BUSINESS ETHICS
MGT-610

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LESSON 01
INTRODUCTION

Let's begins with a case study of Merck and Company, discussing how they dealt with the problem of developing a drug that was potentially life-saving but which presented them with little, if any, chance of earning a return on their investment.

The drug was Ivermectin, one of their best-selling animal drugs. The potential market for the drug was those suffering from river blindness an agonizing disease afflicting about 18 million impoverished individuals in Africa and Latin America. The disease is particularly horrendous: worms as long as two feet curl up in nodules under an infected person's skin, slowly sending out offspring that cause intense itching, lesions, blindness, and ultimately death (though many sufferers actually commit suicide before the final stage of the disease).

The need for the drug was clear. However, the victims of river blindness are almost exclusively poor. It seemed unlikely that Merck would ever recoup the estimated $100 million it would cost to develop the human version of the drug. Moreover, if there proved to be adverse human side effects, this might affect sales of the very profitable animal version that were $300 million of Merck's $2 billion annual sales. Finally, Congress was getting ready to pass the Drug Regulation Act, which would intensify competition in the drug industry by allowing competitors to more quickly copy and market drugs originally developed by other companies.

Questions: Was Merck morally obligated to develop this drug?

Their managers felt, ultimately, that they were. They even went so far as to give the drug away for free. This story seems to run counter to the assumption that, given the choice between profits and ethics, companies will always choose the former. The choice, however, may not be as clear-cut as this dichotomy suggests. Some have suggested that, in the long run, Merck will benefit from this act of kindness just as they are currently benefiting from a similar situation in Japan.

Even so, most companies would probably not invest in an R & D project that promises no profit. And some companies often engage in outright unethical behavior. Still, habitually engaging in such behavior is not a good long-term business strategy, and it is the view of this book that, though unethical behavior sometimes pays off, ethical behavior is better in the long run.

A more basic problem is the fact that the ethical choice is not always clear. Merck, as a for-profit corporation, has responsibilities to its shareholders to make a profit. Companies that spend all their funds on unprofitable ventures will find themselves out of business.
This book takes the view that ethical behavior is the best long-term business strategy for a company—a view that has become increasingly accepted during the last few years. This does not mean that occasions never arise when doing what is ethical will prove costly to a company. Such occasions are common in the life of a company, and we will see many examples in this book. Nor does it mean that ethical behavior is always rewarded or that unethical behavior is always punished. On the contrary, unethical behavior sometimes pays off, and the good guy sometimes loses. To say that ethical behavior is the best long-range business strategy means merely that, over the long run and for the most part, ethical behavior can give a company significant competitive advantages over companies that are not ethical. The example of Merck and Company suggests this view, and a bit of reflection over how we, as consumers and employees, respond to companies that behave unethically supports it. Later we see what more

can be said for or against the view that ethical behavior is the best long-term business strategy for a company.

This text aims to clarify the ethical issues that managers of modern business organizations must face. This does not mean that it is designed to give moral advice to people in business nor that it is aimed at persuading people to act in certain moral ways. The main purpose of the text is to provide a deeper knowledge of the nature of ethical principles and concepts and an understanding of how these apply to the ethical problems encountered in business. This type of knowledge and understanding should help managers more clearly see their way through the ethical uncertainties that confront them in their business lives—uncertainties such as those faced by the managers of Merck.

Business Issues

According to the dictionary, the term *ethics* has a variety of different meanings. One of its meanings is: "the principles of conduct governing an individual or a group". We sometimes use the term *personal ethics,* for example, when referring to the rules by which an individual lives his or her personal life. We use the term *accounting ethics* when referring to the code that guides the professional conduct of accountants.

A second—and more important—meaning of *ethics,* according to the dictionary, is: Ethics is "the study of morality." Ethicists use the term *ethics* to refer primarily to the study of morality, just as chemists use the term *chemistry* to refer to a study of the properties of chemical substances. Although ethics deals with morality, it is not quite the same as morality. Ethics is a kind of investigation—and includes both the activity of investigating as well as the results of that investigation—whereas morality is the subject matter that ethics investigates.

Morality

So what, then, is morality? We can define *morality* as the standards that an individual or a group has about what is right and wrong, or good and evil. To clarify what this means, let us consider a concrete case.

Several years ago, B.F. Goodrich, a manufacturer of vehicle parts, won a military contract to design, test, and manufacture aircraft brakes for the A7D, a new airplane the Air Force was designing. Kermit Vandivier was presented with a moral quandary: he knew that Goodrich was producing brakes for the U.S. government that were likely to fail, but was required by his superiors to report that the brake passed the necessary tests. His choice was to write the false report and go against his ethical principles, or be fired and suffer the economic consequences.

He chose the former, even though his moral standards were in conflict with his actions. Such standards include the norms we have about the kinds of actions we believe are right and wrong, such as "always tell the truth." As Vandivier shows, we do not always live up to our standards.

In this B.F Goodrich case, Vandivier's beliefs that it is right to tell the truth and wrong to endanger the lives of others, and his beliefs that integrity is good and dishonesty is bad, are examples of moral standards that he held. Moral standards include the norms we have about the kinds of actions we believe are morally right and wrong as well as the values we place on the kinds of objects we believe are morally good and morally band. Moral norms can usually be expressed as general rules or statements, such as "Always tell the truth," "It is wrong to kill innocent people," or "Actions are right to the extent that they produce happiness." Moral values

can usually be expressed as statements describing objects or features of objects that have wroth, such as, "Honesty is good" and "Injustice is bad."

Where do these standards come from? Typically a person's moral standards are first absorbed as child from family, friends, and various societal influences such as church, school, television, magazines, music, and associations. Later, as the person grows up, experience, learning, and intellectual development may lead the maturing person to revise these standards. Some are discarded, and new ones may be adopted to replace them. Hopefully, through this maturing process, the person will develop standards that are more intellectually adequate and so more suited for dealing with the moral dilemmas of adult life. As Vandivier's own statements make clear, however, we do not always live up to the moral standards we hold; that is, we do not always do what we believe is morally right nor do we always pursue what we believe is morally good.

Moral standards can be contrasted with standards we hold about things that are not moral. Examples of non-moral standards include the standards of etiquette by which we judge legal right and wrong, the standards we call *the law* by which we judge legal right and wrong, the standards of language by which grammatically right and wrong, and the standards of aesthetics by which we judge good and bad art, and the athletic standards by which we judge how well a game of football or basketball is being played. In fact, whenever we make judgments about the right or wrong way to do things, or judgments about what things are good or bad, our judgments are based on standards of some kind. In Vandivier's case, we can surmise that he probably believed that reports should be written with good grammar, that getting fired form a well-paid, pleasant, and challenging job, and the laws of government are also standards, but these standards are not moral standards. As the case of Vandivier also demonstrates, we sometimes choose non-moral standards over our moral standards.

There are other types of standards as well, such as standards of etiquette, law, and language. Moral standards can be distinguished from non-moral standards using five characteristics:

1. Moral standards deal with matters that can seriously injure or benefit humans. For example, most people in American society hold moral standards against theft, rape, enslavement, murder, child abuse, assault, slander, fraud, lawbreaking, and so on.
2. Moral standards are not established or changed by authoritative bodies. The validity of moral standards rests on the adequacy of the reasons that are taken to support and justify them; so long as these reasons are adequate, the standards remain valid.
3. Moral standards, we feel, should be preferred to other values, including self-interest. This does not mean, of course, that it is always wrong to act on self-interest; it only means that it is wrong to choose self-interest over morality
4. Moral standards are based on impartial considerations. The fact that you will benefit from a lie and that I will be harmed is irrelevant to whether lying is morally wrong.
5. Moral standards are associated with special emotions and a special vocabulary (guilt, shame, remorse, etc.). The fact that you will benefit from a lie and that I will be harmed is irrelevant to whether lying is morally wrong.

Ethics is the discipline that examines one's moral standards or the moral standards of a society. It asks how these standards apply to our lives and whether these standards are reasonable or unreasonable—that is, whether they are supported by good reasons or poor ones. Therefore, a person starts to do ethics when he or she takes the moral standards absorbed from family, church, and friends and asks: What do these standards imply for the situations in which I find

myself? Do these standards really make sense? What are the reasons for or against these standards? Why should I continue to believe in them? What can be said in their favor and what can be said against them? Are they really reasonable for me to hold? Are their implications in this or that particular situation reasonable?

Ethics is the study of moral standards—the process of examining the moral standards of a person or society to determine whether these standards are reasonable or unreasonable in order to apply them to concrete situations and issues. The ultimate aim of ethics is to develop a body of moral standards that we feel are reasonable to hold—standards that we have thought about carefully and have decided are justified standards for us to accept and apply to the choices that fill our lives.
Ethics is not the only way to study morality. The social sciences—such as anthropology, sociology, and psychology—also study morality, but do so in a way that is quite different from the approach to morality that is characteristic of ethics. Although ethics is *a normative* study of ethics, the social sciences engage in *a descriptive* study of ethics.

LESSON 02

INTRODUCTION (CONTD.)

Although ethics is *a normative* study of ethics, the social sciences engage in *a descriptive* study of ethics other fields, such as the social sciences, also study ethics; but they do so descriptively, not normatively. That is, they explain the world but without reaching conclusions about whether it ought to be the way it is. Ethics itself, on the other hand, being normative, attempts to determine whether or not standards are correct.

A **normative study** is an investigation that attempts to reach normative conclusions—that is, conclusions about what things are good or bad or about what actions are right or wrong. In short, a normative study aims to discover what should be.

A **descriptive study** is one that does not try to reach any conclusions about what things are truly good or bad or right or wrong. Instead, a descriptive study attempts to describe or explain the world without reaching any conclusions about whether the world is as it should be.

Business Ethics

Business ethics is a specialized study of right and wrong. It concentrates on moral standards as they apply to business policies, institutions, and behaviors. A brief description of the nature of business institutions should clarify this.

A society consists of people who have common ends and whose activities are organized by a system of institutions designed to achieve these ends. That men, women, and children have common ends is obvious. There is the common end of establishing, nurturing, and protecting family life; producing and distributing the materials on which human life depends; restraining and regularizing the use of force; organizing the means for making collective decisions; and creating and preserving cultural values such as art, knowledge, technology, and religion. The members of a society achieve these ends by establishing the relatively fixed patterns of activity that we call *institutions:* familial, economic, legal, political, and educational.

The most influential institutions within contemporary societies may be their economic institutions. These are designed to achieve two ends:

(A) Production of the goods and services the members of society want and need.
(B) Distribution of these goods and services to the various members of society.

Thus, economic institutions determine who will carry out the work of production, how that work will be organized, what resources that work will consume, and how its products and benefits will be distributed among society's members.

Business enterprises are the primary economic institutions through which people in modern societies carry on the tasks of producing and distributing goods and services. They provide the fundamental structures within which the members of society combine their scare resources—land, labor, capital, and technology—into usable goods, and they provide the cannels through which these goods are distributed in the form of consumer products, employee salaries, investors' return, and government taxes. Mining, manufacturing, retailing, banking, marketing, transporting, insuring, constructing, and advertising are all different facets of the productive and distributive processes of our modern business institutions.

The most significant kinds of modern business enterprises are corporations: organizations that the law endows with special legal rights and powers. Today large corporate organizations dominate our economies. In 2003, General Motors, the world's largest automobile company, had revenues of $195.6 billion and employed more than 325,000 workers; Wal-Mart, the world's largest retailer, had sales of $258.7 billion and 1,400,000 employees; General Electric, the world's largest maker of electrical equipment, had sales of $134 billion and 305,000 employees; and IBM, the world's largest computer company, had revenues of $89 billion and 319,000 employees.

Modern corporations are organizations that the law treats as immortal fictitious "persons" who have the right to sue and be sued, own and sell property, and enter into contracts, all in their own name. As an organization, the modern corporation consists of (a) stockholders who contribute capital and who own the corporation but whose liability for the acts of the corporation is limited to the money they contributed, (b) directors and officers who administer the corporation's assets and who run the corporation through various levels of "middle managers," and (c) employees who provide labor and who do the basic work related directly to the production of goods and services. To cope with their complex coordination and control problems, the officers and managers of large corporations adopt formal bureaucratic systems of rules that link together the activities of the individual members of the organization so as to achieve certain outcomes or objectives. So long as the individual follows these rules, the outcome can be achieved even if the individual does not know what it is and does not care about it.

Business Ethics is a study of moral standards and how these apply to the systems and organizations through which modern societies produce and distribute goods and services, and to the people who work within these organizations. Business ethics, in other words, is a form of applied ethics. It includes not only the analysis of moral norms and moral values, but also attempts to apply the conclusions of this analysis to that assortment of institutions, technologies, transactions, activities, and pursuits that we call *Business.*

As this description of business ethics suggests, the issues that business ethics covers encompass a wide variety of topics. To introduce some order into this variety, it helps if we distinguish three different kinds of issues that business ethics investigates.

Though business ethics cover a variety of topics, there are three basic types of issues:

1. ***Systemic issues*** ─ Questions rose about the economic, political, legal, or other social systems within which businesses operate. These include questions about the morality of capitalism or of the laws, regulations, industrial structures, and social practices within which American businesses operate.
2. ***Corporate issues*** ─ Questions rose about a particular company. These include questions about the morality of the activities, policies, practices, or organizational structure of an individual company taken as a whole.
3. ***Individual issues*** ─ Questions about a particular individual within an organization and their behaviors and decisions. These include questions about the morality of the decisions, actions, or character of an individual.

LESSON 03
THEORY OF ETHICAL RELATIVISM

Some theorists maintain that moral notions apply only to individuals, not to corporations themselves. They say that it makes no sense to hold businesses "responsible" since businesses are more like machines than people. Others counter that corporations do act like individuals, having objectives and actions, which can be moral or immoral just as an individual's action might be.

In 2002, for example, the Justice Department charged the accounting firm of Arthur Andersen for obstruction of justice. Arthur Andersen was caught shredding documents showing how they helped Enron hide its debt through the use of several accounting tricks. Critics afterward claimed that the Justice Department should have charged the individual employees of Arthur Andersen, not the company, because "Companies don't commit crimes, people do."

Perhaps neither extreme view is correct. Corporate actions do depend on human individuals who should be held accountable for their actions. However, they also have policies and culture that direct individuals, and should therefore be held accountable for the effects of these corporate artifacts.

Nonetheless, it makes perfectly good sense to say that a corporate organization has moral duties and that it is morally responsible for its acts. However, organizations have moral duties and are morally responsible in a secondary sense; a corporation has a moral duty to do something only if some of its members have a moral duty to make sure it is done, and a corporation is morally responsible for something only if some of its members are morally responsible for what happened.

Virtually all of the 500 largest U.S. industrial corporations today are multinationals. Operating in more than one country at once produces a new set of ethical dilemmas. Multinationals can escape environmental regulations and labor laws by shifting to another country, for example. They can shift raw materials, goods, and capital so that they escape taxes. In addition, because they have new technologies and products that less developed countries do not, multinationals must decide when a particular country is ready to assimilate these new things. They are also faced with the different moral codes and laws of different countries. Even if a particular norm is not unethical, they must still decide between competing standards in their many operations.

Ethical relativism is the theory that, because different societies have different ethical beliefs, there is no rational way of determining whether an action is morally right or wrong other than by asking whether the people of this or that society believe it to be right or wrong by asking whether people of a particular society believe that it is. In fact, the multiplicity of moral codes demonstrates that there is no one "right" answer to ethical questions. The best a company can do is follow the old adage, "When in Rome, do as the Romans do." In other words, there are no absolute moral standards.

Cultural relativism asserts that morality varies from one culture to another, since similar practices are regarded as right in some cultures and wrong in others. However, regarding practices as right or wrong does not necessarily make them so, nor does it exclude the possibility of demonstrating that moral beliefs are mistaken. For this reason, cultural relativism does not prohibit the possibility of justification. *Ethical relativism*, on the other hand, makes the philosophical assertion that there is no standard of right or wrong apart from the morality of a culture. Whatever practices a culture holds to be right is actually right for that culture. There

is no possibility for justification because there exists no standard outside that culture. Ethical relativism results in an uncritical acceptance of all moral beliefs as equally valid.

Critics of ethical relativism point out that it is illogical to assume that because there is more than one answer to an ethical question that both answers are equally correct ─ or even that either answer is correct. They also maintain that there are more similarities than differences even among what seem to be very divergent societies.
The late Philosopher James Rachels put the matter quite succinctly:

The fact that different societies have different moral codes proves nothing. There is also disagreement from society to society about scientific matters: in some cultures it is believed that the earth is flat, and evil spirits cause disease. We do not on that account conclude that there is no truth in geography or in medicine. Instead, we conclude that in some cultures people are better informed than in others. Similarly, disagreement in ethics might signal nothing more than that some people are less enlightened than others. At the very least, the fact of disagreement does not, by itself, entail that truth does not exist.

Why should we assume that, if ethical truth exists, everyone must know it?'

However, the most telling criticisms of the theory point out that it has incoherent consequences. For example, it becomes impossible to criticize a practice of another society as long as members of that society conform to their own standards. How could we maintain that Nazi Germany or pre-Civil War Virginia were wrong if we were consistent relativists? There must be criteria other than the society's own moral standards by which we can judge actions in any particular society. Though we should not dismiss the moral beliefs of other cultures, we likewise should not conclude that all systems of morality are equally acceptable.

Finally, new technologies developed in the closing decades of the 20th century and the opening years of the 21st century are again transforming society and business and creating the potential for new ethical problems. They bring with them questions of risks, which may be unpredictable and/or irreversible. Who should decide whether the benefits of a particular technology are worth the risks? How will victims of bad technology be compensated for their loss? How will risk be distributed? How will privacy be maintained? How will property rights be protected?

LESSON 04
MORAL DEVELOPMENTS AND MORAL REASONING

Moral Developments and Moral Reasoning

This section investigates how we examine our own moral standards and apply them to concrete situations and issues. It first looks at the process of moral development itself.

We sometimes assume that a person's values are formed during childhood and do not change. In fact, a great deal of psychological research, as well as one's own personal experience, demonstrates that as people mature, they change their values in very deep and profound ways. Just as people's physical, emotional, and cognitive abilities develop as they age, so also their ability to deal with moral issues develops as they move through their lives.

Moral Reasoning & Kohlbergs' Resaech

Lawrence Kohlberg identified six stages of moral development:

Level One: Pre-conventional Stages

1. Punishment and Obedience Orientation - At this stage, the physical consequences of an act wholly determine the goodness or badness of that act. The child's reasons for doing the right thing are to avoid punishment or defer to the superior physical power of authorities. There is little awareness that others have needs similar to one's own.
2. Instrument and Relativity Orientation- At this stage, right actions become those that can serve as instruments for satisfying the child's own needs or the needs of those for whom the child cares.

At these first two stages, the child is able to respond to rules and social expectations and can apply the labels good, bad, right, and wrong. These rules, however, are seen as something externally imposed on the self. Right and wrong are interpreted in terms of the pleasant or painful consequences of actions or in terms of the physical power of those who set the rules.

Level Two: Conventional Stages

Maintaining the expectations of one's own family, peer group, or nation is now seen as valuable in its own right, regardless of the consequences.

1. Interpersonal Concordance Orientation - Good behavior at this early conventional stage is living to the expectations of those for whom one feels loyalty, affection, and trust, such as family and friends. Right action is conformity to what is generally expected in one's role as a good son, daughter, brother, friend, and so on.
2. Law and Order Orientation - Right and wrong at this more mature conventional stage now come to be determined by loyalty to one's own larger nation or surrounding society. Laws are to be upheld except where they conflict with other fixed social duties.

Level Three: Post-conventional, Autonomous, or Principled Stages

1. Social Contract Orientation - At this first post-conventional stage, the person becomes aware that people hold a variety of conflicting personal views and opinions and emphasizes fair ways of reaching consensus by agreement, contract, and due process.
2. Universal Ethical Principles Orientation - At this final stage, right action comes to be defined in terms of moral principles chosen because of their logical comprehensiveness, universality, and consistency.

At these stages, the person no longer simply accepts the values and norms of the groups to which he or she belongs. Instead, the person now tries to see situations from a point of view that impartially takes everyone's interests into account. The person questions the laws and values that society has adopted and redefines them in terms of self-chosen moral principles that can be justified in rational terms.

Kohlberg's own research found that many people remain stuck at an early stage of moral development. His structure implies that later stages are better than the earlier ones. Kohlberg has been criticized for this implication, and for not offering any argument to back it up.

Carol Gilligan (born November 28, 1936) is an American feminist, ethicist, and psychologist best known for her work with and against Lawrence Kohlberg on ethical community and ethical relationships, and certain subject-object problems in ethics. Gilligan would go on to criticize Kohlberg's work. This was based on two things. First, he only studied privileged, white men and boys. She felt that this caused a biased opinion against women. Secondly, in his stage theory of moral development, the male view of individual rights and rules was considered a higher stage than women's point of view of development in terms of its caring effect on human relationships.

Women were taught to care for other people and expect others to care for them. She helped to form a new psychology for women by listening to them and rethinking the meaning of self and selfishness. She asked four questions about women's voices: who is speaking, in what body, telling what story, and in what cultural framework is the story presented?

She outlines three stages of moral development progressing from selfish, to social or conventional morality, and finally to post conventional or principled morality. Women must learn to tend to their own interests and to the interests of others. She thinks that women hesitate to judge because they see the complexities of relationships.

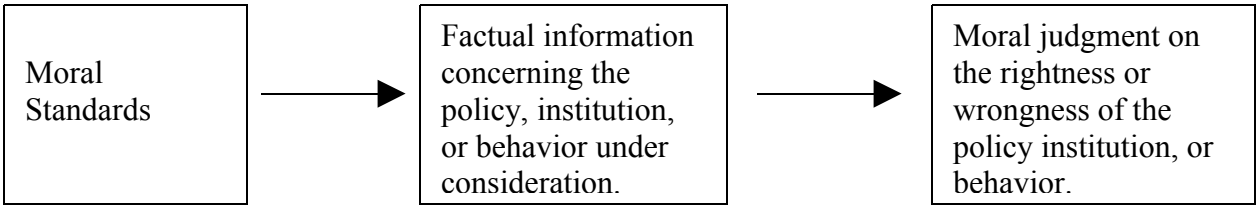
Gilligan proposes a stage theory of moral development for women. If you know anything about developmental psychology, you know stage theories are important. But in fact there are alternatives to stage theories that we will not cover in this class. Much of the research in current developmental psychology is not focused on stages, and does not assume their primacy in explaining developmental progress. Instead, many developmental psychologists look carefully at how some particular skill (e.g. drawing, abstract thinking, thinking about other people, making excuses, helping others) develops over time. Much of this research suggests that the stage theories are too simplistic in their picture of changes in skills, attributes, and competencies over time.

Both Gilligan and Kohlberg agree that there are stages of growth in moral development, moving from a focus on the self through conventional stages and onto a mature stage where we critically and reflectively examine the adequacy of our moral standards. Therefore, one of the central aims of ethics is the stimulation of this moral development by discussing, analyzing, and criticizing the moral reasoning that we and others do, finding one set of principles "better" when it has been examined and found to have better and stronger reasons supporting it.

LESSON 05
MORAL REASONING

Moral reasoning itself has two essential components: an understanding of what reasonable moral standards require, and evidence or information concerning whether a particular policy, person, institution, or behavior has the features of these moral standards. People often fail to make their moral standards explicit when they make a moral judgment, mainly because they assume them to be obvious. This assumption is not always true, however; often we must retrace a person's moral reasoning to deduce what their moral standards are. Of course, it is not always easy to separate factual information from moral standards.

Moral reasoning refers to the reasoning process by which human behaviors, institutions, or policies are judged to be in accordance with or in violation of moral standards. Moral reasoning always involves two essential components: (a) an understanding of what reasonable moral standards require, prohibit, value, or condemn; and (b) evidence or information that shows that a particular person, policy, institution, or behavior has the kinds of features that these moral standards require, prohibit, value, or condemn. Here is an illustration of moral reasoning whose author is offering us his reasons for claiming that American social institutions are unjust.



Example: "A society is Unjust if it does not treat Minorities equal to whites."

Example: "In American society, 41% of Negroes fall Below the poverty line as Compared with 12% whites.

Example: "American society is unjust."

To evaluate the adequacy of moral reasoning, ethicists employ three main criteria:

1. Moral reasoning *must be logical*. The analysis of moral reasoning requires that the logic of the arguments used to establish a moral judgment be rigorously examined, all the unspoken moral and factual assumption be made explicit, and both assumptions and premises be displayed and subjected to criticism.

2. Factual evidence *must be accurate, relevant, and complete*. For example, the illustration of moral reasoning quoted cites several statistics ("Whereas Negroes make up 11 percent of nation's work force, they have but 6 percent of the nation's technical and professional jobs") and relationship ("The non white contribute cheap labor which enables others to live disproportionately well") that apparently exist in America. If the moral reasoning is to be adequate these statistics and relationships must be *accurate.* In addition, evidence must be *relevant:* it must show that the behavior, policy, or institution being judged has precisely those characteristics that are proscribed by the moral standards involved. Evidence must be *complete:* it must take into account all relevant information and must not selectively advert only to the evidence that tends to support a single point of view.

3. Moral standards *must be consistent*. They must be consistent with each other and with the other standards and beliefs the person holds. Inconsistency between a person's

moral standards can be uncovered by examining situations in which these moral standards require incompatible things.

Consistency refers not only to the fact that one's standards must be able to coexist with each other, but also to the requirement that one must be willing to accept the consequences of applying one's moral standards consistently to others in similar circumstances. The consistency requirement is, in fact, the basis of an important critical method in ethics: the use of counterexamples and hypothetical examples.

This consistency requirement can be phrased as follows:

If I judge that a certain person is morally justified (or unjustified) in doing A in circumstance C, then I must accept that it is morally justified (or unjustified) for any other person:

(a)To perform any act relevantly similar to A

(b)In any circumstances relevantly similar to C.

Arguments For and Against Business Ethics

Some people object to the entire notion that ethical standards should be brought into business organizations. They make three general objections.

First, they argue that the pursuit of profit in perfectly competitive free markets will, by itself, ensure that the members of a society are served in the most socially beneficial ways. Of course, the assumption that industrial markets are perfectly competitive is highly suspect. Even more, there are several ways of increasing profits that will actually harm society. Producing what the buying public wants may not be the same as producing what the entirety of society needs. The argument is essentially making a normative judgment on the basis of some assumed but unproved moral standards ("people should do whatever will benefit those who participate in markets"). Thus, although the argument tries to show that ethics does not matter, it can do this only by assuming an unproved moral standard that at least appears mistaken.

Second, they claim that employees, as "loyal agents," are obligated to serve their employers single-mindedly, in whatever ways will advance the employer's self-interest.

As a loyal agent of his or her employer, the manager has a duty to serve his or her employer as the employer would want to be served (if the employer had the agent's expertise). An employer would want to be served in whatever ways will advance his or her self-interests.

Therefore, as a loyal agent of his or her employer, the manager has a duty to serve his or her employer in whatever ways will advance the employer's self-interests.

But this argument itself rests on an unproven moral standard that the employee has a duty to serve his or her employer and there is no reason to assume that this standard is acceptable. An agent's duties are defined by what is called the law of agency, (i.e., the law that specifies the duties of persons [agents] who agree to act on behalf of another party and who are authorized by the agreement so to act). Also, agreements to serve another do not automatically justify doing wrong on another's behalf.

Third, they say that obeying the law is sufficient for businesses and that business ethics is, essentially, nothing more than obeying the law. However, the law and morality do not always coincide (again, slavery and Nazi Germany are relevant examples). Some laws have nothing to do with morality because they do not involve serious matters. These include parking laws, dress codes, and other laws covering similar matters. Other laws may even violate our moral standards so that they are actually contrary to morality.

Thus, none of the arguments for keeping ethics out of business seems forceful. In contrast, there are fairly strong arguments for bringing ethics into business.

One argument points out that since ethics should govern all human activity, there is no reason to exempt business activity from ethical scrutiny. Business is a cooperative activity whose very existence requires ethical behavior. Another more developed argument points out that no activity, business included, could be carried out in an ethical vacuum.

One interesting argument actually claims that ethical considerations are consistent with business activities such as the pursuit of profit. Indeed, the argument claims that ethical companies are more profitable than other companies. The data is mixed on this question, but even though it cannot demonstrate that ethical behavior is always more profitable, it does clearly show that it is *not* a drag on profits.

LESSON 06
MORAL RESPONSIBILITY AND BLAME

Moral Responsibility and Blame

Moral responsibility is directed not only at judgments concerning right or wrong. Sometimes, they are directed at determining whether a person or organization is morally responsible for having done something wrong. People are not always responsible for their wrongful or injurious acts: moral responsibility is incurred only when a person knowingly and freely acts in an immoral way or fails to act in a moral way.

A judgment about a person's moral responsibility for a wrongful injury is a judgment about the extent to which the person deserves blame or punishment, or should pay restitution for the injury. For example, if an employer deliberately injures the heath of her employees, we would judge the employer morally responsible for those injuries. We are then saying the employer is to blame for those injuries and perhaps deserves punishment and should compensate the victims.

It is important not to confuse this meaning of *moral responsibility*

Ignorance and inability to do otherwise are two conditions, called *excusing conditions,* that completely eliminate a person's moral responsibility for causing wrongful injury. Ignorance and inability do not always excuse a person, however. When one deliberately keeps oneself ignorant to escape responsibility, that ignorance does not excuse the wrongful injury. A person is morally responsible for an injury or a wrong if:

1. The person caused or helped cause it, or failed to prevent it when he could and should have;
2. The person did so knowing what he or she was doing;
3. The person did so of his own free will.

Ignorance may concern the relevant facts or the relevant moral standards. Generally, ignorance of the facts eliminates moral responsibility. This is because moral responsibility requires freedom, which is impossible in the case of ignorance of the relevant facts. Inability eliminates responsibility because a person cannot have a moral obligation to do something over which he or she has no control. A person is NOT morally responsible for an injury or a wrong if:

1. The person did not cause and could not prevent the injury or wrong;
2. The person did not know he was inflicting the injury or the wrong;
3. The person did not inflict the injury or the wrong of his own free will;

In addition to the excusing conditions, there are also three mitigating factors that diminish moral responsibility. They are:

1. Circumstances that leave a person uncertain (but not unsure) about what he or she is doing;
2. Circumstances that make it difficult (but not impossible) for the person to avoid doing it;
3. Circumstances that minimize (but do not remove) a person's involvement in an act.

The extents to which these mitigating circumstances can diminish an agent's responsibility depend on the seriousness of the injury. Generally, the more serious the injury, the less the mitigating circumstances will diminish responsibility.

We begin with a discussion of apartheid-era South Africa and Caltex, an American oil company operating in South Africa during that time. A large number of Caltex stockholders opposed the company's operations in South Africa, and introduced a series of shareholder resolutions requiring Caltex to leave South Africa, which they saw as racist and immoral. Caltex's management did not agree. Rather than focusing on the financial assistance they were giving the South African government, they pointed to the positive effects their operations had on black workers.

South African leaders, such as Archbishop Desmond Tutu, were not convinced by Caltex's arguments. He supported the shareholder resolutions, saying that comfort under an immoral regime was not preferable to freedom, even at the cost of economic hardship.

The point of this example is to show how a real moral debate in business works. The arguments on both sides appealed to moral considerations and four basic types of moral standards: utilitarianism, rights, justice, and caring. The shareholders' argument referred to the unjust policies of the apartheid government and the fact that these policies violated the civil rights of black citizens. On the other side, Caltex's management made utilitarian arguments and arguments about caring: it was in blacks' best interests to have Caltex jobs, and Caltex had a duty to take care of these workers as best it could. In addition, both sides refer to the moral character of the groups involved, basing these distinctions on what is called the ethic of virtue.

The following sections of this chapter explain each of these approaches, identifying their strengths and weaknesses and showing how they can be used to clarify the moral issues we confront in business.

Utilitarianism: Weighing Social Costs and Benefits

Utilitarianism (or consequentialism) characterizes the moral approach taken by Caltex's management. Another example, Ford and its infamous Pinto, demonstrates just how closely the weighing of costs and benefits can be done.

Ford knew that the Pinto would explode when rear-ended at only 20 mph, but they also knew that it would cost $137 million to fix the problem. Since they would only have to pay $49 million in damages to injured victims and the families of those who died, they calculated that it was not right to spend the money to fix the cars when society set such a low price on the lives and health of the victims. The kind of analysis that Ford managers used in their cost-benefit study is a version of what has been traditionally called *utilitarianism*. **Utilitarianism** is a general term for any view that holds that actions and policies should be evaluated on the basis of the benefits and costs they will impose on society. In any situation, the "right" action or policy is the one that will produce the greatest net benefits or the lowest net costs (when all alternatives have only net costs).

Many businesses rely on such utilitarian cost-benefit analyses, and maintain that the socially responsible course to take is the utilitarian one with the lowest net costs.

Jeremy Bentham founded traditional utilitarianism. His version of the theory assumes that we can measure and add the quantities of benefits produced by an action and subtract the measured quantities of harm it will cause, allowing us to determine which action has the most benefits or lowest total costs and is therefore moral. The utility Bentham had in mind was not the greatest benefit for the person taking the action, but rather the greatest benefit for all involved. For

Bentham:

> "An action is right from an ethical point of view if and only if the sum total of utilities produced by that act is greater than the sum total of utilities produced by any other act the agent could have performed in its place."

Also, it is important to note that only one action can have the lowest net costs and greatest net benefits.

To determine what the moral thing to do on any particular occasion might be, there are three considerations to follow:

1. You must determine what alternative actions are available.
2. You must estimate the direct and indirect costs and benefits the action would produce for all involved in the foreseeable future.
3. You must choose the alternative that produces the greatest sum total of utility.

Utilitarianism is attractive to many because it matches the views we tend to hold when discussing governmental policies and public goods. Most people agree, for example, that when the government is trying to determine on which public projects it should spend tax monies, the proper course of action would be for it to adopt those projects that objective studies show will provide the greatest benefits for the members of society at the least cost. It also fits in with the intuitive criteria that many employ when discussing moral conduct. Utilitarianism can explain why we hold certain types of activities, such as lying, to be immoral: it is so because of the costly effects it has in the long run. However, traditional utilitarian's would deny that an action of a certain kind is always either right or wrong. Instead, each action would have to be weighed given its particular circumstances. Utilitarian views have also been highly influential in economics. A long line of economists, beginning in the 19th century, argued that economic behavior could be explained by assuming that human beings always attempt to maximize their utility and that the utilities of commodities can be measured by the prices people are willing to pay for them.

Utilitarianism is also the basis of the techniques of economic **cost–benefit analysis.** This type of analysis is used to determine the desirability of investing in a project (such as a dam, factory, or public park) by figuring whether its present and future economic benefits outweigh its present and future economic costs. To calculate these costs and benefits, discounted monetary prices are estimated for all the effects the project will have on the present and future environment and on present and future populations. Finally, we can note that utilitarianism fits nicely with a value that many people prize: efficiency. **Efficiency** can mean different things to different people, but for many it means operating in such a way that one produces the most one can with the resources at hand.

LESSON 07
UTILITARIANISM

Utilitarianism: Weighing Social Costs and Benefits

Utilitarianism is a powerful and widely accepted ethical theory that has special relevance to problems in business. It provides a fairly straightforward decision-making process to assist in determining the best course of action in many situations. Its application involves developing a list of available alternatives, following the consequences of each as far into the future as possible, and selecting the alternative with the greatest balance of benefits over harms for everyone. Chapter 2 also introduces the distinction between teleological and deontological theories and explores the strengths and weakness of both kinds of theories for the purposes of business ethics.

Classical Utilitarianism

Different parts of the utilitarian doctrine were advanced by ancient Greek philosophers, but it wasn't until the early nineteenth century that two English reformers fashioned the various utilitarian pieces into a coherent whole. These two philosophers were Jeremy Bentham (1748-1832) and John Stuart Mill (1806-1873). Bentham's utilitarianism approves of actions that augment and disapproves of actions that diminish the happiness of the party in question. He measured this amount of pleasure or pain by a hedonistic calculus that considers such factors as intensity, duration, likelihood of occurrence, and proximity in time. According to Bentham, if this process is repeated for all individuals, the resulting sums will show the good or bad tendency of an action for an entire community. However, critics charge that his conception of pleasure is too crude to constitute the sole good for human beings. Mill modified Bentham's utilitarianism by proposing that actions are right inasmuch as they promote happiness and wrong inasmuch as they promote the opposite of happiness, where happiness is pleasure and the absence of pain. In addition, he stipulated that pleasures differ in their quality, so that humans enjoy higher pleasures than animals. One can argue that Mill saves hedonism from the charge of crudeness because the higher pleasures enjoyed by a few with elevated tastes are unlikely to outweigh the total sum of the base pleasures enjoyed by most. Mill gives us no guidance for comparing the quality with the quantity of pleasure. However, in other writings Mill seems to claim that the development of our critical faculties and the capacity for autonomous action are ends in themselves. For Bentham:

> "An action is right from an ethical point of view if and only if the sum total of utilities produced by that act is greater than the sum total of utilities produced by any other act the agent could have performed in its place."

Cost-Benefit Analysis

Bentham's idea of a precise quantitative method for decision making is most fully realized in a cost-benefit analysis. In cost-benefit analysis, monetary units are used to express the benefits and drawbacks of various alternatives in a decision -making process. The chief advantage of cost-benefit analysis is that the prices of many goods are set by the market, which eliminates the need to have knowledge of people's pleasures or preference rankings. Because of its narrow focus on economic efficiency in the allocation of resources, cost-benefit analysis is not commonly used as a basis for personal morality. In addition, it cannot determine such moral questions as the rights of consumers in matters of product safety or environmental protection but can be used only to determine appropriate levels of both product safety and environmental

protection. A distinction can be made between *cost-benefit analysis*, which is used to select both the means to an end and the end itself, and *cost-effectiveness analysis*, which assumes that we already have some agreed-upon end, and the only question regards the most efficient means of achieving it.

The problems of assigning monetary values

Not all costs and benefits have an easily determined monetary value; examples include the enjoyment of family and friends, peace and quiet, police protection, and freedom from the risk of injury and death. Moreover, the market price of a good does not always correspond to its *opportunity cost*. For example, the fact that a yacht costs more than a college education does not mean that consumers value yachts more highly than education. One can attempt to overcome these problems through *shadow pricing*. This approach enables a value to be placed on goods that reflects people's market and non-market behavior. For example, by comparing the prices of houses near airports with the prices of similar houses elsewhere, it is possible to infer the value that people place on peace and quiet. But there are limitations. Someone who buys a house near an airport may be unable to afford comparable housing elsewhere or simply may not mind the noise.

Should all things be assigned a monetary value?

Some argue that placing a dollar value on certain goods actually lessens their perceived value, since they are valued precisely because they *cannot* be bought or sold. Friendship, love, and life itself are examples of such goods. Such arguments are beside the point, because cost-benefit analysis requires that a value be placed on goods only for the purposes of calculation.

Other values in cost-benefit analysis

Though cost-benefit analysis purports to be value-free, critics claim that it is heavily value-laden because analysts cannot entirely disengage their own values from the analysis. Before such an investigation begins, the analyst must make several value-laden decisions, including:

1. The range of alternatives to be considered in the analysis.
2. What constitutes a cost and a benefit as well as whose values determine this.
3. What counts as a consequence of a particular act.
4. The number of "spillover effects" or externalities that are included.
5. The distance into the future that the consequences are calculated.

In the end, we must remember that cost-benefit analysis is only as good as the analyst who performs it and that this method is not intended to be the sole means for arriving at important decisions we make as a society.

Also, it is important to note that only one action can have the lowest net costs and greatest net benefits.

To determine what the moral thing to do on any particular occasion might be, there are three considerations to follow:

1. You must determine what alternative actions are available.
2. You must estimate the direct and indirect costs and benefits the action would produce for all involved in the foreseeable future.
3. You must choose the alternative that produces the greatest sum total of utility.

Utilitarianism is attractive to many because it matches the views we tend to hold when discussing governmental policies and public goods. Most people agree, for example, that when the government is trying to determine on which public projects it should spend tax monies, the proper course of action would be for it to adopt those projects that objective studies show will provide the greatest benefits for the members of society at the least cost. It also fits in with the intuitive criteria that many employ when discussing moral conduct. Utilitarianism can explain why we hold certain types of activities, such as lying, to be immoral: it is so because of the costly effects it has in the long run. However, traditional utilitarians would deny that an action of a certain kind is always either right or wrong. Instead, each action would have to be weighed given its particular circumstances. Utilitarian views have also been highly influential in economics. A long line of economists, beginning in the 19th century, argued that economic behavior could be explained by assuming that human beings always attempt to maximize their utility and that the utilities of commodities can be measured by the prices people are willing to pay for them.

Utilitarianism is also the basis of the techniques of economic **cost–benefit analysis.** This type of analysis is used to determine the desirability of investing in a project (such as a dam, factory, or public park) by figuring whether its present and future economic benefits outweigh its present and future economic costs. To calculate these costs and benefits, discounted monetary prices are estimated for all the effects the project will have on the present and future environment and on present and future populations. Finally, we can note that utilitarianism fits nicely with a value that many people prize: efficiency. **Efficiency** can mean different things to different people, but for many it means operating in such a way that one produces the most one can with the resources at hand.

Though utilitarianism offers a superficially clear-cut method of calculating the morality of actions, it relies upon accurate measurement, and this can be problematic. There are five major problems with the utilitarian reliance on measurement:

1. Comparative measures of the values things have for different people cannot be made-we cannot get into each others' skins to measure the pleasure or pain caused.
2. Some benefits and costs are impossible to measure. How much is a human life worth, for example?
3. The potential benefits and costs of an action cannot always be reliably predicted, so they are also not adequately measurable.

LESSON 08

UTILITARIANISM (CONTD.)

4. Comparative measures of the values things have for different people cannot be made-we cannot get into each others' skins to measure the pleasure or pain caused.
5. Some benefits and costs are impossible to measure. How much is a human life worth, for example?
6. The potential benefits and costs of an action cannot always be reliably predicted, so they are also not adequately measurable.
7. It is unclear exactly what counts as a benefit or a cost. People see these things in different ways.
8. Utilitarian measurement implies that all goods can be traded for equivalents of each other. However, not everything has a monetary equivalent.

The critics of utilitarianism contend that these measurement problems undercut whatever claims utilitarian theory makes towards providing an objective basis for determining normative issues. These problems have become especially obvious in debates over the feasibility of corporate social audits.

Utilitarian defend their approach against the objections raised by these problems by saying that though ideally they would like accurate measurements of everything, they know that this is largely impossible. Therefore, when measurements are difficult or impossible to obtain, shared or common-sense judgments of comparative value are sufficient.

There are two widely used common-sense criteria. One relies on the distinction between **intrinsic goods** and **instrumental goods**. Intrinsic goods are things that are desired for their own sake, such as health and life. These goods always take precedence over instrumental goods, which are things that are good because they help to bring about an intrinsic good. The other common-sense criterion depends on the distinction between needs and wants. Goods that bring about needs are more important than those that bring about wants. However, these methods are intended to be used only when quantitative methods fail.

The most flexible method is to measure actions and goods in terms of their monetary equivalents. If someone is willing to pay twice as much for one good than for another, we can assume that the former is twice as valuable for that person. Many people are made uncomfortable by the notion that health and life must be assigned a monetary value. Utilitarian point out that we do so every day, however, by paying for some safety measures but not for those measures that are considered more expensive.

The major difficulty with utilitarianism, according to some critics, is that it is unable to deal with two kinds of moral issues: those relating to rights and those relating to justice. If people have rights to life, health, and other basic needs, and if there is such a thing as justice that does not depend on mere utility, then utilitarianism does not provide a complete picture of morality. Utilitarianism can also go wrong, according to the critics, when it is applied to situations that involve social justice. Utilitarianism looks only at how much utility is produced in a society and fails to take into account how that utility is distributed among the members of society.

Largely in response to these concerns, utilitarians have devised an alternative version, called **rule utilitarianism**. In this version, instead of looking at individual acts to see whether they produce more pleasure than the alternatives, one looks only at moral rules at actions of a

particular type. If actions of a kind tend to produce more pleasure or have lower costs, then they are the moral types of actions. Just because an action produces more utility on one occasion does not show it is right ethically.

Rule utilitarianism may not completely answer all of the objections raised by critics of utilitarianism. A rule may generally produce more utility and still be unjust: consider rules that would allow a large majority to take unfair advantage of a smaller minority.

The theory of the rule utilitarian, then, has two parts, which we can summarize in the following two principles:

1. An action is right from an ethical point of view if and only if the action would be required by those moral rules that are correct.
2. A moral rule is correct if and only if the sum total of utilities produced if everyone were to follow that rule is greater than the sum total utilities produced if everyone were to follow some alternative rule.

Thus, according to the rule-utilitarian, the fact that a certain action would maximize utility on one particular occasion does not show that it is right from an ethical point of view.

Thus, the two major limits to utilitarianism difficulties of measurement and the inability to deal with rights and justice remain, though the extent to which they limit utilitarian morality is not clear.

Rights

A person has a *right* when that person is entitled to act in a certain way or is entitled to have others act in a certain way toward him or her. The "right to work", many argue, is a right that all human beings possess. Such rights, which are called *moral rights* or *human rights*, are based on moral norms and principles that specify that all human beings are permitted or empowered to do something or are entitled to have something done for them. Moral rights, unlike legal rights, are usually thought of as being universal insofar as they are rights that all human beings of every nationality possess to an equal extent simply by virtue of being human beings.

The most important moral rights are rights that *impose prohibitions or requirements* on others and which thereby enable individuals to choose freely whether to pursue certain interests or activities. Moral rights are tightly correlated with duties. My moral right to worship as I choose, for example, can be defined in terms of the moral duties other people have to not interfere in my chosen form of worship. *Duties, then, are generally the other side of moral rights*. Moral rights impose correlative duties on others, either duties of non-interference or duties of positive performance.

Moral rights provide individuals with autonomy and equality in the free pursuit of their interests. The gains of others do not generally justify interference with a person's pursuit of an interest or an activity when that pursuit is protected by a moral right. Moral rights provide a basis for justifying one's actions and for invoking the protection or aid of others.

Negative and Positive Rights

Negative rights are distinguished by the fact that its members can be defined only in terms of the duties others have to not interfere in certain activities of the person who holds a given right.

Positive rights are all rights that go beyond non-interference to also impose a positive duty of providing people with something when they are unable to provide it for themselves.

Positive rights, as we know them today, were not emphasized until the 20th-century. Positive rights became important in the 20th century when society increasingly took it on itself to provide its members with the necessities of life that they were unable to provide for themselves. Much of the debate over moral rights has concentrated on whether negative or positive rights should be given priority. "Conservative" writers, have claimed that government efforts should be limited to enforcing negative rights and not expended on providing positive rights. "Liberal" authors hold that positive rights have as strong a claim to being honored as negative rights and that, consequently, government has a duty to provide both.

Privacy is an example of a negative right; the rights to food, life, and health care are positive. In general, more liberal theorists hold that society should guarantee positive as well as negative rights; conservatives wish to limit government to enforcing negative rights. Positive rights were not emphasized until the 20th century. Negative rights were often employed in the 17th and 18th centuries by writers of manifestos (such as the Declaration of Independence and the Bill of Rights), who were anxious to protect individuals against the encroachments of monarchical governments. Positive rights became important in the 20th century when society increasingly took it on itself to provide its members with the necessities of life that they were unable to provide for themselves.

Rights and Duties

The discussion of rights and duties begins with a discussion of Walt Disney and its dealings with Chinese companies. On March 3, 2004, executives of Walt Disney, the world's second largest media conglomerate, were confronted with a group of stockholders concerned about the company's human rights record in China. Walt Disney markets merchandise based on its characters and films, including toys, apparel, watches, consumer electronics and accessories. Much of this merchandise is manufactured in China in factories that contract with Disney to produce the merchandise according to Disney's specifications. The Congressional-Executive Commission on China, a group established by the U.S. Congress in 2001, reported in 2003, however, "China's poor record of protecting the internationally recognized rights of its workers has not changed significantly in the past year. Chinese workers cannot form or join independent trade unions, and workers who seek redress for wrongs committed by their employers often face harassment and criminal charges. Moreover, child labor continues to be a problem in some sectors of the economy, and forced labor by prisoners is common." In its March 2003 *Country Reports on Human Rights Practices,* the U.S. State Department said China's economy also made massive use of prison or forced labor.

In general, a right is a person's entitlement to something; one has a right to something when one is entitled to act a certain way or to have others act in a certain way towards oneself. An entitlement is called a **legal right.** Entitlements can come from laws or moral standards; the latter are called **moral rights** or **human rights**. They specify, in general, that all humans are permitted to do something or are entitled to have something done for them.

In our ordinary discourse, we use the term *right* to cover a variety of situations in which individuals are enabled to make such choices in very different ways. First, we sometimes use the term *right* to indicate the mere absence of prohibitions against pursuing some interest or activity. Second, we sometimes use the term *right* to indicate that a person is authorized or empowered to do something either to secure the interests of others or to secure one's interests.

Third, the term *right* is sometimes used to indicate the existence of prohibitions or requirements on others that enable the individual to pursue certain interests or activities

The most important rights are those that impose requirements or prohibitions on others, enabling people to choose whether or not to do something. Moral rights have three important features defining them:

1. Moral rights are closely correlated with duties.
2. Moral rights provide individuals with autonomy and equality in the free pursuit of their interests.
3. Moral rights provide a basis for justifying one's actions and invoking the aid of others.
4. Moral judgments made on the basis of rights differ substantially from those based on utility.

First, they are based on the individual, whereas utilitarianism is based on society as a whole. Second, rights limit the validity of preferring numbers and social benefits to the individual. On the other hand, although rights generally override utilitarian standards, they do not always do so. In times of war, for example, civil rights are commonly restricted for the public good.

Contractual Rights and Duties

There are other rights as well. Those most closely connected to business activity are **contractual rights,** sometimes called **special rights and duties** or **special obligations.** These rights attach only to specific individuals, and the duties they give rise to attach only to specific individuals. In addition, they arise out of specific transactions between parties and depend upon a pre-existing public system of rules. If I contract to do something for you, then you are entitled to my performance: you acquire a contractual right to whenever I promise, and I have a contractual duty to perform as I promised. Contractual rights and duties depend on a publicly accepted system of rules that define the transactions that give rise to those rights and duties.

Contractual rights and duties also provide a basis for the special duties or obligations that people acquire when they accept a position or a role within a legitimate social institution or organization. Married parents, have a special duty to care for the upbringing of their children. What are the ethical rules governing contracts?

1. Both of the parties to a contract must have full knowledge of the nature of the agreement they are entering.
2. Neither party to a contract must intentionally misrepresent the fact of the contractual situation to the other party.
3. Neither party to the contract must be forced to enter the contract under duress or coercion.
4. The contract must not bind the parties to an immoral act.

Generally, a contract that violates one or more of these conditions is considered void.

Utilitarianism's problem with Rights and Justice

The major difficulty with utilitarianism, according to some critics, is that it is unable to deal with two kinds of moral issues: those relating to Rights and those relating to Justice. The utilitarian principal implies that certain actions are morally right when in fact they are unjust or they violate people's rights.

The great benefits a system may have for the majority does not justify the extreme burdens that it imposes on a small group. The shortcoming of utilitarianism is that it allows benefits and burdens to be distributed among the members of society in any way whatsoever so long as the total amount of benefits is maximized. Utilitarianism looks only at how much utility is produced in a society and fails to take into account how that utility is distributed among the members of society.

Considerations of Justice (which look at how benefits and burdens are distributed among people) and Rights (which look at individual entitlements to freedom of choice and to well-being) seemed to be ignored by analysis that looks only at the costs and benefits of decisions.

A Basis for Moral Rights: Kant

Utilitarianism and Kantian ethics, they both have different views to what they believe about lives being of equal moral value. The two also have different views of what moral considerability is, which means the certain traits that give you your personhood. When those ideas are then out in to action, they will yield two different results, such as the case when one looks at abortion. In general, people who follow Kantian ethics are more concerned and centered on the fact that if a person a living, breathing being, they are of moral value, not giving as much concern to the quality of life that the person has. When you look at these two general ideas of the different types of ethics, Kantian Ethics seems to be the much more sound and moral view. It is inclined to look at the fact that the person is a person and can contribute to society in some fashion. Even though utilitarianism claim to be more concerned with the welfare of the members of a society, it really just takes the value and importance out of human beings.

When talking about Utilitarianism and Kantian ethics, one of the things that separates the two views is the way in which they differentiate between moral considerablility.

Kant's theory of morality is the most feasible in determining a person's duty in a moral situation. The basis for his theory is perhaps the most noble of any, acting morally because doing so is the right thing to do. His ideas, no matter how vague or overly rigid, work easily in most situations. Some exceptions do exist, but are well out down by the ones that do occur in every situation. But despite these exceptions, the process Kant describes of converting maxims to universal laws to test their moral beliefs. This provides us with a useful guide and a system of ethics and morality.

The first formulation of Kant's Categorical Imperative

Kant's first formulation of the categorical imperative is as follows: "I ought never to act except in such a way that I can also will that my maxim should become a universal law." A *maxim* for Kant is the reason a person in a certain situation has for doing what he or she plans to do. A maxim whoud "become a universal law" if every person in a similar situation chose to do the

same thing for the same reason. Kant's first version of the caregorical imperitve, then come down to the following principle:

> "An action is morally right for a person in a certain situation if, and only if, the person's reason for carrying out the action is a reason that he or she would be willing to have every person act on, in any similar situation."

An example may help to clarify the meaning of Kant's principle. Suppose that I am trying to decide whether to fire an employee because I do not like the employee's race. According to Kant's principle, I must ask myself whether I would be willing to have an employer fire any employee whenever the employer does not like the race of his or her employee. In particular, I must ask myself whether I would be willing to be fired myself should my employer not like my race. If I am not willing to have everyone act in this way, even toward me, then it is morally wrong for me to act in this way toward others. A person's reasons for acting, then, must be "reversible": one must be willing to have all others use those reasons even against oneself. There is an obvious similarity, then, between the categorical imperative and the so-called *golden rule*. "Do unto others as you would have them do unto you."

The first formulation of the categorical imperative, then, incorporates two criteria for determining moral right and wrong—universalizability and reversibility.

LESSON 09
UNIVERSALIZABILITY & REVERSIBILITY

The categorical imperative incorporates two criteria for determining moral right and wrong: **universalizability** and **reversibility**. Universalizability means the person's reasons for acting must be reasons that everyone could act on at least in principle. Reversibility means the person's reasons for acting must be reasons that he or she would be willing to have all others use, even as a basis of how they treat him or her. That is, one's reasons for acting must be reasons that everyone could act upon in principle, and the person's reasons must be such that he would be willing to have all others use them as well. Unlike utilitarianism, which focuses on consequences, Kantian theory focuses on interior motivations.

The second formulation Kant's Categorical Imperative

The second formulation Kant gives of the categorical imperative is this: "Act in such a way that you always treat humanity, whether in your own person or in the person of any other, never simply as a means, but always at the same time as an end." Or never treat people only as means, but always also as ends. What Kant means by "treating humanity as an end" is that everyone should treat each human being as a being whose existence as a free rational person should be promoted. For Kant, this means two things: (a) respect each person's freedom by treating people only as they have freely consented to be treated beforehand, and (b) develop each person's capacity to freely choose for him or herself the aims he or she will pursue. Kant's second version of the categorical imperative can be expressed in the following principle:

> "An action is morally right for a person if, and only if, in performing the action, the person does not use others merely as a means for advancing his or her own interests, but also both respects and develops their capacity to choose freely for themselves."

This version of the categorical imperative implies that human beings have an equal dignity that sets them apart from things such as tools or machines and that is incompatible with their being manipulated, deceived, or otherwise unwillingly exploited to satisfy the self-interests of another.

However, even if the categorical imperative explains why people have moral rights, it cannot by itself tell us what particular moral rights humans have. And when rights come into conflict, it cannot tell us which right should take precedence. Still, there seem to be three basic rights that can be defended on Kantian grounds:

1. Humans have a clear interest in being provided with the work, food, clothing, housing, and medical care they need to live.
2. Humans have a clear interest in being free from injury and in being free to live and think as they choose.
3. Humans have a clear interest in preserving the institution of contracts.

Kantian Rights

First, human beings have a clear interest in being helped by being provided with the work, food, clothing, housing, and medical care they need to live on when they cannot provide these for themselves. Second, human beings also have a clear interest in being free from injury or fraud and in being free to think, associate, speak, and live privately as they choose.

Problems with Kant

Despite the attractiveness of Kant's theory, critics have argued that, like utilitarianism, it has its limitations and inadequacies.

1. A first problem that critics have traditionally pointed out is that Kant's theory is not precise enough to always be useful.

2. Second, some critics claim that although we might be able to agree on the kinds of interests that have the status of moral rights, there is substantial disagreement concerning what the limits of each of these rights are and concerning how each of these rights should be balanced against other conflicting rights.

3. A third group of criticisms that have been made of Kant's theory is that there are counterexamples that show the theory sometimes goes wrong. Most counterexamples to Kant's theory focus on the criteria of universalizability and reversibility.

The Libertarian objection: Nozick

A very different view of rights is based on the work of libertarian philosophers such as Robert Nozick. They claim that freedom from constraint is necessarily good, and that all constraints imposed on one by others are necessary evils, except when they prevent even greater human constraints. The only basic right we all possess is the negative right to be free from the coercion of other human beings.

Libertarians may pass too quickly over the fact that the freedom of one person necessarily imposes constraints on other persons, if only that others must be constrained from interfering with that person. If I have the right to unionize, for example, I constrain the rights of my employer to treat me as he sees fit. Though libertarians tend to use Kant to support their views, there is no consensus on whether or not this is actually possible. There is also no good reason to assume that only negative rights exist.

Justice and Fairness

The dispute over "brown lung" disease caused by cotton dust illustrates how references to justice and fairness permeate such concerns. Justice and fairness are essentially comparative. They are concerned with the comparative treatment given to the members of a group when benefits and burdens are distributed, when rules and laws are administered, when members of a group cooperate or compete with each other, and when people are punished for the wrongs they have done or compensated for the wrongs they have suffered. **Justice** generally refers to matters that are more serious than fairness, though some philosophers maintain that fairness is more fundamental. In general, we think that considerations of justice are more important than utilitarian concerns: greater benefits for some do not justify injustices to others. However, standards of justice not generally override individual moral rights. This is probably because

justice is, to some extent, based on individual moral rights.

There are three categories of issues involving justice:

1. **Distributive justice** is concerned with the fair distribution of society's benefits and burdens.
2. **Retributive justice** refers to the just imposition of penalties and punishments
3. **Compensatory justice** is concerned with compensating people for what they lose when harmed by others.

Questions of distributive justice arise when there is a scarcity of benefits or a plethora of burdens; not enough food or health care, for example, or too much unpleasant work. When resources are scarce, we must develop principles to allocate them fairly. The fundamental principle involved is that equals should be treated equally (and unequals treated unequally). However, it is not clear in just what respects people must be equal. The fundamental principle of distributive justice may be expressed as follows:

> "Individuals who are similar in all respects relevant to the kind of treatment in question should be given similar benefits and burdens, even if they are dissimilar in other irrelevant respects; and individuals who are dissimilar in a relevant respect ought to be treated dissimilarly, in proportion to their dissimilarity."

Egalitarians hold that there are no relevant differences among people that can justify unequal treatment. According to the egalitarian, all benefits and burdens should be distributed according to the following formula:

> "Every person should be given exactly equal shares of a society's or a group's benefits and burdens."

Though equality is an attractive social ideal for many, egalitarianism has been strongly criticized. Some critics claim that need, ability, and effort are all relevant differences among people, and that it would be unjust to ignore these differences.

LESSON 10
EGALITARIANS' VIEW

Justice as Equality: Egalitarianism

Egalitarianism holds that there are no relevant differences among people that can justify unequal treatment. According to the Egalitarian, all benefits and burdens should be distributed according to the following formula:

Every person should be given equal shares of a society's or a group's benefits and burdens.

Egalitarians base their view on the propositions that all human beings are equal in some fundamental respect and that, in virtue of this, each person has an equal claim to society's goods. According to Egalitarian, this implies that goods should be allocated to people in equal portions.

Equality has been proposed as a principle of justice not only for entire societies, but also within smaller groups or organizations. Within a family, for example, it is often assumed that children should, over the course of their lives, receive equal share of goods parents make available to them. In some companies and in some workgroups, particularly when the workgroup has strong feelings of solidarity and is working at tasks that require cooperation, workers feel that all should receive equal compensation for the work they are doing. Interestingly, when workers in a group receive equal compensation, they tend to become more cooperative with each other and to feel greater solidarity with each other. Also interestingly, workers in countries such as Japan, which is characterized as having more collectivist culture, prefer the principles of equality more than workers in countries such as the United States, which is characterized as having a more individual culture.

Justice Based on Contribution: Capitalist Justice

Some writers have argued that a society's benefits should be distributed in proportions to what each individual contributes to a society and/or to group. The more a person contributes to a society's pool of economic goods, for example, the more that person is entitled to take from that pool; the less an individual contributes, the less that individual should get. The more a worker contributes to a project, the more he or she should be paid. According to this capitalist view of justice, when people engage in economic exchanges each other, what a person gets out of the exchange should be at least equal in value to what he or she contributed. Justice requires, then, that the benefits a person receives should be proportional to the value of his or her contribution. Quite simply:

Benefits should be distributed according to the value of the contribution the individual makes to a society, a task, a group, or an exchange.

The principle of contribution is perhaps the most widely used principle of fairness used to establish salaries and wages in American companies. In workgroups, particularly when relationships among the members of the group are impersonal and the product of each worker is independent of the efforts of the others, workers tend to feel that they should be paid in proportion to the work they have contributed. Sales people out on the road, for example, or workers at individual sewing machines sewing individual garments or doing other piece-work

tend to feel that they should be paid in proportion to the quantity of good they have individually sold or made. Interestingly, when workers are paid in accordance with the principle of contribution, this tends to promote among them an uncooperative and even competitive atmosphere in which resources and information are less willingly shared and in which status differences emerge. Workers in countries that are characterized as having a more collectivist culture, such as Japan.

The main question raised by the contributive principle of distributive justice is how the "value of the contribution" if each individual is to be measured. One long-lived tradition has held that contributions should be measured in terms work effort. The more effort people put forth in their work, the greater the share of benefits to which they are entitled. The harder one works, the more one deserves, this is the assumption behind the Puritan ethic, which held that every individual had a religious obligation to work hard at his calling (the career to which God summons each individual) and that God justly rewards hard work with wealth and success, while He justly punishes laziness with poverty and failure. In the United States, this puritan ethic has evolved into a secularized work ethic, which places a high value on individual effort and which assumes that, whereas hard work does and should lead to success, loafing is and should be punished.

However, there are many problems with using effort as the basis of distribution. First to reward a person's efforts without any reference to whether the person produces anything worthwhile through these efforts is to reward incompetence and inefficiency. Second, if we reward people solely for their efforts and ignore their abilities and relative productivity, then talented and highly productive people will be given little incentive to invest their talent and productivity in producing goods for society. As a result, society's welfare will decline.

A second important tradition has held that contributions should be measured in terms of productivity: the better the quality of a person's contributed product, the more he or she should receive. (Product here should be interpreted broadly to include services rendered, capital invested, commodities manufactured, and any type of literacy, scientific, or aesthetic work produced.) A major problem with this second proposal is that it ignores people's needs. Handicapped, ill, untrained, and immature persons may be unable to produce anything worthwhile; if people are rewarded on the basis of their productivity, the needs of these disadvantaged groups will not be met. The main problem with this second proposal is that it is difficult to place any objective measure on the value of a person's product, especially in fields such as the sciences, the arts, entertainment, athletics, education, theology, and healthcare. Who would want to have their products priced on the basis of someone else's subjective estimates?

To deal with the last difficulty mentioned, some authors have suggested a third and highly influential version of the principle of contribution: they have argued that the value of a person's product should be determined by the market forces of supply and demand. The value of a product would then depend not on its intrinsic value, but on the extent to which it is both relatively scarce and it's viewed by the buyers as desirable. In other words, the value of a person's contribution would sell for in a competitive market. People then deserve to receive in exchange with others whatever the market value of their product is worth. Unfortunately, this method of measuring the value of a person's product still ignores people's needs. Moreover, to many people, market prices are an unjust method of evaluating the value of a person's product precisely because markets ignore the intrinsic values of things. Markets, for example, reward entertainers more than doctors. Also markets often reward a person who, through pure chance, has ended with something (e.g., an inheritance) that is scarce and that people happen to want. This, to many, seems the height of injustice.

Justice Based on needs and Abilities: Socialism

Business there are probably as many kinds of socialism as there are socialist, it is somewhat inaccurate to speak of "the" socialist position on distributive justice. Nonetheless, the dictum proposed first by Louis Blanc (1811-1882) and than by Karl Marx (1818-1883) and Nikolai Lenin (1870-1924) is traditionally taken to represent the socialist view on distribution: "From each according to his ability, to each according to his needs." The socialist principle, then, can be paraphrased as follows:

Work burdens should be distributed according to people's abilities, and benefits should be distributed according to people's needs.

This socialist principle is based first on the idea that people realize their human potential by exercising their abilities in productive work. Because the realization of one's full potentiality is a value, work that a person can be as productive as possible. and this implies distributing work according to ability. Second, the benefits produced through work should be used to promote human happiness and well being. This means distributing them so that people's basics and biological needs are met, and than using what is left over to meet people's none basic needs. Perhaps most fundamental to the socialist view is the nation that societies should be communities in which benefits and burdens are distributed on the model of a family. Just as able family members willingly support the family. And just as needy family members are willingly supported by the family, so also the able members of a society should contribute their abilities to society by taking up its burdens while the needy should be allowed to share in its benefits.

As the example of the family suggests, the principle of distribution according to need and ability is used within small groups as well as within larger society. In athletics, for example, the member of a team will distribute burdens according to each athlete's ability and will tend to stand together and help each other according to each one's need. The principle of need and ability, however, is the principle that tends to the least acknowledged in business. Managers some times invoke the principle when they pass out the more able, but the often retreat when these workers complain that they are being given larger burdens without higher compensation. Managers also sometimes invoke the principle when they make specially allowance for workers who seem to have special needs. (This was, in fact, a key consideration when congress passed the Americans with disabilities act.) However they rarely do so and are often criticized for showing favoritism when the do this.

Nevertheless there is something to be said for the socialist principle: needs and abilities certainly should be taken into account when determining how benefits and burdens should be distributed among the members of a group or society. Most people would agree, for example, that we should make a greater contribution to the lives of cotton mill workers with brown lung disease who have greater needs then to lives of healthy persons who have all they need. Most people would also agree that individuals should be employed in occupations for which they are fitted, and that this means matching each person's abilities to his or her job as for as possible. Vocational tests in high school and college, for example, are supposed to help students find carrier that match their abilities.

Justice as freedom: Libertarianism

The last section discussed libertarian views on moral rights. Libertarians also have some clear and related views on the nature of justice. The libertarian holds that no particular way of distributing goods can be said to just or unjust apart from the free choices individuals make.

Any distribution of benefits and burdens is just if it is the result of individuals freely choosing to exchange with each other the goods each person already owns. Robert Nozick, a leading libertarian suggests this principle as the basic principle as the distributive justice.

From each according to what he chooses to do, to each according to what he makes for himself (perhaps with the contracted aid of others) and what others choose to do for him and choose to give him of what they've been given previously (under this maxim) and haven't yet extended or transferred.

Quite simply, "From each as they choose to each as they are chosen." For example if I choose to write a novel or carve a statue of a piece of driftwood then I should be allowed to keep the novel or statue if I choose to it. If I choose I should be allowed to give them away to someone else or exchange them for other objects to whomever I choose. In general, people should be allowed to keep everything they make and everything they are freely given. Obviously, this means it would be wrong to tax one person (i.e. take the person's money) to provide welfare benefits for someone else needs.

Nozick's principle is based on the claim (which we have already discussed) that every person has a right to freedom from coercion that takes priority over all other rights and values. The only distribution that is just, according to Nozick, is one that results from free individual choices. Any distribution that results from any attempt to impose a certain pattern on society (e.g., imposing equality on everyone or taking from the have's and given to the have nots) will therefore be unjust.

LESSON 11
JOHN RAWLS' THEORY OF JUSTICE

John Rawls' theory of justice as fairness is an attempt to bring many of these disparate ideas together in a comprehensive way. According to his theory, the distribution of benefits and burdens in a society is just if:

1. Each person has an equal right to the most extensive basic liberties compatible with equal liberties for all *(the principle of equal liberty);* and

2. Social and economic inequalities are arranged so that they are both:
   a) To the greatest benefit of the least advantaged *(the difference principle),* and
   b) Attached to offices and positions open fairly and equally to all *(the principle of equal opportunity)*.

Rawls tells us that Principle 1 is supposed to take priority over Principle 2 should the two of them ever come into conflict, and within Principle 2, Part b *is* supposed to take priority over Part a.

Principle 1 is called the **principle of equal liberty.** Essentially, it says that each citizen's liberties must be protected from invasion by others and must be equal to those of others. These basic liberties include the right to vote, freedom of speech and conscience and the other civil liberties, freedom to hold personal property, and freedom from arbitrary arrest. Part of Principle 2 is called the **difference principle.** It assumes that a productive society will incorporate inequalities, but it then asserts that steps must be taken to improve the position of the most needy members of society, such as the sick and the disabled, unless such improvements would so burden society that they make everyone, including the needy, worse off than before. Part b of Principle 2 is called the **principle of fair equality of opportunity.** It says that everyone should be given an equal opportunity to qualify for the more privileged positions in society's institutions.

Therefore, according to Rawls, a principle is moral if it would be acceptable to a group of rational, self-interested persons who know they will live under it themselves. This incorporates the Kantian principles of reversibility and universalizability, and treats people as ends and not as means. Some critics of Rawls point out, however, that just because a group of people would be willing to live under a principle does not mean that it is morally justified.
Two final types of justice are retributive and compensatory justice, both of which deal with how best to deal with wrongdoers. **Retributive justice** concerns blaming or punishing those who do wrong; **compensatory justice** concerns restoring to a harmed person what he lost when someone else wronged him. Traditionally, theorists have held that a person has a moral obligation to compensate an injured party only if three conditions pertain:

1. The action that inflicted the injury was wrong or negligent.
2. The action was the real cause of the injury.
3. The person did the action voluntarily.

The most controversial forms of compensation undoubtedly are the preferential treatment programs that attempt to remedy past injustices against groups.

The Ethics of Care

As the Malden Mills fire and rebuilding shows, there are perspectives on ethics that are not explainable from the point of view of utilitarianism, rights, or Kantian philosophy. The owner had no duty to rebuild (or to pay his workers when they were not working) from any of these perspectives; still, he maintained that he had a responsibility to his workers and to his community. Rather than being impartial (which all of these theories maintain is crucial), this owner treated his community and workers partially.

This is central to the point of view known as the **ethics of care,** an approach to ethics that many feminist ethicists have recently advanced. According to this method, we have an obligation to exercise special care toward the people with whom we have valuable, close relationships. Compassion, concern, love, friendship, and kindness are all sentiments or virtues that normally manifest this dimension of morality. Thus, an ethic of care emphasizes two moral demands:

LESSON 12
THE ETHICS OF CARE

The fire that reduced Malden Mills to rubble on the evening of December 11, 1995 was one of the worst in the state's history. Seven hundred people were at work in the factory when, at a little past 8:00 p.m., a boiler exploded in one of the mill buildings. The explosion was so powerful that it ruptured gas mains; fire quickly engulfed the buildings. Employees fled into the streets; 33 were injured, four of them critically.

Fueled by the chemicals and flammable materials used in textile production, the six-alarm fire gutted the mill complex. More than 200 firefighters from as far away as New Hampshire and Boston's South Shore battled 50-foot walls of flame. Strong, gusty winds and temperatures near zero degrees hampered the effort. The fire raged out of control for much of the night, forcing nearby residents to evacuate. By morning, the once-busy textile complex was a scene of utter devastation.

This happened just two weeks before Christmas, thousands of workers faced unemployment and the fear that the mill's owner would take the insurance money and follow other textile companies south. The next day, company president Aaron Feuerstein announced that he would rebuild in Lawrence, and he promised to keep his employees on the payroll during the time it would take to reconstruct the plant. Venerated as "a man of his word" and "extremely compassionate," Feuerstein became a national folk hero.

The Malden Mills incident suggests a perspective on ethics that is not adequately captured by the moral views we have so far examined. Consider that from a utilitarian perspective Feuerstein had no obligation to rebuild the factory in Lawrence not to continue to pay his workers while they were not working. Moreover, relocating the operations of Malden Mills to a third world country where labor is cheaper would not only have benefited the company, it would also have provided jobs for Third World workers who are more desperately needy than American workers. From an impartial utilitarian perspective, then, more utility would have been produced by bringing jobs to Third World workers than by spending money to preserve the jobs of current Malden Mills employees in Lawrence, Massachusetts. It is true that Malden mills workers were close to Feuerstein and that over the years they have remained loyal to him and have built a close relationship with him. However, from and impartial standpoint, the utilitarian would say such personal relationships are irrelevant and should be set aside in favor of whatever maximizes utility.

The ethics of care—that we have an obligation to exercise special care toward those particular persons with whom we have valuable close relationships, particularly relations of dependency—is a key concept in an "ethics of care," an approach to ethics that many feminist ethicists have recently advanced. A morality of care "rests on an understanding of relationships as response to another in their terms." According to this "care" view of ethics, the moral task is not to follow universal and impartial moral principles, but instead to attend and respond to the good of particular concrete person with whom we are in a valuable and close relationship. Compassion, concern, love, friendship, and kindness are all sentiments or virtues that normally manifest this dimension of morality. Thus and ethic of care emphasizes two moral demands:

1. We each exist in a web of relationships and should preserve and nurture those concrete and valuable relationships we have with specific persons.

2. We each should exercise special care for those with whom we are concretely related by attending to their particular needs, values, desires, and concrete well-being as seen from their own personal perspective, and by responding positively to these needs, values, desires, and concrete well-being, particularly of those who are vulnerable and dependent on our care.

An ethic of care, therefore, can be seen as encompassing the kinds of obligations that a so-called communitarian ethic advocates. A **communitarian ethic** is an ethic that sees concrete communities and communal relationships as having a fundamental value that should be preserved and maintained.

The demands of caring are sometimes in conflict with the demands of justice, though, and no fixed rule exists to resolve these conflicts. Critics point out that the ethics of care can easily degenerate into unjust favoritism. Though the ethics of care can also lead to burnout, the advantage of the theory is that it is a corrective to the other approaches that are impartial and universal.

Integrating Utility, Rights, Justice, and Caring

So far, the chapter has outlined four main kinds of basic moral considerations:

1. **Utilitarian standards -** must be used when we do not have the resources to attain everyone's objectives, so we are forced to consider the net social benefits and social costs consequent on the actions (or policies or institutions) by which we can attain these objectives.
2. **Standards that specify how individuals must be treated -** must be employed when our actions and policies will substantially affect the welfare and freedom of specifiable individuals. Moral reasoning of this type forces consideration of whether the behavior respects the basic rights of the individuals involved and whether the behavior is consistent with one's agreements and special duties.
3. **Standards of justice -** indicate how benefits and burdens should be distributed among the members of a group. These sorts of standards must be employed when evaluating actions whose distributive effects differ in important ways.
4. **Standards of caring -** indicate the kind of care that is owed to those with whom we have special concrete relationships. Standards of caring are essential when moral questions arise that involve persons embedded in a web of relationships, particularly persons with whom one has close relationships, especially those of dependency.

One simple strategy for ensuring that all four kinds of considerations are incorporated into one's moral reasoning is to inquire systematically into the utility, rights, justice, and caring involved in a given moral judgment, as in Fig. 2.1. One might, for example, ask a series of questions about an action that one is considering: (a) Does the action, as far as possible, maximize social benefits and minimize social injuries? (b) Is the action consistent with the moral rights of those whom it will affect? (c) Will the action lead to a just distribution of benefits and burdens? (d) Does the action exhibit appropriate care for the well-being of those who are closely related to or dependent on oneself? Unfortunately, there is not yet any comprehensive moral theory to show when one of these considerations should take precedence.

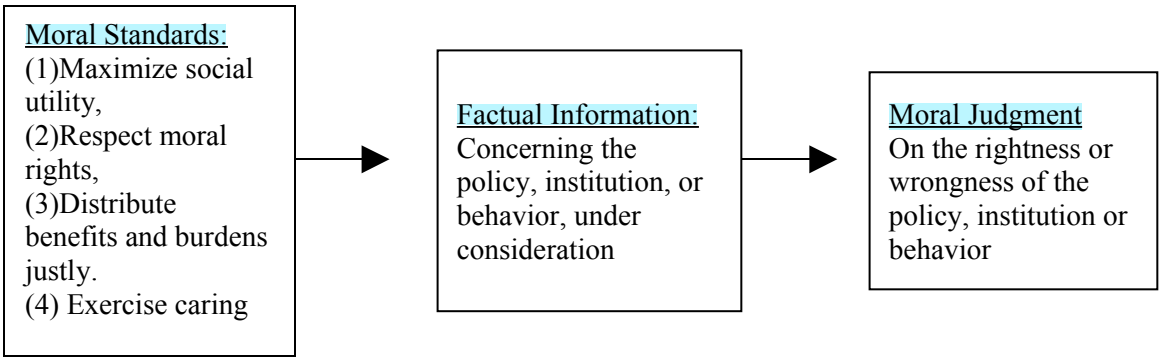


Figure 2.1

An Alternative to Moral Principles: Virtue Ethics

Many ethicists criticize the entire notion that actions are the subject of ethics. The central issue (as Ivan Boesky's case demonstrates) is the kind of person an agent ought to be and what the character of humans ought to be. This does not mean that the conclusion of this type of ethics (called *virtue ethics)* will be much different, however. Rather, the virtues provide a perspective that covers the same ground as the four approaches, just from a different perspective.

A **moral virtue** is an acquired disposition that is a valuable part of a morally good person, exhibited in the person's habitual behavior. It is praiseworthy, in part, because it is an achievement whose development requires effort. The most basic issue, from the perspective of virtue ethics, is the question: What are the traits of character that make a person a morally good human being? Which traits of character are moral virtues? According to Aristotle, moral virtues enable humans to act in accordance with their specific purpose (which he held to be reasoning). Other philosophers, such as Aquinas, have come up with different lists of virtues.

LESSON 13
THE ETHICS OF CARE (CONTD.)

The American philosopher Alasdair MacIntyre has claimed that a virtue is any human disposition that is praised because it enables a person to achieve the good at which human "practices" aim. Pincoffs suggests that virtues include all those dispositions to act, feel, and think in certain ways that we use as the basis for choosing between persons or between potential future selves. In general, the virtues seem to be dispositions that enable people to deal with human life. However, it also seems that what counts as a moral virtue will depend on one's beliefs and the situations one faces.

Virtue Ethics

The idea of virtue in business is not hopelessly out of place, because virtuous characteristics can lead not only to personal success in a career but to the successful operation of a business. Central to virtue ethics is the idea that morality is not performing certain right actions but possessing a certain character. Instead of asking, "What actions are right?" virtue ethics asks, "What kind of persons should we be?" In the *Nicomachean Ethics*, Aristotle argued that ethics enables us to live the good life and that the good life is possible only for virtuous persons. Aristotle described particular virtues in illuminating detail. After Aristotle, philosophical theory tended to focus more on right action and duties, but some contemporary philosophers argue for a return to virtue ethics.

Virtue theory says that the aim of the moral life is to develop the dispositions that we call virtues, and to exercise them as well. The key action guiding implication of virtue theory, then, can be summed up in the claim that:

> "An action is morally right if, in carrying out the action, the agent exercises, exhibits, or develops a morally virtuous character, and it is morally wrong to the extent that by carrying out the action the agent exercises, exhibits, or develops a morally vicious character."

The wrongfulness of an action can be determined by examining the character the action tends to produce (or the character that tends to produce the action). It also provides a useful criterion for evaluating our social institutions and practices.

An ethic of virtue, then, is not a fifth kind of moral principle that should take its place alongside the principles of utilitarianism, rights, justice, and caring. Instead, an ethics of virtue fills out and adds to utilitarianism, rights, justice, and caring by looking not at the actions people are required to perform, but at the character they are required to have.

What are virtues?

Virtues are specifically those traits that *everyone* needs for the good life, regardless of their specific situation. For example, courage is a virtue because it enables anyone to get what he or she wants. The virtues are integrally related to what Aristotle called practical wisdom, which is what a person needs in order to live well. Virtue is variously described as an *excellence* that is admired in a person, as a disposition to act in a certain way, and as a specific state of character. Lists of the virtues generally include: benevolence, compassion, courage, courtesy, dependability, friendliness, honesty, loyalty, moderation, self-control, and tolerance. In

developing a list of virtues, we must consider not only the contribution of a virtue to some end but also the end itself. Aristotle considered happiness to be the end of life, and so the virtues must all contribute in some way to happiness. Thus, the character traits that enable a despot or a criminal or a lecher to be successful are not virtues because they do not conduce to happiness. Moreover, the virtues are not merely means to happiness but are themselves constitutive of it. For example, a parent cannot experience the joy of parenting without actually possessing the traits that make one a good parent.

Virtue ethics in business

Virtue ethics presupposes some end (happiness is the end of life for Aristotle), and so applying virtue ethics to business requires us to determine the *end* toward which business aims. Adopting an Aristotelian approach, Robert Solomon argues that the main purpose of business is not merely to create wealth but to enable us to live the good life. Thus, business is a matter of getting along with others, having a sense of self-respect, and taking pride in what we do. Business, from an Aristotelian point of view, is essentially a communal activity in which people work together for a common good. The virtues in business are those character traits that enable us to achieve this end of business. For the most part, these are the character traits necessary for everyday life, but some exceptions must be made. For example, honesty in business is compatible with a certain amount of concealment that is unacceptable in personal relations, and so the virtue of honesty must be redefined for the purposes of business.

Strengths and weaknesses of virtue ethics

Strength of virtue ethics is that it fits with our everyday moral experience. The response of most people to a complex ethical dilemma is not to think about how universal principles can be applied but to decide what they feel comfortable with or what a person they admire would do. Codes of professional ethics generally stress that a professional should be a person of integrity. Unlike the impartiality stressed by utilitarianism and Kantianism, virtue ethics makes better sense of the role that *personal relations* play in morality. Since business activity is based so heavily on roles and relationships in which such concepts as loyalty and trust figure prominently, virtue ethics is highly relevant to the workplace. A weakness of virtue ethics is its *incompleteness*. Virtue ethics can take us only so far in dealing with genuine ethical dilemmas. Some dilemmas involve the limits of rules (such as when concealing information becomes a lie) or conflicts between rules (when telling the truth would harm an innocent person, for example). Moreover, there are some difficult ethical dilemmas to which virtues do not readily apply. Some virtue ethicists respond that the importance of dilemmas in ethics has been overstated and that ethics is concerned primarily with the problems of everyday life. Another weakness is that virtue ethics does not address the problem of *conflict*. According to Aristotle, happiness is possible for anyone who becomes a certain kind of person, but insofar as our goals in life include possessing limited goods, not everyone can be successful. Virtue ethicists respond that morality is more a matter of living cooperatively than of moderating conflict.

Morality in International Contexts

Though the principles discussed in the chapter so far are clear enough, how they are to be applied in foreign countries is more complex. Petty bribery, which is considered unethical in the U.S., is standard practice in Mexico; nepotism and sexism occur as a matter of course in some Arabic business environments. Should multinationals follow the laws of the less developed countries in which they operate? Should they try to introduce their own standards? How do they treat their own employees doing the same job in two very different countries? Do

they pay them the same wage?

The following four questions can help clarify what a multinational corporation ought to do in the face of these difficulties:

1. What does the action really mean in the local culture's context?
2. Does the action produce consequences that are ethically acceptable from the point of view of at least one of the four ethical theories?
3. Does the local government truly represent the will of all its people?
4. If the morally questionable action is a common local practice, is it possible to conduct business there without engaging in it?

LESSON 14

MORALITY IN INTERNATIONAL CONTEXTS

The following four questions can help clarify what a multinational corporation ought to do in the face of these difficulties:

1. What does the action really mean in the local culture's context?
2. Does the action produce consequences that are ethically acceptable from the point of view of at least one of the four ethical theories?
3. Does the local government truly represent the will of its entire people?
4. If the morally questionable action is a common local practice, is it possible to conduct business there without engaging in it

This chapter examines the ethical aspects of the market system itself—how it is justified, and what the strengths and weaknesses of the system are from the point of view of ethics. It begins by discussing the economic conditions in the U.S. at the close of the 20th century, when proponents of industrial policy were urging the government to help declining industries and their workers to adjust to new economic conditions. Others urged caution, advising the government to "avoid the pitfalls of protectionism." This dichotomy illustrates the difference between two opposite ideologies, those who believe in the "free market" and those who advocate a "planned" economy.

These two ideologies take different positions on some very basic issues: What is human nature really like? What is the purpose of social institutions? How does society function? What values should it try to protect?

In general, two important ideological camps, the individualistic and communitarian viewpoints, characterize modern societies. Individualistic societies promote a limited government whose primary purpose is to protect property, contract rights, and open markets. Communitarian societies, in contrast, define the needs of the community first and then define the rights and duties of community membership to ensure that those needs are met.

These two camps face the problem of coordinating the economic activities of their members in two distinct ways. Communitarian systems use a command system, in which a single authority decides what to produce, who will produce it, and who will get it. Free market systems are characteristic of individualistic societies. Incorporating ideas from thinkers like John Locke and Adam Smith, they allow individual firms to make their own decisions about what to produce and how to do so.

Free market systems have two main components: a private property system and a voluntary exchange system. Pure free market systems would have absolutely no constraints on what one can own and what one can do with it. Since such systems would allow things like slavery and prostitution, however, there are no pure market systems.

Free Markets and Rights: John Locke

John Locke (1632-1704), an English political philosopher, is generally credited with developing the idea that human beings have a "natural right" to liberty and a "natural right" to private property. Locke argued that if there were no governments, human beings would find themselves in *a state of nature*. In this state of nature, each man would be the political equal of all others and would be perfectly free of any constraints other than the *law of* nature—that is,

the moral principles that God gave to humanity and that each man can discover by the use of his own God-given reason. As he puts it, in a state of nature, all men would be in:

> "A state of perfect freedom to order their actions and dispose of their possessions and persons as they think fit, within the bounds of the law of nature, without asking leave, or depending upon the will of any other man. A state also of equality, wherein all the power and jurisdiction is reciprocal, no one having more than another... without subordination or subjection [to another].... But... the state of nature has a law of nature to govern it, which obliges everyone: and reason, which is that law, teaches all mankind, who will but consult it, that being all equal and independent, no one ought to harm another in his life, health, liberty, or possessions."

Thus, according to Locke, the law of nature teaches us that we have a natural right to liberty. But because the state of nature is so dangerous, says Locke, individuals organize themselves into a political body to protect their lives and property. The power of government is limited, however, extending only far enough to protect these very basic rights.

Locke's views on property rights have been very influential in America. The Fifth Amendment to the U.S. Constitution even quotes Locke directly. In this view, government does not grant or create property rights. Rather, nature does, and government must therefore respect and protect these rights. Locke's view that labor creates property rights has also been influential in the U.S.

LESSON 15
FREE MARKET & PLANNED ECONOMY

FREE TRADE THEORIES

Economic Freedom: Idea, Performance, and Trends

Economic freedom is characterized by the absence of government coercion or constraint on the production distribution, and/or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself. Thus, people are free to work, produce, consume, and invest in the ways they choose. The **Economic Freedom Index** approximates the extent to which a government intervenes in the areas of free choice, free enterprise, and market-driven prices for reasons that go beyond basic national needs. Presently, countries are classified as *free, mostly free, mostly unfree*, and *repressed*. Determining factors include: trade policy, the fiscal burden of the government, the extent and nature of government intervention in the economy, monetary policy, capital flows and investment, banking and financial activities, wage and price levels, property rights, other government regulation, and informal market activities. Over time, more and more countries have moved toward greater economic freedom. Countries ranking highest on this index tend to enjoy both the highest standards of living as well as the greatest degree of political freedom

The explanatory power of the theories of *absolute* and *comparative advantage* is limited to the demonstration of how economic growth can occur via specialization and trade. The concept of **free trade** (a positive-sum game) purports that nations should neither artificially limit imports nor artificially promote exports. The **invisible hand** of the market will determine which competitors survive, as customers buy those products that best serve their needs. Free trade implies specialization—just as individuals and firms efficiently produce certain products that they then exchange for things they cannot produce efficiently, nations as a whole specialize in the production of certain products, some of which will be consumed domestically, and some of which may be exported; export earnings can then in turn be used to pay for imported goods and services. This chapter examines the ethical aspects of the market system itself—how it is justified, and what the strengths and weaknesses of the system are from the point of view of ethics. It begins by discussing the economic conditions in the U.S. at the close of the 20th century, when proponents of industrial policy were urging the government to help declining industries and their workers to adjust to new economic conditions. Others urged caution, advising the government to "avoid the pitfalls of protectionism." This dichotomy illustrates the difference between two opposite ideologies, those who believe in the "free market" and those who advocate a "planned" economy.

These two ideologies take different positions on some very basic issues: What is human nature really like? What is the purpose of social institutions? How does society function? What values should it try to protect?

In general, two important ideological camps, the individualistic and communitarian viewpoints, characterize modern societies. Individualistic societies promote a limited government whose primary purpose is to protect property, contract rights, and open markets. Communitarian societies, in contrast, define the needs of the community first and then define the rights and duties of community membership to ensure that those needs are met.

These two camps face the problem of coordinating the economic activities of their members in

two distinct ways. Communitarian systems use a command system, in which a single authority decides what to produce, who will produce it, and who will get it. Free market systems are characteristic of individualistic societies. Incorporating ideas from thinkers like John Locke and Adam Smith, they allow individual firms to make their own decisions about what to produce and how to do so.

Free market systems have two main components: a private property system and a voluntary exchange system. Pure free market systems would have absolutely no constraints on what one can own and what one can do with it. Since such systems would allow things like slavery and prostitution, however, there are no pure market systems.

Free Markets and Rights: John Locke

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LESSON 16

LAW OF NATURE

> "A state also of equality, wherein all the power and jurisdiction is reciprocal, no one having more than another... without subordination or subjection [to another].... But... the state of nature has a law of nature to govern it, which obliges everyone: and reason, which is that law, teaches all mankind, who will but consult it, that being all equal and independent, no one ought to harm another in his life, health, liberty, or possessions."

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Although Locke never explicitly used his theory of natural rights to argue for free markets, several 20th-century authors have employed his theory for this purpose.[19] Friedrich A. Hayek, Murray Rothbard, Gottfried Dietze, Eric Mack, and many others have claimed that each person has the right to liberty and property that Locke credited to every human being and consequently, government must leave individuals free to exchange their labor and their property as they voluntarily choose. Only a free private enterprise exchange economy, in which government stays out of the market and in which government protects the property rights of private individuals, allows for such voluntary exchanges. The existence of the **Lockean rights** to liberty and property, then, implies that societies should incorporate private property institutions and free markets.

It is also important to note that Locke's views on the right to private property have had a significant influence on American institutions of property even in today's computer society. First, and most important, throughout most of its early history, American law has held to the theory that individuals have an almost absolute right to do whatever they want with their property and that government has no right to interfere with or confiscate an individual's private property even for the good of society. Second, underlying many American laws regarding property and ownership is Locke's view that when a person expends his or her labor and effort to create or improve a thing, he or she acquires property rights over that thing.

Theory of Absolute Advantage

In 1776 Adam Smith asserted that the wealth of a nation consisted of the goods and services available to its citizens. His theory of **absolute advantage** holds that a country can maximize its own economic well being by specializing in the production of those goods and services that it can produce more efficiently than any other nation and enhance global efficiency through its participation in (unrestricted) free trade. Smith reasoned that:

(i) Workers become more skilled by repeating the same tasks;
(ii) Workers do not lose time in switching from the production of one kind of product to another; and
(iii) Long production runs provide greater incentives for the development of more effective working methods. Smith also asserted that country-specific advantages can either be natural or acquired.

1. **Natural Advantage**. A country may have a **natural advantage** in the production of particular products because of given climatic conditions, access to particular resources, the availability of labor, etc. Variations in natural advantages among countries help to explain where particular products can be produced most efficiently.
2. **Acquired Advantage.** An **acquired advantage** represents a distinct advantage in skills, technology, and/or capital assets that yields differentiated product offerings and/or cost-competitive homogeneous products. Technology, in particular, has created new products, displaced old products, and altered trading-partner relationships.
3. **Resource Efficiency Example.** Real income depends on the output of products as compared to the resources used to produce them. By defining the cost of production in terms of the resources needed to produce a product, the **production possibilities** *curve* shows that through the use of specialization and trade, the output of two countries will be greater, thus optimizing global efficiency.

Comparative Advantage

In 1817 David Ricardo reasoned that there would still be gains from trade if a country specialized in the production of those things it can produce most efficiently, even if other countries can produce those same things even more efficiently. Put another way, Ricardo's theory of **comparative advantage** holds that a country can maximize its own economic well-being by specializing in the production of those goods and services it can produce relatively efficiently and enhance global efficiency through its participation in (unrestricted) free trade

Locke's critics focus on four weaknesses in his argument:

The assumption that individuals have natural rights: This assumption is unproven and assumes that the rights to liberty and property should take precedence over all other rights. If humans do not have the overriding rights to liberty and property, then the fact that free markets would preserve the rights does not mean a great deal.

The conflict between natural (negative) rights and positive rights: Why should negative rights such as liberty take precedence over positive rights? Critics argue, in fact, that we have no reason to believe that the rights to liberty and property are overriding.

The conflict between natural rights and justice: Free markets create unjust inequalities, and people who have no property or who are unable to work will not be able to live. As a result, without government intervention, the gap between the richest and poorest will widen until large disparities of wealth emerge. Unless government intervenes to adjust the distribution of property that results from free markets, large groups of citizens will remain at a subsistence level while others grow ever wealthier.

Individualistic assumptions and their conflicts with the ethics of caring: Locke assumes that people are individuals first, independent of their communities. But humans are born dependent on others, and without caring relationships, no human could survive. The degree of liberty a person has depends on what the person can do. The less a person can do, the less he is free to do. But a person's abilities depend on what he learns from those who care for him as well as on what others care to help him to do or allow him to do.

Free Markets and Utility: Adam Smith

Modifying Locke's views on free markets, Adam Smith's arguments rest on utilitarian arguments that unregulated markets and private property will produce greater benefits than any other system. According to Smith, when private individuals are left free to seek their own interests in free markets, they will inevitably be led to further the public welfare by an "invisible hand:"

> By directing [his] industry in such a manner as its produce may be of the greatest value, [the individual] intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end that was no part of his intention. By pursuing his own interest he frequently promotes that of society more effectively than when he really intends to promote it. Free markets, according to Smith, ensure that buyers will purchase what they need at the lowest prices they can find, and business will correspondingly attempt to satisfy these needs at the lowest prices they can offer. Competition forces sellers to drop their prices as low as they can and to conserve resources while producing what consumers actually want.

Supply and demand, according to this view, will help allocate resources efficiently. When the supply of a certain commodity is not enough to meet the demand, buyers bid the price of the commodity upward until it rises above what Smith called the **natural price** (i.e., the price that just covers the costs of producing the commodity, including the going rate of profit obtainable in other markets). Producers of that commodity then reap profits higher than those available to producers of other commodities. The higher profits induce producers of those other products to switch their resources into the production of the more profitable commodity. As a result, the shortage of that commodity disappears and its price sinks back to its natural level. Conversely, when the supply of a commodity is greater than the quantity demanded, its price falls, inducing its producers to switch their resources into the production of other, more profitable commodities. The fluctuating prices of commodities in a system of competitive markets then forces producers to allocate their resources to those industries where they are most in demand and to withdraw resources from industries where there is a relative oversupply of commodities. The market, in short, allocates resources so as to most efficiently meet consumer demand, thereby promoting social utility. The best thing for government to do is nothing; the market, on its own, will advance the public welfare, giving people what they want for the lowest possible cost. It is important to note that, although Adam Smith did not discuss the notion of private property at great length, it is a key assumption of his views. Before individuals can come together in markets to sell things to each other, they must have some agreement about what each individual "owns" and what each individual has the right to "sell" to others. Unless a society has a system of private property that allocates its resources to individuals, that society cannot have a free market system.

Smith's utilitarian argument is most commonly criticized for making what some call unrealistic arguments. First, Smith assumes that no one seller can control the price of a good. Though this may have been true at one time, today many industries are monopolized to some extent. Second, Smith assumes that the manufacturer will pay for all the resources used to produce a product, but when a manufacturer uses water and pollutes it without cleaning it, for example, someone else must pay to do so. Third, Smith assumes that humans are motivated only by a natural, self-interested desire for profit. This, say his critics, is clearly false. Many humans are concerned for others and act to help others, constraining their own self-interest. Market

systems, say Smith's critics, make humans selfish and make us think that the profit motive is natural.

LESSON 17
FREE MARKETS AND UTILITY: ADAM SMITH

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One especially influential critic of Smith was John Maynard Keynes. Keynes argued that government intervention was necessary because there is a mismatch between aggregate supply and demand, which inevitably leads to a contraction of supply. Government, according to Keynes, can influence the propensity to save, which lowers aggregate demand and creates unemployment. Government can prevent excess savings through its influence on interest rates, and it can influence interest rates by regulating the money supply. The higher the supply of money, the lower the rate at which it is lent. Second, government can directly affect the amount of money households have available to them by raising or lowering taxes. Third, government spending can close any gap between aggregate demand and aggregate supply by taking up the slack in demand from households and businesses. Keynes' arguments became less convincing after the stagflation of the 1970s, though. It has been replaced by a post-Keynesian school of thought, which argues for even more governmental intervention in the market.

Social Darwinists had a different take on the utilitarian justification for free markets. They argued that economic competition produced human progress. If governments were to interfere in this process, they would also unintentionally be impeding human progress. Weak firms must be weeded out by competition, they claim. The basic problem underlying the views of the social Darwinist, however, is the fundamental normative assumption that *survival of the fittest* means *survival of the best.* That is, whatever results from the workings of nature is necessarily good. The fallacy, which modern authors call the **naturalistic fallacy,** implies, of course, that whatever happens naturally is always for the best.

Free Trade and Utility: David Ricardo

Adam Smith's major work, the *Wealth of Nations,* in fact, was primarily aimed at showing the benefits of free trade. There he wrote:

> It is the maxim of every prudent master of a family never to attempt to make at home what it will cost him more to make than to buy. The tailor does not make his own shoes but buys them from the shoemaker... What is prudence in the conduct of every family can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.

Adam Smith's point here is simple. Like individuals, countries differ in their ability to produce goods. One country can produce a good more cheaply than another and it is then said to have

an **"absolute advantage"** in producing that good. These cost differences may be based on differences in labor costs and skills, climate, technology, equipment, land, or natural resources.

Suppose that because of these differences, our nation can make one product for less than a foreign nation can, and suppose the foreign nation can make some other product for less than we can. Then clearly it would be best for both nations to specialize in making the product each has an "absolute advantage" in producing, and to trade it for what the other country has an "absolute advantage" in producing. It was Ricardo's genius to realize that both countries could benefit from specialization and trade even though one can make everything more cheaply than the other. Specialization increases the total output of goods countries produce, and through trade all countries can share in this added bounty.

Ricardo's ingenious argument has been hailed as the single "most important" and "most meaningful" economic discovery ever made. Some have said it is the most "surprising" and "counterintuitive" concept in economics. It is, without a doubt, the most important concept in international trade theory today and is at the heart of the most significant economic arguments people propose today when they argue in favor of globalization. Ricardo makes a number of simplifying assumptions that clearly do not hold in the real world, such as that there are only two countries making only two products with only a fixed number of workers. But these are merely simplifying assumptions Ricardo made to get his point across more easily and Ricardo's conclusion could still be proved without these assumptions.

There are other assumptions, however, that are not so easy to get around. First, Ricardo assumes that the resources used to produce goods (labor, equipment, factories, etc.) do not move from one country to another. Yet today multinational companies can, and easily do, move their productive capital from one country to another. Second, Ricardo assumes that each country's production costs are constant and do not decline as countries expand their production or as they acquire new technology.

Third, Ricardo assumes that workers can easily and unreservedly move from one industry to another. Yet when a company closes down because it cannot compete with imports from another country that has a comparative advantage in those goods, the company's workers are laid off, suffer heavy costs, need retraining, and often cannot find comparable jobs.

Finally, and perhaps most importantly, Ricardo ignores international rule setters. International trade inevitably leads to disagreements and conflicts, and so countries must agree to abide by some set of rules and rule-setters.

Marx and Justice: Criticizing Markets and Trade

Karl Marx offers the most critical view of modern private property and free market institutions. Marx claims that free-market capitalism necessarily produces extremes of inequality. Since capitalist systems offer only two sources of income–owning the means of production and selling one's labor–workers cannot produce anything without the owner of the productive forces. But owners do not pay the full value of the workers' labor; they pay workers what they need to subsist, keeping the rest for themselves and gradually becoming wealthier as a result.

LESSON 18
RICARDO & GLOBALIZATION

Ricardo's Assumptions

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Marxism and its influence on Markets and Trade

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The result for workers is increased alienation. Rather than realizing their human nature and satisfying their real human needs, they are separated from what is actually theirs in four ways:

1. In capitalist societies, the products that the worker produces by his or her labor are taken away by the capitalist employer and used for purposes that are antagonistic to the worker's own interests.
2. Capitalism forces people into work that they find dissatisfying, unfulfilling, and that is controlled by someone else.
3. Capitalism alienates people from themselves by instilling in them false views of what their real human needs and desires are.
4. Capitalist societies alienate human beings from each other by separating them into

antagonistic and unequal social classes that break down community and caring relationships namely the Bourgeois and proletariat.

Conclusion

Though utilitarians claim that people would be lazy without private property, Marx counters that by this argument the bourgeois owners should long ago have wasted away: they do not work, while those who do cannot acquire any real property.

The real purpose of government, according to Marx, is to protect the interests of the ruling class of owners. The forces of production of a society–its substructure–always have, historically, given society its class and its superstructure (or government and popular ideologies). Those in power promote the ideologies that justify their position of privilege. This view of history is called historical materialism.

The result of unrestrained free markets and private ownership will be a series of disasters for working people, leaving them immiserated. Three general tendencies will combine to bring this about:

First, modern capitalist systems will exhibit an increasing concentration of industrial power in relatively few hands. As self-interested private owners struggle to increase the assets they control, little businesses will gradually be taken over by larger firms that will keep expanding in size.

Second, capitalist societies will experience repeated cycles of economic downturns or crises. Because workers are organized into mass assembly lines, the firm of each owner can produce large amounts of surplus.

Third, Marx argues, the position of the worker in capitalist societies will gradually worsen.' This gradual decline will result from the self-interested desire of capitalist owners to increase their assets at the expense of their workers.

Though many of Marx's predictions have turned out to be correct, the immiseration of workers has not occurred. Still, many claim that unemployment, inflation, alienation, and false desires do characterize much of modern capitalist society.

Defenders of free markets counter that Marx makes an un-provable assumption that just means equality or distribution according to need. They claim that justice really means distribution according to contribution (which requires free markets). Even if private ownership causes inequalities, defenders of free markets still maintain that the benefits of the system are greater and more important than the incidental inequalities.

Whether the free market argument is persuasive depends ultimately on the importance one gives to the rights to liberty and property as opposed to a just distribution of income and wealth.

Conclusion: The Mixed Economy

Which side, free markets or government intervention, will ultimately win? Neither the collapse of the Soviet Union nor the rise of strong collectivist governments like Japan proves one side or the other. Indeed, it may be the case that neither side by itself presents a complete picture of

how the modern economy ought to run.

Many economists now advocate retaining the market system and private property while modifying their workings through government regulation, a mixed economy that attempts to remedy the deficiencies of a free market system. Such policies can be very successful, as they have been in Sweden, Japan, Norway, and many other countries. Even though the U.S. is more successful economically than most other countries, studies do indicate that mixed economies have some advantages.

New technologies are also firing the debate over the balance between Lockean private property and collective ownership. Modern technologies, especially computers, create new forms of intellectual property that, unlike other types of property, can be copied and consumed by a number of different individuals at once. Locke's view, and the view of some utilitarians, is that the mental labor that creates the property creates the property rights over that product. Socialists point out that artists, writers, and thinkers have always created works without any financial incentive.

Should new scientific and engineering discoveries be protected as private property? Should these things be shared by the society that made their discovery possible? The debate continues. Still, though critics of Marx contend that Marxism is dead, many socialist trends and theories remain influential. Locke and Smith's form of capitalism has the upper hand, but many nevertheless maintain that a mixed economy comes closest to combining the utilitarian benefits of the market economy with a proper respect for human rights, caring and justice.