning the author intends to give to his amphiboly.⁴ A demeanor can be called immoral if it has no moral dimension at all. Since the distinction between a moral behavior (action) and a behavior (action) that is not moral at all is of utmost importance for this study, we name a demeanor or action 'immoral' mainly when we intend to say that the behavior or acting in question has no moral dimension. We do so despite the fact that in ordinary language as well as in professional jargon 'immoral' or 'unethical' is

used to denounce a behavior or action that – vis-à-vis the reference system of morals in question – is treated as vicious or evil.

Occasionally, a behavior or an action that an author rates as evil is labeled either ‘amoral’ or ‘unmoral’ or even uses these labels interchangeably. This in turn gives rise to much confusion, among other reasons, because the two concepts are often understood as being different. The concept of ‘amorality’ is often used to express either the thesis that the distinction between good and evil actions is not possible at all, or that morality is nothing but a chimera.

Be this as it may, to escape misunderstandings, which derive from the ambiguities of the concepts ‘immoral’ and ‘unmoral’, we will prefer the phrase ‘not moral’ to denounce an action or behavior that has no moral dimension at all.

In general, as a guideline it might help to bear in mind the categorical relationships between ethics and morals, morals and moral judgments and, finally, moral judgments and virtues, respectively vices. Ethics comprise statements about morals, while morals represent the category that includes moral judgments. Ultimately, moral judgments can be split into those which call moral actions either morally good or evil, while these two categories comprise all possible judgments concerning virtues and vices. To put it differently, the rules of grammar supposed here are developed along the categorical relations of ethics, morals, and moral judgment. Consequently, concepts like ‘ethical’ and ‘unethical’ are not utilized to replace adjectives in one of their subsequent subcategories. Hence they are neither used to replace ‘moral’ or ‘immoral’, nor to substitute ‘morally good’ or ‘morally bad’ – and vice versa. Non-synonymity holds also for the pairs of concepts ‘moral’/‘immoral’ and ‘morally good’/‘morally evil’.

1.1.2 Reference-morals and moral dimension

In the previous section two notions were repeatedly used, which ask for further elucidation, namely *reference-morals* and the *moral dimension* as an accidental quality of an action.

He who wants to morally judge an act or an act of omission may go back to a huge reservoir of diverse schools of morals. He may make use of ‘virtue ethics’, ‘Kantian ethics’, ‘Christian morals’, ‘utilitarianism’, or any other morals. Whatever his choice may be, he cannot but *willy-nilly* refer identifiably to a moral position, or a mix of several moral positions, unless he does not care that his judgment will be rated as purely arbitrary. Resorting to morals, documents the criterion (criteria) on which his judgment rests. If in no way he documents the criterion (criteria) used, then his judgment remains unreferential to the external observer. At best, one can

assume *that* the judgment is based on a moralizing intention, however, not on *which* one.

Hence, the sentence, 'Corruption is an evil', is a proposition that formally corresponds to a moral judgment, but it is left unsaid on which criterion the author's discretion is founded. If, instead, the author extends his proposition by adding 'Corruption is an evil because it is against Christian principles', then he reveals his criteria that underlay his judgment; then his proposition can be used for academic ethical discussion.

In a case like this, in which an author calls a spade a spade, the identification of the morals, i.e. *reference-morals*, is rather easy. In the case in question, we can conclude that the Christian morals serve as reference-morals. Of course, the sentence, 'Corruption is an evil', could have any other reference-morals. Important, if not indispensable for the ethical discussion of moral judgment, is the fact *that* these judgments have reference-morals. Desirable in terms of improved clarity is that the reference-morals is sufficiently precisely and unambiguously ascertainable.

The role of a criterion, which all morals share when it comes to moral judgments, indicates the function that the concept 'reference-morals' is going to play in this treatise. The term 'reference-morals' mainly will be a placeholder, representative for all possible morals to which moral judgments can refer.

Moral judgments, with a well documented criterion of judgment, express two things: first, they signify *that* an action is morally rated; second, they voice *how* an action is morally valued (for instance 'good' or 'bad'). The latter implies the first. To put it differently, each moral judgment of an action implies the assertion that the evaluated action (supposedly) has a moral quality at all. Alongside our reflections on the constitutive characteristics of moral action,⁵ actions are not moral actions per se. It is not until after the application of moral norms that they become moral actions. The notion 'moral dimension' means – to use a Lockean term – a *secondary quality* of human action, a quality that may or may not fall upon our actions.

1.1.3 Analytic, empirical, and normative propositions

As it is in many other sciences, in business ethics analytic, empirical, and normative propositions play significant roles. As mentioned in the preface, the thesis, that these types of propositions clearly are distinguishable, is a fundamental assumption. Many of the theses, introduced in this book, stand and fall with this assumption. The subsequent reflections are devoted to the function, confusion, and distinguishability of analytic, empirical, and normative propositions.