

LAW, ETHICS AND ECONOMICS



Power and Principle in the Market Place

On Ethics and Economics

Edited by

JACOB DAHL RENDTORFF

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Congratulations!*

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Chapter 1

Introduction

Jacob Dahl Rendtorff

The problem of ethics and economics has been a major topic in recent debates about the development of global markets in relation to issues of social cohesion, justice and political stability. Indeed, this issue has been an important challenge in relation to the discussion of global business ethics and the social responsibility of corporations, which is becoming more and more important in the ongoing discussions of the relation between market institutions and democratic governments. This is an important cultural issue concerning the ethical foundations of economic institutions, which the financial crisis in 2008 put on the agenda as an important topic for the development of the world.

It is the task of this book to clarify this relation between ethics and economics as a contribution to political theory and the philosophy of economics. The chapters deal with central issues of the philosophical foundations of the relation between ethics and economics, but they also deal with concrete and current aspects of international business and human rights. We think that international debates about business ethics and economics, for example bank ethics, can be inspired by this approach.

The chapters of this book address the social and political foundations of economics by asking the question whether there is connection between ethics and economics. A unity or harmony between the two concepts is considered by many sceptical critics an *oxymoron*, i.e. a contradiction in terms, an impossible metaphor and an expression that is an opposition in itself and therefore without any real meaning. That there is an opposition involved in the confrontation between the two terms is expressed in our ordinary definitions of ethics and economics. We understand economics as being based on egoistic actions that aim to obtain as much economic gain for the individual as possible, and we define ethics as composed of generous actions that aim at the good for everyone and the common good for community. It seems as though the two concepts – individual egoism versus altruistic concern for community – cannot really be combined.

Such an understanding of the two terms as being opposed to one another has also been present in the history of theoretical and political economy. The tradition from Karl Marx is that economics is a question of profits, and when there is economic surplus, someone must be being morally exploited. Even though Adam Smith originally considered economics as a moral science, neoclassical economics was based on the idea of an egoistic utility-maximizing subject as the basis for economic action. According to critics, this subject does not act altruistically but

only seeks to serve its own interests and therefore the economic subject cannot be said to act ethically but is rather considered as a selfish egoist that never serves the community. The only way we can talk about ethics is to refer to the invisible hand – if everybody follows their own interests then this will in the end benefit the community.

This egoist ethics that thinks that only individual interests and preferences can be the aim of our actions can also be found in modern economic science. In the case of game theory, which deals with the calculation of the most efficient actions, it is based on the “prisoner’s dilemma”, that is the presupposition that every prisoner has to decide whether it is rational to cooperate with other prisoners in order to be released. If a prisoner calculates that she has more chance of surviving, then she chooses only the solution that promotes individual interests rather than out of concern for the community.

In the prisoner’s dilemma there is no possibility for a concern for the common good that precedes the interests of individuals. Moreover, in the so-called “neo-institutional” economics that has become mainstream economic theory in the last 20–30 years, the importance of the institutions of community for economic action is highly valued. However, despite the continuant *embeddedness* in institutions, the individual may still relate in an egoistic and opportunistic manner to those institutions.

The consequence of this economic egoism can be said to be showing itself in today’s globalized economy. We are confronted with increasing numbers of always larger multinational corporations, for example Walmart, McDonalds and Coca Cola, that have a power, economic turnover and cash flow that are larger than those of small developed states like Denmark or the economies of many developing countries. However, these companies have little tradition or ability to conceive their role in society as being anything other than the maximization of economic gain. On the international scale the dogma about the individualized free market economy states that it is difficult to control growth in countries like China, where the economic growth may also have unintended social and environmental consequences. Not least the issues of climate change, where the international community and corporations have known the possible consequences of CO₂ release in the atmosphere for at least 30 years without doing something about it, shows the problem of uncritically sticking to a concept of an economy that is based on egoistic preference maximization without concern for the common good.

We therefore need another concept of economics, and we need to think about a closer connection between ethics and economics; this will happen by seeking an altruistic and community-oriented economics. In fact, we do not need to go very far from the existing concepts of economics in order to integrate ethical and altruistic concerns into the economy. If we start to analyse the concepts of economics more deeply, we see the possibility of deconstructing the concepts of the already existing political economy and of the economic subject. Originally economics meant exchange, and exchange must be mutual if the capacity to exchange relates to power. However, the greatest power includes the capacity to

give, and a real demonstration of power in exchange therefore includes generosity and gifts; it is only possible to give by transcending the exchange relationship. To show off oneself, to be respected and to receive recognition from the community one must give gifts and become generous. It quickly becomes very clear that the egoistically utility-maximizing individual in the case of the surplus that emerges from the economic success of a society is in fact forced to transcend herself and become generous and willing to give to society.

So in order really to become ourselves we need an economics of generosity where every individual and organization agrees to contribute to the common good in society. This includes the statement that the changed conditions for economic responsibility in modern society propose new conditions for economic action where everybody will contribute to the creation of the common good. Talking about corporate citizenship therefore includes stating that corporations have a social and societal responsibility that transcends individual responsibility and gives corporations duties corresponding to individual duties towards society. Therefore, we can say that corporations and organizations have to function as responsible actors in a society that, as individual citizens, has responsibility for the common good.

In the economy of the common good that is built on the good corporate citizenship of corporations, social responsibility will be a central aspect. Within the theory of social responsibility there has historically been a distinction between four basic kinds of responsibility that can be ascribed to a corporation, an organization or an institution, namely economic, legal, ethical and philanthropic responsibility. Economic responsibility concerns the capacity for making the corporation economically beneficial and profitable. A concrete way to realize economic responsibility is work on the triple bottom line that combines concern for economics, environment and social aspects in the evaluation of the profitability of the corporation. Economic responsibility can in this sense be extended to responsibility for sustainable and environmentally acceptable production that does not have a destructive effect on the environment. Legal responsibility expresses a responsibility to stick to the law and to live up to the legal rules of and regulation of society, not least when dealing with ethical rules that have been proposed as the basic guidelines and codex for the actions of companies. Ethical responsibility is the basic responsibility behind economic and legal responsibility. The ethics of this responsibility is expressed in the unity that defines legal as well as economic responsibility. Sometimes ethical responsibility becomes philanthropic responsibility, that is, responsibility for gift-giving, which is the real responsibility in the economy when it is developed into an economics of generosity that aims at the common good.

Finally these four concepts of responsibility can be included in the concept of political responsibility, which expresses good corporate citizenship as the essence of corporate social responsibility. In the international community good corporate citizenship is realized through the responsibility of human beings and corporations to realize the common good for humanity.

We begin this anthology with a chapter on the philosophy of economics. Peter Koslowski, Professor of Philosophy, Vrije Universiteit, Amsterdam, Netherlands opens the discussions with a chapter on the relation between ethics and economics. In his chapter “Ethical Economy and Business Ethics: On the Relationships between Ethics and Economics” he addresses the presupposition that the synthesis of ethics and economic criteria is the central task in judging individual and collective human action.

Seeing the role of business in the light of *ethics and economics* is, according to this view, central for business and public policy. In modifying Walter Rathenau, Koslowski argues that one could say that the economy is one of the determinants of our fate. In this sense the chapter addresses the close relationship between ethics and economics.

Hans Joas, pragmatic sociologist, Universities of Erfurt and Chicago, goes on to discuss problems of “Value Generalization – Limitations and Possibilities of a Communication about Values”.

His contribution is an attempt to demonstrate that the concept of “value generalization” is of considerable importance for moral philosophy and therefore hopefully also for those interested in business and economic ethics. The importance of this concept lies in its relevance for what one could call “the logic of a communication about values”. This logic is different from the structure of rational-argumentative discourse in a strict sense, but also far from a mere clash of values or identities or civilizations or any form of irrationalist decisionism, as if ultimate values could only be chosen in an existential way without any reasoning and intersubjective plausibility.

Niels Kærgård, Professor of Economics, Copenhagen University, discusses in his chapter “Corporate Social Responsibility, Economic Optimality and the Interests of the Poor” how the market economy is based on the actions of selfish agents. If the relevant rules are established by government, the price mechanism gives the profit-maximizing firm incentives to do what is optimal for the society. This means that it is far from obvious that altruistic action is more socially responsible than profit maximizing. Therefore Kærgård is rather critical of the social responsibility movement because he argues that social responsibility and other ethical arguments can often be used to legitimate economically and socially suboptimal actions. Profound analysis of the consequences is normally better for everybody than imprecise positive intentions.

Maria Bonnafous-Boucher, Director of Research, National Chamber of Commerce, Paris, has given her chapter the title “Stakeholders, Corporate Social Responsibility and Global Markets”. She looks at how power is displaced and how principles are deconstructed. The sudden emergence of Corporate social responsibility (CSR) and social stakeholder theory (STH) 20 or so years ago – and its growing influence since then – has occurred in a very specific context characterized by the displacement of sovereignties and, consequently, of powers. This displacement deconstructs the foundations and principles of political philosophy: from the conception of the public good to perceptions of sovereignty

and how it is exercised. It would be hard to imagine CSR without taking these important changes into account.

Christoph Luetge, Peter Loescher Professor of Business Ethics, Technische Universität München, takes the concept of economics ethics as the basis of business ethics in his chapter “Economics and Ethics: How to Combine Ethics and Self-Interest”. The starting point is that the economy plays a dominant role in the global society. After the downfall of communism, a globalized market has emerged that extends across nearly all countries and regions. However, in theoretical discussions as well as in public opinion, the role of the economy is often in doubt. This is especially the case in ethics: on the one hand, there are those who see the capitalist market economy as the key to the promotion of ethical ideals like peace and prosperity. On the other hand, there are many others who believe the same market economy to be a major threat to national and international solidarity, to cultural pluralism and to a sense of community. Who is right?

Jacob Dahl Rendtorff, Roskilde University, the editor of this anthology, proposes in his chapter “Business Ethics between Politics, Ethics and Economics” to address the relation between business ethics and market institutions. He investigates how the problem of the relation between ethics, economics and market institutions in business concerns the concept of economic action and the role of ethical responsibility in economics. The debate about market institutions, economic rationality and political philosophy depends on the problem of whether there can be something like a common good or social justice for all members of society. From the standpoint of mainstream economics we can say that this problem is a problem of how to deal efficiently with limited resources. In this sense we may argue that neoclassical economic theory is a system of thought that seeks to deal rationally with the problem of sacrifice, that is, the problem of who, how or what society should sacrifice in order to seek optimal and efficient use of resources. With the separation of economics from political philosophy, economics has become the rational use of resources based on the principles of the rational profit maximizer of “homo economics” in the market institutions of individualist capitalism.

Güler Aras, Professor of Finance and Director of the Graduate School at Yildiz Technical University, Istanbul, and David Crowther, Professor of Corporate Social Responsibility at De Montfort University, propose in “Developing Durability: A Re-examination of Sustainable Corporate Social Responsibility” a new and critical understanding of the concept of sustainability. For more than 20 years the starting point for any discussion of sustainable corporate activity has been the Brundtland Report. Its concern with the effect that action taken in the present has upon the options available in the future has directly led to simplistic assumptions that sustainable development is both desirable and possible and that corporations can demonstrate sustainability merely by continuing to exist into the future. There have been various descendants of Brundtland, including the concept of the triple bottom line. This in turn has led to an assumption that addressing the

three aspects of economic, social and environmental is the epitome of corporate social responsibility. It is Aras and Crowther's argument that this notion is not just incorrect but also positively misleading through an obfuscation of the key issues surrounding such responsibility. It is therefore time to re-examine the legacy of Brundtland and to redefine what is meant by sustainable activity. In order to do this they reject the accepted term of "sustainability", preferring instead the term "durability" to emphasize the change in focus. From this Crowther and Aras argue for a rejection of the triple bottom line and a redefinition of corporate social responsibility, using alternatives developed from their own work.

Mollie Painter-Morland, Associate Professor at DePaul University, Chicago, and Associate Director of its Institute for Business and Professional Ethics, explores in "Global Principles (as)(or) Ethical Responsiveness: The Case of Sustainability Rhetoric" the possibility that, in our preference for standardizing good conduct by means of global principles, we may have lost the ethical moment itself. She will argue that ethical responsiveness occurs only in a relationship, and that losing sight of the specific relationships that inform global principles threatens the principles themselves. The questions Painter-Morland would like to pose might even be more troubling: could it be that our current use of global principles undermined and contradicted ethics as such? Or that well-intentioned global principles contain elements that are irredeemably oxymoronic? For the purposes of this chapter, she is focusing on the notion of sustainability and the global principles that have been developed and advocated around it. Painter-Morland analyses prevalent global sustainability rhetoric, and seeks to indicate that, in and of themselves, these principles do little to foster ethical responsiveness. Does this mean that such principles have to be abandoned? Not necessarily. It does, however, mean that terms associated with them constantly need to be re-evaluated, which will include an ongoing reassessment of the relational dynamics informing them. This process may be performative in nature and may include grappling with the relationship between ethics and aesthetics.

Susanne Holmström, Roskilde University investigates in the chapter "Society's Constitution and Corporate Legitimacy, or Why it Might be Unethical for Business Leaders to Think with Their Heart" the new corporate legitimacy in the relation between ethics and economics. Is the perspective of ethics sensitive to the social complexity of the changes within the legitimating notions which determine the role and responsibility of economy and business companies within contemporary society? On the scientific dimension, taking the human being as ultimate reference or endeavouring to provide organizations with human qualities may represent sociological under-complexity. On the practical dimension, catchphrases such as "managers must learn to think with their heart" may risk leaving corporate executives in the lurch, considering the immense and increasing social complexity constituting and surrounding organizations today. Instead, from a sociological perspective, the new legitimating ideals empirically expressed in the thematization of ethics and concepts such as CSR and the triple bottom line are reconstructed as reflection, the specific second-order observation mode of self-referential social

systems such as economy and companies. This reconstruction sees the changing interrelation between organization and society in relation to the societal structure and evolutionary processes. It is based mainly on Niklas Luhmann's theories which empty society of human beings as well as any teleology or content apart from the highly improbable ability to reproduce itself.

Ole Thyssen, Professor of Philosophy, Copenhagen Business School, analyses in "Hide and Seek in the Dark – on the Inherent Ambiguity of CSR" whether we can talk about an inherent ambiguity of CSR. He begins with the presupposition that, when civilizations clash, it is all about values. However, the battlefield is not only civilizations, but also organizations. In the last 30 years, values have invaded business life and created new agendas, as not only economic, but also ethical, human, social, environmental and a host of other values fight for a place in the sun.

Kirsten Marie Bovbjerg, Associate Professor, University of Aarhus, discusses in the chapter "'Ethics of Sensitivity' – Towards a New Work Ethic: New Age in Business Life" how courses in personal development and staff recruitment have become the site of a remarkable alliance between modern working life and new religious practice. Many of the methods and philosophy for developing the Self in work-life have their origin in modern religious, New Age thoughts such as Zen Buddhism, Landmark, neurolinguistic programming (NLP) and meditation techniques. How do religious methods give meaning in business life? Approaching this question about religious practice in modern business life, the work of Max Weber seems to be an obvious starting point. In his famous work on the rise of a protestant ethic in the early phase of modern capitalism as we know it in the West, Weber put attention on the fact that, in particular, the new protestant ethic and the protestant idea of salvation had an important influence on the development of a new economic behaviour and attitude towards work. The trend towards personal development shows an increasing interest in other aspects of an employee's competence than his professional qualifications. Courses in personal development often have a therapeutic dimension, deliberately intended to change people's behaviour or self-perception by a particular method. In her research, Kirsten Marie Bovbjerg has focused on the relationship between New Age and modern management and the development of a new work ethic based on sensitivity. From a critical perspective she has examined the use of personal development courses in business in recent decades and the increasing interest in the cultivation of the Self and how this trend has found expression in New Age as well as in modern management.

Karin Buhmann, Associate Professor at the University of Copenhagen, has a legal perspective on corporate social responsibility. In the chapter "Public-Private Development of CSR on the International Stage: Reflexivity and Legitimacy" she maintains that corporate social responsibility should only be understood as being beyond the law. Based on observations of developments on CSR and business responsibilities for human rights, this chapter argues that there is a closer relationship between CSR and law than is often recognized. Drawing in