Sixth Edition

Contemporary Issues in Business Ethics

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Preface

It has been thirty years since publication of the first edition of *Contemporary Issues in Business Ethics*. In bringing out this Sixth Edition, we remain committed to the four goals of the first edition. First, we seek to approach business ethics from a *social and political perspective* that examines the proper place of business within a society committed to democratic ideals. We believed then, as we continue to believe today, that business ethics is too often approached from a narrow personal and managerial perspective, as if the only relevant question is "What should I do as a business manager?" Instead, we approach business as a social institution existing in a social and political context, in which a broad range of stakeholders, and their rights and responsibilities, influence the daily operations of business.

Second, we continue to bring special attention to the *rights and responsibilities of employees*. Many students who use this text will eventually hold managerial positions, but they all, with few exceptions, will first and always be employees working for others. Employees depend on business for their income and—of increasing importance—health care. The workplace is where most of us spend half of our waking life, a context in which others have the authority to direct our behavior. Any situation in which an institution exercises control over an individual's ability to satisfy basic needs and choices deserves close ethical attention, and business is no exception.

Third, we continue to seek a balance between *careful philosophical analysis and ease of accessibility* to a wide range of student interests and abilities. We believe this book will stimulate student interest both at first glance and after sustained and close study. We hope students will come away from this text not only having

learned a good deal about business ethics, but also with the ability to think and reason philosophically.

Finally, we present readings and cases that *reflect a wide range of disciplines and perspectives*. Our readings come not only from philosophy and management, but also from law, economics, journalism, marketing, social science, and finance. Case and Decision Scenarios encourage students to apply the lessons from these diverse fields and perspectives to practical real-world issues.

The Sixth Edition incorporates a number of substantive changes reflecting cutting edge developments in business ethics. Two new chapters have been added, but we have retained many crucial readings, including some that were original to the first edition and have become classics over the years.

Readers of prior editions will recognize a familiar logical structure to this text. In Part I we introduce students to the conversation by beginning with the classic essay by Milton Friedman, "The Social Responsibility of Business Is to Increase Its Profits." Chapter 1 through Chapter 4 use this essay—and the ethical, social, and economic views it presupposes—to introduce students to the basics categories of philosophical ethics: utilitarianism, rights, duties, relativism, virtues, ethics and the law, and so forth. Chapter 5 and Chapter 6 of Part II are new and examine business as a social institution in some depth, with particular attention paid to issues of the nature and purpose of the corporation, corporate governance, corporate culture, and leadership. The general conclusion from these early chapters is that a philosophically adequate account of business ethics must acknowledge that business has many ethical responsibilities beyond the narrow ones described by Friedman. To understand the full range and content of such responsibilities, we then examine the ethical relationships of business with its major stakeholders: employees (Part III), consumers (Part IV), and society at large (Part V).

NEW TO THE SIXTH EDITION

This Sixth Edition of *Contemporary Issues in Business Ethics* reflects a substantive revision of the contents and structure of the text. This edition includes:

- Eighteen new readings from authors such as:

  Bruce Barry
  John Boatright
  Norman Bowie
  Ron Duska
  Edward Freeman
  Steven Kelman
  John McCall
  Tara Radin

Lynn Stout
Pat Werhane

- Eighteen classic readings retained from authors such as:

  Denis Arnold
  Norman Bowie
  George Brenkert
  Albert Carr
  Thomas Carson
  James Chelius
  Joseph DesJardins
  Ron Duska
  Milton Friedman
  Ian Maitland
  John McCall
  Juliet Schor

- Twenty-three new Cases and Decision Scenarios (fifty-four total) on such topics as:

  Goldman Sachs
  Patagonia
  Bangladesh and Rana Plaza
  Doing Business in China
  Corporate Loyalty Cards
  Volkswagon
  Electronic Monitoring at Work
  Apple
  Edward Snowdon
  Subprime Mortgages
  B-Corps
  Consumer Loyalty Cards

- Two entirely new chapters, on corporate purpose (Chapter 5) and on governance and leadership (Chapter 6)
- New coverage of:

  The Affordable Care Act
  Free Speech in the Workplace

Religious Freedom at Work
Corporate Culture
Corporate Purpose
Governance
Leadership
CEO Compensation
The 2008 Financial Crash
Virtue Ethics
Consumer Data Privacy
Sustainability
UN Framework on Business and Human Rights
Corporate Complicity with Human Rights Violations
Conflicts of Interest
Subprime Mortgages
Electronic Monitoring in the Workplace
Corporate Political Advertising
Rana Plaza Factory Collapse in Bangladesh
Supply Chain Management
Job Dismissals
Cost-Benefit Analysis
Deception and Manipulation of Consumers
Women's Career Paths

- Retained emphasis on the social, political, and philosophical foundations of business ethics
- Retained organizing structure focused on potential business obligations to employees, consumers, and society at large

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Business, Ethics, and the Free Market

INTRODUCTION

In January 2011, the Federal Crisis Inquiry Commission issued its report on the causes of the economic crisis that began in 2007. Among its conclusions, the commission found that "[t]he crisis was the result of human action and inaction, not of Mother Nature or computer models gone haywire. The captains of finance and the public stewards of our financial system ignored warnings and failed to question, understand, and manage evolving risks within a system essential to the well-being of the American public." The commission cited "dramatic failures of corporate governance and risk management," "widespread failures in financial regulation and supervision," "excessive borrowing, risky investments, and lack of transparency," an "ill-prepared" government, "failures of credit rating agencies," and "a systemic breakdown in accountability and ethics."

One of the major lessons to be drawn from these findings is that the best analysis of the most serious economic crisis since the Great Depression of the 1930s cites both personal failures of individuals and shortcomings within the economic, social, and political context in which these individuals acted. It was both the "captains of finance" *and* the "public stewards of our financial system" who failed us, and who were responsible for the harms to the "well-being" of the public.

These conclusions highlight the perspective we take in this book. Business ethics involves not only issues of managerial decision making but also must examine the economic, social, political, and legal institutions and practices within which individual decisions are made. Ethics involves issues at both the individual, personal level and issues of social institutions, structures, and practices.

Unethical and shady business practices in such major financial firms as Bear Stearns, Countrywide Financial, Lehman Brothers, AIG, Goldman Sachs, Citigroup, Merrill Lynch, McLennan, Credit Suisse, Fannie Mae, and First Boston all played roles in the financial collapse that had global implications that continue to this day. Fraud, deception, conflicts of interest, and sheer greed seemed to characterize the standard business practices of the financial industry in the first decade of the twenty-first century.

Numerous institutions were designed to prevent such abuse by providing oversight and regulation in financial markets. Boards of directors have legal and ethical obligations to oversee the activities of managers and ensure that the best interests of the corporation are being served. Auditors and accountants have an obligation to conduct independent appraisals and testify to the integrity of corporate financial reports. Financial analysts and credit rating firms have an obligation to provide truthful advice to investors. Government regulators and private oversight boards have an obligation to prevent fraud and conflicts of interest, and to promote responsible corporate governance.

Unfortunately, all of these watchdogs failed in their oversight function. In many cases, the very CEOs charged with corruption also held positions as chairmen of the boards of directors. In such situations it would be extremely unlikely for the board to fulfill its oversight obligations. Accountants and auditors were involved in each of the unethical practices mentioned previously, and in every case they, too, stand accused of fraud. The Securities and Exchange Commission charged financial analysts and financial advisors at numerous financial institutions and credit agencies with misleading investors by issuing fraudulent reports or by concealing conflicts of interest. Deregulation, including the 1999 repeal of the Glass-Steagall Act, a federal law that had prohibited commercial banks from engaging in securities and investment banking, created an environment in which financial institutions could push the envelope of ethical practice with impunity. Failures in judgment and failures in ethics ran deep throughout the financial system, and millions of people lost their homes, their jobs, their retirement savings, and their businesses as a result.

Business is among the most powerful and influential social institutions in human history. As so clearly seen by the results of the 2007–2008 economic meltdown, decisions made in business affect nearly every aspect of contemporary life. Almost half of our waking hours are spent in the workplace (at least for those of us fortunate enough to have full-time employment; for those who lack full-time work, that fact also is highly influenced by business decisions). What we eat, where we live, if and how we work, how we are governed, how we spend our leisure time, and how much access we have to education and health care are all strongly influenced by what happens in business.

It is crucial, therefore, that we think carefully about the ethical status of business. Businesses are not natural objects that humans have discovered; they are human institutions humans have created. Therefore, we are responsible for the existence

and structure of business institutions and must acknowledge that responsibility by monitoring the ethical dimensions of business activities.

What is the appropriate role of business in society? How should business institutions be structured to ensure that they are consistent with the fundamental values of a society? What responsibilities do businesses have to the society in which they operate? To their employees? To the consumers of the goods and services that they provide? Conversely, what responsibilities does a society have to business owners and managers? These questions make it easy to see why business ethics is relevant to every individual—as citizen, as employee, as consumer, as responsible business manager.

To understand more fully the relevance of ethics to business, it is worth considering the range of people harmed by the widespread business misconduct that brought about the economic meltdown. Certainly the individuals accused of crimes and unethical behavior, as well as their families, have been affected directly. Although critics claim that not enough white-collar crime has been prosecuted, many executives involved in recent scandals face years of legal and financial troubles and social dishonor. Their families, in many cases innocent of any wrongdoing themselves, face similar burdens.

Employees of these firms have been harmed in many ways as well. Tens of thousands of innocent people lost their jobs as a consequence of the collapse of such firms as Bear Stearns, Lehman Brothers, Countrywide Financial, and AIG. As a result, thousands of innocent families lost their income, health care insurance, and retirement funds. Many investors suffered significant losses from these practices as well. Quite literally, billions of dollars have been lost by investors due to fraud and corruption within the financial industry. There is little doubt that financial misconduct undermined investor confidence in financial markets and that this contributed to lengthening and deepening the economic downturn.

Millions of people lost their homes, and years later remain deeply in debt, as a result of the collapse of the housing bubble that had been created by these unethical financial practices.

It is fair to say that the general public has been harmed as well. Six years later, the U.S. economy continues to feel the effects of these failures, and the entire global economy has been even slower to recover.

In light of these events, the centrality of ethics to a business education might seem abundantly clear. It would be impossible even to begin talking about these cases without using the language, concepts, and categories of ethics. In this way, a course in business ethics is as central to a business education as courses in managerial accounting, finance, marketing, human resource management, and all the other core disciplines of a business curriculum. Yet despite this, skepticism about the relevance of ethics to business remains. Many people simply think ethics is irrelevant to business. To counter this common misperception, this chapter makes the case for the need to study ethics in a business setting.

WHAT IS ETHICS?

Ethics is all about choices. What kind of person should I be? What should I do? How should I behave? What should I value? In what type of society ought we live? The ancient Greek philosopher Socrates claimed that "the unexamined life is not worth living," and this statement captures the essence of an ethical life. Every single day, each one of us faces a range of ethical questions that boil down to perhaps the most fundamental question of all: How should I live my life? Answering these questions is unavoidable; we go through life either explicitly answering these questions, or we implicitly answer them by the choices we make each day.

In thinking about these questions, it is helpful to distinguish between two different senses of "ethics." The word *ethics* itself is derived from the Greek word *ethos*, meaning "custom." In this sense, "business ethics" refers to the actual customs, attitudes, values, and rules that operate within the business world. With this understanding, business ethics is often studied by social scientists who are interested in understanding the actual decisions, behaviors, practices, and values that occur within business settings. Business ethics in this sense is *descriptive* in that it describes the values and practices within business.

But from the earliest days of Greek philosophy, philosophers have not been satisfied with simply identifying what is customary with what is ethical. *Ethics* also refers to an intellectual and academic discipline, a subfield within philosophy, that evaluates and makes judgments about those customs, values, and rules by which people live. In this way, "business ethics" is *normative* in that it evaluates the customary values and behavior of business against ethical norms. Descriptive ethics focuses on what *is* valued, whereas normative ethics is concerned with what *should be* valued.

But philosophical ethics is not content with merely what should and ought to be; philosophical ethics also aims to answer the question "Why?" Philosophical ethics asks us to step back and abstract ourselves from the actual practices of society to evaluate those practices and to provide a systematic justification for those evaluations. It is fair to say that Western philosophy was born in Socrates's critical examination of the customary norms of Greek society. Socrates described philosophy as the gadfly that buzzes around a noble, but sluggish horse. The role of the gadfly (business ethics) is to prod the horse (business and society) out of complacency and keep it moving forward by questioning, examining, and justifying what is considered normal or acceptable. Failing to do so is to live an unexamined life. One consequence of this is that one may effectively sleepwalk through life, uncritically accepting the norms, values, and expectations of one's environment. This, Socrates tells us, is to live a life less than fully human and not worth living. In this textbook we examine, in a philosophically systematic way, a wide range of normative judgments about business.

Returning to the skepticism about business ethics mentioned earlier, we see that it amounts to the claim that philosophical ethics are somehow irrelevant to the practice of business. In the remainder of this chapter, we examine two common versions of this

skepticism. *Ethical relativism* holds that there are no objective or rational standards by which one can judge business. A second view, associated with defenders of *free market economics*, claims that business practices and customs already are ethical and therefore it is unnecessary to employ external philosophical standards beyond the values built into market economics in order to judge business practice.

ETHICAL RELATIVISM

Ethical relativists hold that all ethical beliefs and values are *relative* to one's own culture, religion, or feelings. On this view, ethics truly is nothing more than the ancient Greek *ethos,* or "custom," and there is no external basis on which to judge anyone's customs. Relativists thus deny that any objective or rational standards can be applied across cultures or religions, or between individuals. The most common expression of relativism is found in the rhetorical question, "Who's to say what is right or wrong?" Relativism poses a serious challenge because if it is true that there is no rational way to decide what is normatively right or wrong, then business ethics is a waste of time. More important, without some rational standard that is independent of cultures, religions, and individual beliefs, we are left with only power to settle conflicts. This point has been recognized from the earliest days of Western philosophy. In a dialogue with the sophist Thrasymachus in Book I of Plato's *Republic,* Socrates acknowledges that if there is no rational way to establish the norms of justice, then we are left with the relativist view that justice is whatever is to the advantage of the strongest. If there are no objective or rational standards by which we can judge if some customary norm is right or wrong, then social norms will be established by whoever has the ability and power to do so.

Fortunately, several considerations count strongly against the validity of ethical relativism. First, we should be careful to distinguish what people *believe* is right or wrong from what *is* right or wrong. It is true that beliefs about right and wrong, justice and fairness, differ among cultures, religions, and individuals. Some particular culture or religion might believe, for example, that women are inferior beings who deserve to be treated as slaves. But *believing* that this is right does not make it right.

What is sometimes called *cultural relativism* acknowledges the fact that cultures disagree about many beliefs and values. If this is all that ethical relativism involves, there would be little cause for worry. But ethical relativism is not just this descriptive claim; it is a normative viewpoint that claims there can be no objective or rational standards by which we can resolve disputes and disagreements.

The first consideration that counts against the plausibility of ethical relativism is simply to point out that the truth of cultural relativism—the fact that cultures disagree—is not evidence that objective agreement is impossible. After all, some cultures have believed that the earth is flat or at the center of the universe. But no matter how many people believe the earth is flat, it still remains round. If ethical relativism is to be defended, it must rely on something other than the fact that people disagree about what is right or wrong, just and fair, good or bad.

Second, we must be careful not to confuse tolerance and respect for diversity with relativism. Many of us believe we should respect diverse cultures and tolerate a wide diversity within and among cultures. But we must recognize that the very values cited in defending these conclusions—tolerance and respect—must be assumed to be ethically rational and objective. When one claims that diversity *ought* to be respected, one has made an ethical judgment. Either respect and tolerance are values that are rationally defensible, in which case we are justified in making those judgments, or respect and tolerance are themselves relative to one's own culture, in which case someone who disagrees has no reason to accept our prescriptions. The values of respect and tolerance are not reasons for accepting the legitimacy of ethical relativism.

This raises a third consideration. We need to be careful to distinguish disagreement about ethical principles from disagreement about particular judgments based on those principles. It may turn out that there is less disagreement about ethical principles than many relativists assume. The United Nations Universal Declaration of Human Rights, for example, was adopted without dissent. Every country in the world formally agrees to it. Of course, people do not always live up to their commitments, and there is wide disagreement over the application of general principles such as the right to life and liberty. Again, disagreement alone does not prove the ethical relativist conclusion. In fact, disagreement over the application of an agreed-upon principle calls for more, rather than less, ethical reasoning.

A fourth consideration reminds us not to ask too much of ethics. It is tempting to think that if ethical judgments cannot be proved beyond a doubt, and if one cannot persuade others to accept ethical conclusions, then they must be relative and unreasonable. But surely few, if any, of our rational beliefs can be proved beyond a doubt. Logicians would call this the fallacy of a false dilemma: either a judgment can be proved beyond a doubt or it is unreasonable. Ethics, like most other fields of inquiry, relies on a standard better understood as "rational justification" than as "certain proof." If we can give reasons to support our ethical views, if they can withstand criticism, if they are consistent with the facts, and if they are coherent with other deeply held values, then we can be rationally justified in holding them. If we hold ethics to a standard of certain proof—attainable in mathematics, perhaps, but in few other fields—then we will be unlikely to ever prove anything in ethics. However, if we use standards of rational justification—standards common in such diverse fields as medicine, history, and law—then we can be as justified in our ethical judgments as we are in medical, historical, and legal judgments.

Finally, we must recognize the costs involved in being a consistent ethical relativist. The relativist must claim that there is no reasonable and objective basis for establishing that freedom is better than slavery, democracy is better than totalitarianism, heroism is better than murder, and friendship is better than hatred. The relativist must claim that there is no rational ethical difference between a parent who loves and nurtures her child and the one who abuses and murders her child. Relativists deny objectivity in ethics because, after all, "Who is to say what's right or wrong?" and, as suggested by

economist Milton Friedman in the essay that follows, "One man's good is another's evil." These examples suggest how dangerous such relativist conclusions can be.

Of course, one of the best ways to assess the objectivity of ethical reasoning is to participate in ethical reasoning. We turn now to the second source of skepticism about the relevance of ethics, the view that holds that business practices already are ethical and therefore it is unnecessary to bring in external philosophical standards to judge the ethics of business. We invite you to participate in some ethical reasoning to assess the validity of that position.

BUSINESS ETHICS: THE "FREE MARKET" THEORY

The second source of skepticism about business ethics holds that philosophical business ethics is unnecessary because an adequate ethics code already governs normal business practice. That ethical view is implicit within the economic system of free market capitalism.

In much of Europe, Asia, and North America, but especially in the United States, there is a specific theory of business ethics that is implicit in the thinking of many people. What we refer to as the "free enterprise" or "free market" theory provides a systematic view of the proper role of business in society. For many people, especially for many business owners and managers as well as many economists and finance theorists, this theory functions as the "official" ethics of business. Like the moral customs and norms that Socrates discovered when he questioned the leaders of his native Athens, this theory can serve as our starting point for philosophical analysis.

In general, the free market theory tells us that business managers have one overriding responsibility: to maximize the profits of business owners. In terms more common in business schools and finance classes, the overriding goal of managers and finance professionals is to maximize shareholder value. This responsibility is constrained only by the responsibility to avoid fraud and coercion, and the obligation to obey the law. This theory also holds that government's responsibility is to protect the workings of the free market and otherwise stay out of economic matters. Markets should be "free" and unregulated; individuals should be allowed to make choices free from outside interference, both from other individuals and from government regulation.

This free market perspective can be thought of as providing a normative ethics, offering analyses of and prescriptions for most issues of business ethics. We will see versions of the free market perspective defended in most of the chapters of this book. Although we believe that ultimately it is an unsatisfactory ethical philosophy, it remains an influential, popular, and highly regarded viewpoint. Even if you do not agree with it, this perspective deserves your close consideration.

Fortunately, free market ethics has many articulate defenders. One such defender was the economist Milton Friedman, who sketches this view in the now classic article that follows. As you read through this article, begin your practice of philosophical ethics by asking the types of questions described in this introduction. Why is Friedman's

view an ethical position? To what values and norms does he appeal? What, exactly, does he see as the proper role of business in society? How might Friedman respond to the skeptic who suggests that ethics is irrelevant to business managers and business owners? What responsibilities do business managers have? Consider what Friedman might say about the corporate activities mentioned at the beginning of this chapter. What is the proper relationship between business and government? What reasons are offered to support this view? Are the reasons convincing?

READING 1.1

THE SOCIAL RESPONSIBILITY OF BUSINESS IS TO INCREASE ITS PROFITS

Milton Friedman

When I hear businessmen speak eloquently about the "social responsibilities of business in a free-enterprise system," I am reminded of the wonderful line about the Frenchman who discovered at the age of 70 that he had been speaking prose all his life. The businessmen believe that they are defending free enterprise when they declaim that business is not concerned "merely" with profit but also with promoting desirable "social" ends; that business has a "social conscience" and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers. In fact they are—or would be if they or anyone else took them seriously—preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades.

The discussions of the "social responsibilities of business" are notable for their analytical looseness and lack of rigor. What does it mean to say that "business" has responsibilities? Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but "business" as a whole cannot be said to have responsibilities, even in this vague sense. The first step toward clarity in examining the doctrine of the social responsibility of business is to ask precisely what it implies for whom.

Presumably, the individuals who are to be responsible are businessmen, which means individual proprietors or corporate executives. Most of the discussion of social responsibility is directed at corporations, so in what follows I shall mostly neglect the individual proprietor and speak of corporate executives.

In a free-enterprise, private-property system a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom. Of course, in some cases his employers may have a different objective. A group of persons might establish a corporation for an eleemosynary purpose—for example, a hospital or a school. The manager of such a corporation will not have money profit as his objective but the rendering of certain services.

In either case, the key point is that, in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation or establish the eleemosynary institution, and his primary responsibility is to them.

Needless to say, this does not mean that it is easy to judge how well he is performing his task. But at least the criterion of performance is straightforward, and the persons among whom a voluntary contractual arrangement exists are clearly defined.

Of course, the corporate executive is also a person in his own right. As a person, he may have many other responsibilities that he recognizes or assumes voluntarily—to his family, his conscience, his feelings of charity, his church, his clubs, his city, his country. He may feel impelled by these responsibilities to devote part of his income to causes he regards as worthy, to refuse to work for particular corporations, and even to leave his job, for example, to join

his country's armed forces. If we wish, we may refer to some of these responsibilities as "social responsibilities." But in these respects he is acting as a principal, not an agent; he is spending his own money or time or energy, not the money of his employers or the time or energy he has contracted to devote to their purposes. If these are "social responsibilities," they are the social responsibilities of individuals, not of business.

What does it mean to say that the corporate executive has a "social responsibility" in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers. For example, that he is to refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price increase would be in the best interests of the corporation. Or that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment. Or that, at the expense of corporate profits, he is to hire "hard-core" unemployed instead of better-qualified available workmen to contribute to the social objective of reducing poverty.

In each of these cases, the corporate executive would be spending someone else's money for a general social interest. Insofar as his actions in accord with his "social responsibility" reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money.

The stockholders or the customers or the employees could separately spend their own money on the particular action if they wished to do so. The executive is exercising a distinct "social responsibility," rather than serving as an agent of the stockholders or the customers or the employees, only if he spends the money in a different way than they would have spent it.

But if he does this, he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other.

This process raises political questions on two levels: principle and consequences. On the level of political principle, the imposition of taxes and the expenditure of tax proceeds are governmental functions. We have established elaborate constitutional, parliamentary and judicial provisions to control these functions, to assure that taxes are imposed so far as possible in accordance with the preferences and desires of the public—after all, "taxation without representation" was one of the battle cries of the American Revolution. We have a system of checks and balances to separate the legislative function of imposing taxes and enacting expenditures from the executive function of collecting taxes and administering expenditure programs and from the judicial function of mediating disputes and interpreting the law.

Here the businessman—self-selected or appointed directly or indirectly by stockholders—is to be simultaneously legislator, executive and jurist. He is to decide whom to tax by how much and for what purpose, and he is to spend the proceeds—all this guided only by general exhortations from on high to restrain inflation, improve the environment, fight poverty and so on and on.

The whole justification for permitting the corporate executive to be selected by the stockholders is that the executive is an agent serving the interests of his principal. This justification disappears when the corporate executive imposes taxes and spends the proceeds for "social" purposes. He becomes in effect a public employee, a civil servant, even though he remains in name an employee of a private enterprise. On grounds of political principle, it is intolerable that such civil servants—insofar as their actions in the name of social responsibility are real and not just window dressing—should be selected as they are now. If they are to be civil servants, then they must be selected through a political process. If they are to impose taxes and make expenditures to foster "social" objectives, then political machinery must be set up to guide the assessment of taxes and to determine through a political process the objectives to be served.

This is the basic reason why the doctrine of "social responsibility" involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses.

On the grounds of consequences, can the corporate executive in fact discharge his alleged "social responsibilities"? On the one hand, suppose he could get away with spending the stockholders' or customers' or employees' money. How is he to know how to spend it? He is told that he must contribute to fighting inflation. How is he to know what action of his will contribute to that end? He is presumably an expert in running his company—in producing a product or selling it or financing it. But nothing about his selection makes him an expert on inflation. Will his holding down the price of his product reduce inflationary pressure? Or, by leaving more spending power in the hands of his customers, simply divert it elsewhere? Or,

by forcing him to produce less because of the lower price, will it simply contribute to shortages? Even if he could answer these questions, how much cost is he justified in imposing on his stockholders, customers and employees for this social purpose? What is his appropriate share and the share of others?

And, whether he wants to or not, can he get away with spending his stockholders', customers' or employees' money? Will not the stockholders fire him? (Either the present ones or those who take over when his actions in the name of social responsibility have reduced the corporation's profits and the price of its stock.) His customers and his employees can desert him for other producers and employers less scrupulous in exercising their social responsibilities.

This facet of "social responsibility" doctrine is brought into sharp relief when the doctrine is used to justify wage restraint by trade unions. The conflict of interest is naked and clear when union officials are asked to subordinate the interest of their members to some more general social purpose. If the union officials try to enforce wage restraint, the consequence is likely to be wildcat strikes, rank-and-file revolts and the emergence of strong competitors for their jobs. We thus have the ironic phenomenon that union leaders—at least in the U.S.—have objected to Government interference with the market far more consistently and courageously than have business leaders.

The difficulty of exercising "social responsibility" illustrates, of course, the great virtue of private competitive enterprise—it forces people to be responsible for their own actions and makes it difficult for them to "exploit" other people for either selfish or unselfish purposes. They can do good—but only at their own expense.

Many a reader who has followed the argument this far may be tempted to remonstrate that it is all well and good to speak of government's having the responsibility to impose taxes and determine expenditures for such "social" purposes as controlling pollution or training the hardcore unemployed, but that the problems are too urgent to wait on the slow course of political processes, that the exercise of social responsibility by businessmen is a quicker and surer way to solve pressing current problems.

Aside from the question of fact—I share Adam Smith's skepticism about the benefits that can be expected from "those who affected to trade for the public good"—this argument must be rejected on grounds of principle. What it amounts to is an assertion that those who favor the taxes and expenditures in question have failed to persuade a majority of their fellow citizens to be of like mind and that they are seeking to attain by undemocratic procedures what they cannot attain by democratic procedures. In a free society, it is hard for "good" people to do "good," but that is a small price to pay for making it hard for "evil" people to do "evil," especially since one man's good is another's evil.

I have, for simplicity, concentrated on the special case of the corporate executive, except only for the brief digression on trade unions. But precisely the same argument applies to the newer phenomenon of calling upon stockholders to require corporations to exercise social responsibility (the recent G.M. crusade, for example). In most of these cases, what is in effect involved is some stockholders trying to get other stockholders (or customers or employees) to contribute against their will to "social" causes favored by the activists. Insofar as they succeed, they are again imposing taxes and spending the proceeds.

The situation of the individual proprietor is somewhat different. If he acts to reduce the returns of his enterprise in order to exercise his "social responsibility," he is spending his own money, not someone else's. If he wishes to spend his money on such purposes, that is his right, and I cannot see that there is any objection to his doing so. In the process, he, too, may impose costs on employees and customers. However, because he is far less likely than a large corporation or union to have monopolistic power, any such side effects will tend to be minor.

Of course, in practice the doctrine of social responsibility is frequently a cloak for actions that are justified on other grounds rather than a reason for those actions.

To illustrate, it may well be in the long-run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees, it may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects. Or it may be that, given the laws about the deductibility of corporate charitable contributions, the stockholders can contribute more to charities they favor by having the corporation make the gift than by doing it themselves, since they can in that way contribute an amount that would otherwise have been paid as corporate taxes.

In each of these—and many similar—cases, there is a strong temptation to rationalize these actions as an exercise of "social responsibility." In the present climate of opinion, with its widespread aversion to "capitalism," "profits," the "soulless corporation" and so on, this is

one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest.

It would be inconsistent of me to call on corporate executives to refrain from this hypocritical window-dressing because it harms the foundations of a free society. That would be to call on them to exercise a "social responsibility"! If our institutions, and the attitudes of the public make it in their self-interest to cloak their actions in this way, I cannot summon much indignation to denounce them. At the same time, I can express admiration for those individual proprietors or owners of closely held corporations or stockholders of more broadly held corporations who disdain such tactics as approaching fraud.

Whether blameworthy or not, the use of the cloak of social responsibility, and the nonsense spoken in its name by influential and prestigious businessmen, does clearly harm the foundations of a free society. I have been impressed time and again by the schizophrenic character of many businessmen. They are capable of being extremely far-sighted and clear-headed in matters that are internal to their businesses. They are incredibly short-sighted and muddle-headed in matters that are outside their businesses but affect the possible survival of business in general. This short-sightedness is strikingly exemplified in the calls from many businessmen for wage and price guidelines or controls or income policies. There is nothing that could do more in a brief period to destroy a market system and replace it by a centrally controlled system than effective governmental control of prices and wages.

The short-sightedness is also exemplified in speeches by businessmen on social responsibility. This may gain them kudos in the short run. But it helps to strengthen the already too prevalent view that the pursuit of profits is wicked and immoral and must be curbed and controlled by external forces. Once this view is adopted, the external forces that curb the market will not be the social consciences, however highly developed, of the pontificating executives; it will be the iron fist of Government bureaucrats. Here, as with price and wage controls, businessmen seem to me to reveal a suicidal impulse.

The political principle that underlies the market mechanism is unanimity. In an ideal free market resting on private property, no individual can coerce any other, all cooperation is voluntary, all parties to such cooperation benefit or they need not participate. There are no "social" values, no "social" responsibilities in any sense other than the shared values and responsibilities of individuals. Society is a collection of individuals and of the various groups they voluntarily form.

The political principle that underlies the political mechanism is conformity. The individual must serve a more general social interest—whether that be determined by a church or a dictator or a majority. The individual may have a vote and a say in what is to be done, but if he is overruled, he must conform. It is appropriate for some to require others to contribute to a general social purpose whether they wish to or not.

Unfortunately, unanimity is not always feasible. There are some respects in which conformity appears unavoidable, so I do not see how one can avoid the use of the political mechanism altogether.

But the doctrine of "social responsibility" taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collectivist doctrine. It differs only by professing to believe that collectivist ends can be attained without collectivist means. That is why, in my book *Capitalism and Freedom*, I have called it a "fundamentally subversive doctrine" in a free society, and have said that in such a society, "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

DOING BUSINESS ETHICS: AN ANALYSIS OF FRIEDMAN

Ethical discussions often involve deeply held values and attitudes. They challenge us to examine and perhaps even change some of the beliefs that we simultaneously take for granted and hold most dear. The standards of evidence and reasoning in ethics are not as obvious as they might be in fields such as science and math. For these reasons, we should go slowly as we begin an ethical analysis of Friedman's essay, examining his argument closely and carefully. We offer the following discussion as a model for the

type of analysis you should conduct for each of the essays in this text. In what follows, we not only offer an analysis of Friedman, but we also hope to call your attention to the type of reasoning that will be helpful throughout your study of business ethics. (Before we begin to analyze the essay, it is particularly useful to review the discussion of ethical relativism on pp. 5–7.)

Our first step is to develop a clear understanding of Friedman's ethical views. Following common usage, we refer to the views expressed in his essay as the "classical model of corporate social responsibility." It is a viewpoint that connects the responsibility of business management with the underlying economic theory of free market capitalism. We call this view "classical" in two senses. First, as previously mentioned, it is a view that has been presupposed by many people in Western culture; second, it is a view of business and industry that is derived from classical, free market economics.

The classical model offers recommendations and norms for the responsibilities of business managers. These responsibilities flow from the role business plays in a free market economic system. This economic system itself is justified by appeal to ethical values that provide the deeper philosophical justification for the role of business managers. To understand these claims, we now turn to a closer examination of Friedman's essay.

First, we should be clear that Friedman is advocating an explicitly ethical position. Friedman's conclusions are not ethically neutral, or merely economic. When he recommends that business managers seek only to "increase profits" and "make as much money as possible," he is not suggesting that managers ignore ethical responsibilities and pursue their own greed and self-interest. Rather, he suggests that in pursuing maximum profits a business manager is fulfilling her responsibility to society and doing what is ethically correct.

Friedman, therefore, is doing more than *descriptive ethics*; he does much more than describe what, in fact, occurs in business. Friedman is offering a normative prescription for how one ought to act. If Friedman's recommendations were followed, we would be required to change our business, social, and political institutions dramatically.

Finally, Friedman is not merely offering his *opinion* about what one should do in business. He presents numerous *reasons* to support these recommendations and, in this way, he is fully engaged in *normative ethics.* Friedman does not simply accept what is customary in business practice. He steps back from what is actually occurring within business (the widespread assumption that business has a "social responsibility" to "promote desirable 'social' ends") and offers a reasoned critique of these practices. In his view, the doctrine of social responsibility violates important social norms and is therefore ethically irresponsible. Let us look more closely at these normative ethical claims.

Friedman begins by examining the thesis that businesses have "social responsibilities" that extend above and beyond profit. He then presents reasons to criticize this account of corporate social responsibility, and offers reasons that support his own alternative theory. In arguing against the social responsibility thesis, Friedman suggests that to sacrifice profits for the sake of some "social objective" such as "providing employment,

eliminating discrimination, [and] avoiding pollution" is potentially to become "unwitting puppets of the intellectual forces that have been undermining the basis of a free society." This doctrine of social responsibility is called a "fundamentally subversive doctrine in a free society." Thus Friedman rejects the business practice of pursuing social objectives because doing so violates certain fundamental norms of a free society.

In arguing to support his own alternative, Friedman appeals to the values of a "free-enterprise, private-property system" and concludes that in such a system a business manager's "primary" and "direct" responsibility is to act in accord with the desires and interests of the business owners. In all but the exceptional case, this means that the business manager's responsibility "will be to make as much money as possible while conforming to the basic rules of society, both those embodied in law and those embodied in ethical custom." To do otherwise, according to Friedman, is to usurp the role of duly elected government officials by imposing taxes on other individuals and by deciding how those taxes are to be spent.

Thus we can see that the classical model of corporate social responsibility advances numerous normative ethical claims. It makes recommendations about how we as individuals *ought* to act within business ("act always so as to maximize profits") and about how we as citizens *ought* to arrange our social institutions ("business ought to be free from government interference in its pursuit of profits").

Friedman's Radical Position

In the previous analysis, we can begin to see a wide gap between the actual society in which we live and the society envisioned by Friedman's normative ethics. To the extent that changes in customarily accepted behavior are required, Friedman's recommendations are quite radical. He offers a normative principle that will, on every occasion, determine our ethical responsibilities in business. He tells us that an ethical individual in business must always make the decision that will increase profits. He tells us that any government intervention in the market, other than to prevent fraud or deception, is ethically wrong. In other words, business managers need only look to their accountants, lawyers, and economists to determine their ethical responsibilities. The manager need not, and should not, be fundamentally concerned with issues such as fairness, unemployment, or compassion for employees. Managers need only calculate costs and benefits and consult their lawyers before adopting whatever policy will maximize profits. So, too, with any other moral or public policy issue. Business managers can and should ignore all other ethical considerations for the sake of one overriding principle: maximize profits.

This perspective is quite radical for a number of reasons. First, it conflicts with our ordinary understanding of ethical responsibilities. Ordinarily, it seems that our ethical responsibilities, on occasion at least, will require us to restrict our own behavior out of consideration for the well-being of others. Friedman tells us that, at least in our role as business managers, we can best fulfill our responsibilities to others by pursuing

corporate profit and by considering the interests of others only to the degree that doing so will have a positive effect on that profit.*

This perspective is also radical in its political implications. Imagine a society in which government does not interfere with the economy except to prevent or rectify the harms done by fraud and coercion. Some government regulation of the market could be accepted. The Securities and Exchange Commission, for example, might be justified as protection against security fraud or insider trading. Public utilities commission might be required on local levels to set prices in ways that mimic the market in cases where natural monopolies exist. But there would be little, if any, role for such regulatory agencies as the Occupational Safety and Health Administration, the Environmental Protection Agency, the Consumer Products Safety Commission, the Food and Drug Administration, the Nuclear Regulatory Agency, or the Federal Deposit Insurance Commission. Similarly, there would be no role for government in setting minimum wages, child labor laws, parental leave laws, or laws prohibiting discrimination on the basis of race, religion, or sexual identity. From this radical free market perspective, all these situations are best left to the workings of a competitive market.

More dramatically, any taxation for reasons other than for policing the free market would be an unethical interference with the market. (Imagine the effect this recommendation would have on the legal and accounting professions!) Such governmental departments and programs as Education, Health and Human Services, unemployment compensation, Social Security, or Medicare would all be unethical interferences with a free society. Finally, even government activities that seek to promote economic growth would be unethical. The economic stimulus that helped the U.S. economy recover from the 2007–2008 recession, as well as aid to interstate commerce in such forms as highway, railroad, and airport subsidies; aid to specific industries such as farming, oil, steel, and automobiles; and government regulation of international trade through import quotas and tariffs would also be rejected if we adopted Friedman's normative ethics. Certainly any government role in providing a bailout to failing companies would be wrong. On Friedman's view, no company is "too big to fail." The market should be allowed to run its course.

So far, we have not offered a criticism of Friedman's views. We have characterized Friedman's position as radical not because we disagree with him on the issues. Rather, we believe that each of these issues should be examined in turn on its merits. This is, after all, the only intellectually responsible approach. In evaluating the role of business ethics, we need to understand not only the specific claims of normative positions but also the logical implications of these positions. The classical model of corporate social responsibility, as represented by Friedman's essay, asks us to dramatically change many of our standard ways of thinking and living. We should, therefore, expect to be offered good reasons to justify such significant changes.

*Friedman's view is reminiscent of the conclusion of Adam Smith (1723–1790). In *The Wealth of Nations,* the earliest exposition of market economics, Smith claimed that widespread pursuit of individual self-interest within the structure of a free market would result, as if led by "an invisible hand," in the attainment of the greater overall good.

Upon further examination, it might turn out that in any particular case Friedman's normative recommendation to maximize profits will be the reasonable one. It might turn out, for example, that regulating consumer product safety is best left to the workings of a competitive market. In challenging Friedman's views, we do not want to defend the equally radical position that in every case one must forsake profit in the pursuit of other moral responsibilities. Despite offering a critical evaluation of the classical model here, we will return to give a fair hearing to this perspective on many specific issues throughout the remainder of this text.

Free Society

Let us now examine the ethical reasoning Friedman uses to defend his normative conclusions. He claims that a doctrine of social responsibility requiring business managers to sacrifice profits for other social objectives subverts our free society. The assumption here seems to be that a "free society" is identical to the type of society envisioned in Friedman's essay—that is, a society with totally free markets in which government's role is restricted to the prevention of coercion and fraud and where business is otherwise entirely free to operate on a principle of self-interested pursuit of profit. Is this assumption valid?

The term *free* society has tremendous emotional appeal and a very positive connotation. An important rule to follow when reasoning about ethics is to be careful not to let appeals to emotion cloud our thinking or end the discussion. (Logicians call this *argumentum ad misocordium,* or "argument from emotion," and characterize such an appeal as a logical fallacy when it is used to persuade us to accept a conclusion. Keep this in mind during political campaigns when politicians make similar appeals!) But what is a "free society" exactly? Presumably this refers to *democratic* political structures in which the ultimate authority for making political decisions rests in the hands of the voting population. It would be difficult to defend a society as free if it denied political participation to its citizens and gave authority only to some political elite.

But political thinkers for centuries have recognized that democratic structures alone do not guarantee freedom. Democratically elected governments, even when acting on behalf of a majority of its citizens, can be just as tyrannical as unelected authoritarian governments. For this reason, free societies also extend to their citizens a wide range of individual social and civil liberties. Among these liberties are freedom of speech, freedom of religion, freedom of the press, and the right to own and control private and productive property. As is the case in the United States and most contemporary democracies, these liberties are protected by constitutional restrictions on the freedom of the majority. The Bill of Rights to the U.S. Constitution, for example, limits the freedom of the majority when the First Amendment begins with "Congress shall make no laws which…." Thus we can see in the notion of a constitutional democracy that the concept of a free society is complex, typically involving trade-offs between many different forms of freedom. Most generally, even in a democracy, the

freedom of the majority to shape the society to conform to its values can conflict with the freedom of a minority who disagree.

Historically, the economic liberties and rights of individuals found expression in essentially *capitalist* or *free market* economic systems. In general, economic systems involve the social practices that determine how economic goods and services are *produced* and how they are *distributed*. Capitalism is an economic system in which the means of production (factories, farms, utilities, natural resources, banks, capital) are privately owned and in which economic distribution occurs through the workings of a free market.

Thus capitalism is an *economic* system distinct from the *political* system of democracy. We could easily envision a society with widespread political freedoms without free market capitalist economic structures (the democratic socialist societies of many European countries, for example). We can also envision societies with capitalist economic structures (private individuals owning the means of production and unregulated markets to distribute these products) and few democratic and civil liberties. Historically, many dictatorships throughout Central and South America fit this model, and the emerging market economy in China may provide a more contemporary example.

These issues are examined in more detail in Chapter Three, but we can draw some lessons here. One crucial thing to note is that freedom is not an either/or concept—either you have freedom, or you do not. Rather, there are many different freedoms, and a free society inevitably will involve trade-offs among these freedoms. Sometimes the freedom of the majority is limited by the freedom of the minority, as when, for example, mandatory prayer is prohibited in public schools even when the majority of citizens would want it. Sometimes my freedom to communicate privately with you comes into conflict with my employer's freedom to control and regulate the email system at work. Sometimes economic freedoms are restricted by civil liberties, as when private business owners are prohibited from discriminating on the basis of race or sex in employment.

Furthermore, because democracy and capitalism are different concepts, it does not follow that a free society is threatened or subverted by restrictions upon the sort of capitalist economy that Friedman defends. Most of us would consider the United States a free society even though it falls far short of the laissez-faire capitalist society that Friedman envisions. When a business manager sacrifices profits for some social objective, she may well be restricting the freedom of stockholders to direct their property, but she may be doing it to increase the freedom of others to enjoy unpolluted air or a nondiscriminatory workplace. Friedman is simply wrong, then, when he claims that sacrificing profits for social objectives such as "providing employment, eliminating discrimination, [and] avoiding pollution" undermines the basis of a free society. It may, in fact, be supporting a free society.

The "Tax Argument"

Friedman's other explicit argument is what we might call the "tax argument." Here he claims that business managers who act against the economic interests of the firm to achieve some social objective such as lowering unemployment are, in effect, imposing

taxes on the owners, consumers, and/or employees in order to benefit society. Friedman tells us that imposing such taxes is wrong on two levels: principle and consequences. It is wrong in principle because it violates the political principle that taxes should not be imposed by private individuals. It is wrong at the level of consequences because business managers lack the expertise to solve social problems.

Before we begin a careful assessment of this argument, we should again take care when using emotionally charged language. Friedman speaks of "taxes" here, and like his appeal to a "free society," this is an emotional appeal because many of us will have an automatic negative reaction to taxes. But we need to be careful that we not prejudge the question and accept Friedman's conclusion simply because he has chosen a rhetorically persuasive term. Again, this would be to fall victim of a logical fallacy. To avoid this temptation, we translate Friedman's tax language into a more neutral discussion of "costs." This should be unobjectionable because the manager's decision doesn't really impose taxes in the traditional sense of government levies, but does add costs that otherwise would not exist. So hereafter we will speak of a manager's expenditures on social objectives that reduce profits as the imposition of costs on shareholders, employees, and consumers.

Now, why is it wrong for managers to impose costs on shareholders, employees, and consumers in the pursuit of some social objective? Friedman tells us that on the level of political principle such objectives and costs should be the product of joint decisions by the citizens; unilateral imposition of such costs is contrary to accepted and ethically justified democratic political principles. In addition, even if such unilateral actions were not wrong on principle, the likely consequences of these private decisions would be harmful to society. Thus Friedman appeals to two types of moral reasons—consequences and principles—to support this normative claim.

Let us deal with the consequence-focused branch of the argument first. Friedman claims that management lacks the expertise for making judgments about what acts would produce the greatest net benefit to society. His example is that of a manager who tries to reduce inflation. Ordinary managers have no procedure for making a careful estimate about the consequences of their pricing policy on inflationary trends in a society.

Perhaps this is an accurate description of management expertise with regard to the complex economic problem of inflation. But Friedman has provided no reason for thinking that there cannot be other situations in which a manager does have the expertise needed to address social problems. Suppose a manufacturing firm is discharging the by-products of its production process into a nearby river. The management of this firm should have exactly the expertise needed to determine whether this by-product is harmful to local residents. (Indeed, if it is harmful and management claims ignorance of that fact, our current law would likely hold them negligent for not knowing!) Suppose that, knowing this, management could eliminate this toxic discharge with expenditures that would reduce profitability but not threaten the economic viability of the firm. Again, accomplishing corporate goals in an economically

efficient manner is exactly the kind of expertise that is ordinarily required of management. Now, would voluntarily stopping the discharge, an action Friedman would prohibit unless required by law, produce negative social consequences? Presumably it would not, especially if the discharge is harmful to the health of many people and the costs of stopping it are relatively minor.

Whether management's assumption of responsibilities beyond the narrow range defined by Friedman would have unacceptable consequences appears to depend on the particular responsibility at issue. We cannot assume that management lacks the expertise and ability for reasonable action on the basis of any social responsibility simply because it lacks the expertise or ability in one case. In some cases, management may have exactly the expertise necessary.

Friedman's consequentialist argument commits the fallacy of overgeneralizing from a small set of examples to a universal claim about all cases. This is another important lesson to learn about logic and reasoning. When attempting to support a conclusion by appeal to a specific example, we need to avoid reaching conclusions that go beyond the evidence. Examples in science as well as in ethics can highlight and illustrate, but they do not by themselves prove anything. This argument must be rejected as unconvincing.

Thus Friedman's defense of his conclusion must rest with his argument from political principle. That argument demands that the imposition of costs in pursuit of social objectives must be the result of proper political decisions. The imposition of costs by private individuals is intolerable in principle, according to Friedman.

A word about costs can help begin our analysis of this argument. Cost is a relative thing, as any student of introductory economics learns through the concept of *opportunity costs*. The full cost of any purchase, policy, or decision can be measured only in relation to the alternatives that one thereby forgoes. Because resources are finite, a government that spends money on defense, for example, incurs costs not only in terms of dollars but also in terms of an inability to use those dollars for other priorities, such as health care or education. Similarly, when a business executive spends money to modernize the production facilities of a steel plant, that spending represents a cost to shareholders in that it precludes using those same dollars for greater dividends. Note that this expenditure is a cost to employees and consumers as well because it also precludes spending those dollars for higher salaries or lower product prices.

This reveals a characteristic mark of costs: What is a cost to one person or group is usually a benefit to another. Keeping a less profitable steel mill operating is a benefit to employees but a cost to shareholders and consumers if it means lower profits or higher prices. Costs and benefits can also be exchanged for a single individual. Increased wages can be an employee benefit won at the cost of decreased corporate pension contributions or of fewer health care benefits. The economic point should be clear: Costs are always relative to alternatives forgone, so every managerial decision will involve the imposition of costs. Friedman's economic system is no exception. In that system, when a manager acts to increase profits within the rules of the game,

that action carries an implicit cost for others affected by corporate policy: consumers, employees, and society at large.

With this adjustment in language, let us restate Friedman's in-principle objection to the doctrine of social responsibility. Friedman tells us that the imposition of taxes is a governmental function. Thus the imposition of taxes by business managers is "taxation without representation" and a violation of the separation of political powers. But, when we substitute the word "costs" for "taxes," we can see the absurdity of reaching a similar conclusion. Surely Friedman would not wish to say that we ought to establish "elaborate constitutional, parliamentary and judicial provisions…to assure that" *costs* "are imposed so far as possible in accordance with the preferences and desires of the public." Were that true, we would be left with the type of socialist economy that Friedman disparages.

As an economist, Friedman of course recognizes that the imposition of costs is unavoidable. Therefore, his point cannot be that it is wrong in principle to impose costs on others without their consent. Thus, to be fair and not reject his conclusion too quickly, we should look for another interpretation of his principle. But what might that be?

Perhaps Friedman is suggesting that it is wrong in principle for managers to impose costs on the basis of their own personal moral decisions. At this point in his essay he does say that "one man's good is another's evil," and this relativist claim suggests that he is skeptical about the legitimacy of any individual's moral opinions. Unfortunately, if this is his view, Friedman would be contradicting his own conclusions. (Logicians call this type of critique a *reductio ad absurdum*. If you can begin with someone's conclusion and show that it leads to some absurdity—and holding logically contradictory beliefs is absurd—then you will have shown the original conclusion to be unreasonable.)

Remember that Friedman himself describes the only direct responsibility of managers as involving conformity to "the basic rules of society, both those embodied in law and those embodied in ethical custom." Surely there will be cases in which conforming to these rules, both legal and ethical, will impose costs on shareholders. And just as surely, there will be times when what is required by these rules is unclear and the manager will need to exercise some discretion—and why else do we have managers except to make just these sorts of judgments? Thus, on Friedman's own view, there can be times when a manager will, on the basis of his own personal value judgment, impose costs on shareholders for the sake of some ethical objective.

For example, Friedman would say that obtaining profits through fraudulent marketing is unethical. It is therefore ethical to impose costs on stockholders on the basis of this value. But not every case of fraud is clear and unambiguous. Suppose a manager is considering a proposed advertising campaign for a sweepstakes contest that preys on the vulnerability of elderly people. The sweepstakes has been carefully crafted to ensure that it violates no law. Experience shows that these contests can be profitable. Yet the manager believes this one is so deceptive that it really amounts to fraud. It would

seem that in Friedman's view, the manager should exercise her personal judgment and avoid the fraudulent advertising, even at the risk of imposing significant costs upon stockholders.

Let us consider one final interpretation of Friedman's in-principle objection to the social responsibility thesis. Perhaps the key to understanding his view rests with the claim that "a corporate executive is an employee of the owners of the business." This suggests that what is wrong is imposing costs on *owners* in the pursuit of social objectives. But what political principle would be violated by such actions? Supposedly it is that private owners have the right to control their property and when managers disregard the owner's desire to make as much money as possible, they violate this right.

Two serious challenges can be raised to this view. The first focuses on the nature of political and moral rights, and the second focuses on the nature of corporate ownership and control. We examine these issues in more detail in Chapters Three and Four, but for now we can make a few brief observations.

First, even if imposing costs in the pursuit of social objectives does restrict the rights of private property owners, Friedman would need to say more to show that it is always ethically wrong in principle to do this. As we saw earlier, free societies often require trade-offs among various and competing freedoms. This suggests a distinction between overriding people's rights (restricting freedom with a legitimate justification) and violating their rights (restricting freedom without justification). The existence of zoning laws, for example, attests to society's willingness to override the rights of private property owners in pursuit of such social objectives as the aesthetic integrity of a historical neighborhood, or for the sake of public safety. A zoning law restricting a certain neighborhood to single-family homes imposes significant costs on a property owner who seeks to build an apartment complex for college students. Yet few of us believe that such laws are "fundamentally subversive" to a free society. They may override the property owner's rights, but we don't say that they *violate* her rights.

Second, this interpretation misrepresents the nature of corporate ownership and control. At least for large firms with publicly traded stocks, it is better to think of stockholders as "investors" than as "owners." The right of ownership of personal property (your car, for example) implies a right to do with it what you want (and even this right exists only within limits of course), but the same cannot be said for owners of corporate stock. Here, ownership does not imply the right to control. That right is vested in corporate management. Ownership of stock, which rests more often with institutional investors such as mutual funds, pension plans, and financial institutions than with private individuals, does imply certain rights. Investors can profit from this stock, sell it (usually), deed it to their children, give it away, and so on. But they cannot try to "micromanage" the daily operations of the firm. That responsibility rests with the management, who owes them only a competitive rate of return on their investment. If investors disagree with the decisions of management, they retain the freedom to sell their stock and seek a higher rate of return elsewhere. (Similar points are developed by Lynn Stout in the reading in Chapter Five.)

Is Obedience to the Law Enough?

A final theme in Friedman's essay that deserves consideration is his suggestion that obedience to the law is the primary noneconomic obligation of business. This is a common view among many people both inside and outside of business. Over the last decade, many corporations have established ethics programs and hired ethics officers who are charged with managing corporate ethics programs. Much good work gets done by these ethics officers, but it is fair to say that much of the work of this profession focuses on compliance issues. That is, in practice, much of corporate ethics is identified with obedience to the law. But is compliance with the law a sufficient standard for ethical behavior? There are good reasons for thinking that it is not.

First, holding that obedience to the law is sufficient to fulfill one's ethical duties begs the question of whether or not the law itself is ethical. Dramatic examples from history, Nazi Germany and apartheid South Africa being the most obvious, demonstrate that one's ethical responsibility may run counter to the law. More recent examples of Internet censorship in China or sweatshop labor conditions in many parts of the world offer other examples. You do not forgo your ethical responsibilities simply by obeying the law.

Second, societies that value individual freedom will be reluctant to legally require more than just a moral minimum. Such liberal societies will seek legally to prohibit the most serious ethical harms, but they will not legally require acts of charity, common decency, and personal integrity. The law can be an efficient mechanism for preventing serious harms, but it is not always very good at promoting goods. Even if it were, the cost in human freedom of legally requiring such things as personal integrity might in some cases be too high. Imagine a society that legally required parents to love their children or legally prohibited lying. These are highly worthy goals from an ethical point of view, but nonetheless not something we would want to enforce legally.

Third, on a more practical level, the position that the ethical responsibilities of businesses end with obedience to the law can invite abuses that will in turn generate more legal regulation. It was the failure of personal ethics among such companies as Enron and WorldCom, after all, that led to the creation of the Sarbanes-Oxley Act in 2002 and the ethical misconduct of the financial industry that led to the Dodd-Frank legislation in 2010. If business restricts its ethical responsibilities to legal compliance, it should not be surprised to find a new wave of government regulations that require what were formerly voluntary actions.

Finally, the perspective that compliance is enough relies on a misleading understanding of law. To say that all a business needs to do is obey the law suggests that laws are clear-cut, unambiguous rules that can be easily applied. This rule model of law is very common but not very accurate. If the law was clear and unambiguous, there would not be much of a role for lawyers and courts.

An example may help here. At a training class for middle managers, corporate attorneys made a presentation on the responsibilities created by the Americans with

Disabilities Act. This federal law requires that businesses must make a "reasonable accommodation" for employees with disabilities. One manager asked if asthma was considered a disability. The attorneys answered that it depends. Every law is written in general terms that need to be interpreted in light of specific facts. The legal answer "it depends" suggested that depending on the facts and on how different courts might interpret facts, one could not say in general if asthma was a disability. Given this ambiguity, any manager facing this question has a choice: make a reasonable accommodation to an employee with asthma, or not. That choice, given the ambiguity of law, is an ethical decision.

It is worth remembering that many of the people involved in the wave of recent corporate scandals were lawyers. In the Enron case, for example, corporate attorneys and accountants were encouraged by senior executives to "push the envelope" of what was legal. Many of the predatory mortgages that were a part of the housing collapse of 2008 and the risky financial instruments that played a role in the recession were technically legal. Especially in civil law where much of the law is established by past precedent, there is always room for ambiguity in applying the law. After all, every new case is different in some way from those of the past. Further, in civil law there is a real sense that one has not done anything illegal unless and until a court decides that one has, and this often means that if no one files a lawsuit to challenge some action, it was legal.

If a corporate manager is told, as Friedman suggests, that she has a social responsibility to maximize profits within the law, then responsible managers will consult their corporate attorneys and accountants to ask what the law allows. A competent attorney or accountant will advise on how far one can reasonably go before doing something that is obviously illegal. In this situation, it would seem a manager has a responsibility to "push the envelope" of legality in pursuit of profits. Most cases of corporate misconduct involve attorneys and accountants who advised their clients that what they were doing could be defended in court. The off-the-books partnerships that were at the heart of the collapse of Enron and Arthur Andersen were designed with the advice of attorneys who thought that, if challenged, they had at least a reasonable chance of winning in court. Some accountant, auditor, and attorney somewhere passed judgment on the mortgage-backed securities, derivatives, and other financial instruments that now look highly questionable. At this point, the decision to "push the envelope" becomes more a matter of risk management and cost-benefit analysis than a matter of ethics. In this model, there is a strong incentive to assess the likelihood of being challenged in court, the likelihood of losing the case, and the likelihood of settling for financial damages—and to compare those costs against the financial benefits of taking the action.

Because the law is ambiguous, because in many cases it simply is not clear what the law requires, business managers often face decisions that rely on their ethical judgment. To suggest otherwise is simply to hold a false picture of corporate reality. Thus fundamental ethical questions will confront even the businessperson who is committed to obeying the law: What should I do? How should I live?

IN SUMMARY

Normative ethics involves stepping back from what is customarily accepted as proper behavior and asking questions about what *ought* to be proper. The views of Milton Friedman, identified as the classical model of corporate social responsibility, are an example of normative business ethics. Friedman offers numerous prescriptions for how one ought to behave in business and how business ought to be structured. He defends these prescriptions by appeal to certain ethical norms and values.

Our analysis of Friedman's practice of normative ethics must conclude that his supporting reasons are unconvincing. He relies on emotional appeals in several instances, he overgeneralizes from the evidence, he misunderstands or misrepresents the nature of a free society, and he even appears to be inconsistent with his own views.

But we should be careful not to make a logical mistake ourselves. Even if we conclude that Friedman's reasons are invalid, we are not justified in rejecting his overall conclusions and prescriptions. The classical model of corporate social responsibility is an important and influential normative theory. Just because one particular defense of it proves unconvincing does not mean that we are justified in rejecting the entire theory. After all, Friedman's essay was written for the popular press and perhaps was not intended to be a philosophically careful defense of this position. (Perhaps there is a lesson in here as well about how to read journalistic accounts of complex ethical issues.)

The views represented by Friedman's essay—the classical model of corporate social responsibility and the free market theory of economics on which it is based—continue to be influential positions throughout contemporary society. They have also received defenses that are much more philosophically sophisticated. In the following chapters we examine two of these philosophical defenses, each based in a major ethical theory. We use our examination of these defenses to introduce the next level of ethics—philosophical ethics—and the two leading approaches to ethical theory, utilitarianism and individual rights.

In conclusion, let's step back from the content of this chapter to reflect on what we did, on the *activity* of ethical analysis. In one way, this chapter is an example of the kind of reasoning philosophical ethics asks of us, and it provides an answer to the relativist and skeptic who thinks ethics is all a matter of personal opinion. We did reason; we did make rational progress. We may not have proven anything absolutely, but we have advanced the debate. We encourage you to continue this activity throughout this text. We invite you to continue doing philosophy.

2

Philosophical Ethics: Utility, Rights, Virtue

INTRODUCTION

Milton Friedman's classic essay provides a good example of normative ethics as described in Chapter One. Friedman offers specific policy prescriptions and defends those conclusions by appeal to several ethical values and principles. The remainder of Chapter One provided an extended example of the type of analysis that is done throughout business ethics. We examined Friedman's arguments, analyzed the values and principles he offered, and concluded that Friedman's reasoning did not establish the conclusions he reached.

Implicit within our analysis were appeals to such considerations as good consequences, individual rights, and ethical duties. In other words, some basic concepts of philosophical ethics were applied within both Friedman's essay and our analysis of it. The remainder of this book continues the practice of normative ethics: offering prescriptions for how business ought to be organized and how individuals within business ought to behave, defending those prescriptions with appeals to ethical values and principles, and analyzing those claims to reach our own reasoned conclusions. Throughout this process we use many of the basic concepts and categories of philosophical ethics; Chapters Two, Three, and Four provide a more comprehensive introduction to some of these basic concepts and categories. We pay particular attention to ethical frameworks that have profoundly influenced the evolution of contemporary business and the modern market economy, although often as unstated and unexamined assumptions. In this chapter, we briefly introduce three of those ethical frameworks: utilitarianism, the ethics of rights and duty, and virtue ethics. In Chapters Three and Four, respectively, we explain and critique the use of the utilitarian and rights frameworks in

defense of the free market view. In Chapter Three, we examine how utilitarianism can be used to provide a defense of free markets and provide a critical analysis of that perspective. Chapter Four examines the ethics of rights and duties and provides a critical analysis of a defense of free markets based on this ethical framework.

UTILITARIANISM: MAXIMIZE THE OVERALL GOOD

The first tradition within ethics that we examine is known as *utilitarianism*. This approach begins with what seems a commonsense observation. When deciding how to act and what to do, it makes sense to look to the consequences of an action and decide accordingly. If my act produces more good consequences than bad, I should do it. Utilitarianism is an approach to ethics that justifies the *oughts* and shoulds of normative ethics by appealing to the beneficial consequences of our acts. Utilitarianism is characterized as a *consequentialist* ethical theory, which directs us to "maximize the overall good" or to seek the "greatest good for the greatest number."

We witnessed a version of this type of reasoning in Milton Friedman's essay when he argued that business managers who pursued social objectives lack the expertise needed to achieve those objectives. By pursuing social objectives without appropriate expertise, managers are likely to cause more harm than good. Thus, Friedman was employing a form of utilitarian reasoning in his essay. We examine a more philosophical version of this argument in great depth in Chapter Three.

Consider the case of truth-telling as a more general example of utilitarian reasoning. Utilitarians value telling the truth because it generally produces good consequences; for example, it engenders trust, it allows for accurate communication and understanding, and it earns one a good reputation. That is, truth-telling is not good in itself, but it is valued instrumentally as a means to good ends. Truth-telling is useful (hence, the word "utility" as the basis of utilitarianism). For the utilitarian, no act or policy is ever good in itself, at all times, and in all situations. Right or wrong depends on the consequences.

But how do we know that the consequences produced by some act or policy are ethically good? How do we distinguish good consequences from bad consequences? How would we persuade the skeptic who asks why she should accept the judgment of utilitarianism? To provide the more detailed and systematic account of ethics that is demanded in philosophy, utilitarians must answer these questions. They must provide an account of a good that would be convincing for all rational persons.

Utilitarians do this by appeal to a theory of the good that they believe is objectively good for all people. Pleasure and happiness are two main candidates for what utilitarians often cite as objective goods. Then, utilitarianism stresses the overall good—the good for all involved and not only for some subgroup—as the appropriate goal of ethics. If some good is objectively valuable, such as pleasure or happiness, and if some act produces more of this value than any alternative act, we have an objective and impartial principle to follow. The "good" is objectively valid, the good of each person

is treated as equally deserving, and attaining the optimal overall amount of good is a fair and impartial goal. No one could object to this goal except by claiming that an increase in his or her own good is more important than a greater overall increase in the good of others. Doing that, according to a long tradition in ethics, is the opposite of what rationality and impartiality demand.

The classical statements of the utilitarian tradition are found in the writings of Jeremy Bentham (1748–1832) and John Stuart Mill (1806–1873). Through the writings of Adam Smith (1723–1790), utilitarian reasoning became especially influential in economics. In Chapter Three we examine a version of utilitarian thinking that has been used as a justification for the type of free market economics defended by Milton Friedman, and the model of corporate social responsibility that follows from it. Before turning to that defense, we examine some challenges that are often raised against utilitarian thinking. It is useful to distinguish challenges that are raised within and among utilitarian thinkers from those that are raised from alternative ethical perspectives.

Challenges to Utilitarianism

Two challenges arise from within the utilitarian tradition. We described utilitarian thinking previously in terms of means, which have instrumental value, and ends, which have intrinsic value. Not surprisingly, perhaps, utilitarians themselves disagree about what is intrinsically good, and they disagree about the appropriate means for attaining the maximum amount of that good.

Bentham, for example, argued that only pleasure was good in itself and only pain bad in itself. Mill defended a more qualitative understanding of happiness as the satisfaction of long-term interests. These disagreements also give rise to serious problems with measurement. Because utilitarianism requires us to calculate, measure, and compare consequences, it is important that the ends of utilitarianism be the sort of thing that can be measured, calculated, and compared. That is, the good of utilitarianism must, in some way, be quantifiable. Yet, as Mill argued, the human good must also account for a qualitative dimension that cannot be quantified. This debate will have implications within business ethics, for example, when we discuss such topics as employee or consumer health and safety and environmental protection. Some goods that seem intrinsically valuable, such as health and safety, are not easily measured; goods that are easily measured, such as costs and loss of earnings, do not seem to capture the intrinsic value of health and safety.

Another important aspect of these debates involves the degree to which an individual is free to choose his or her own good. Pleasure and happiness are attractive ends for utilitarianism because they allow a wide range of personal freedom of choice (what gives *you* pleasure or makes *you* happy may be different from what gives *me* pleasure or makes *me* happy). Yet the more utilitarians allow individuals the freedom to pursue their own understanding of the good, the closer utilitarianism comes to *ethical relativism*, the view that values are relative to each individual. Conversely, the

more utilitarianism specifies the content of human goodness, the less likely it is that utilitarians will be able to defend the value of personal freedom. Individuals do not always want to do what someone else thinks is good for them. This debate has clear implications for the ethical analysis of free markets.

Utilitarians also disagree about the appropriate means for attaining maximum good. As described previously, utilitarians judge actions in terms of their consequences, and no act, for them, is ever good in itself, at all times, and in all situations. Nevertheless, utilitarianism must offer some advice on what to do in the present, and therefore utilitarians must make some judgments about the likely consequences of our acts. Two approaches to this dilemma have implications for business ethics.

Because we are dealing with predictions about the future consequences of human action, one movement within utilitarian thinking argues that we should rely on the expertise of social scientists to shape and implement public policy. Policy experts trained in such fields as economics, law, medicine, environmental science, education, and political science are the people best able to predict the consequences of public policy. Thus, if we want to know which environmental regulation is most likely to preserve a forest, we should turn to ecologists. If we wish to know the best tax policy to promote economic growth, we turn to economists. If we wish to know the best safety standard for automobile design, we turn to engineers. Proponents of this approach are comfortable supporting regulatory mandates as the way to achieve the greatest good, and various versions of this idea appear later in this text.

Proponents of the second approach argue, in a way that echoes Adam Smith's faith in an invisible hand, that the greater overall good is best attained by leaving such decisions to the unintended results of a competitive, free, and open market. The inevitable result of efficient markets, according to this view, is the optimal satisfaction of consumer happiness. This approach typically defends freely chosen market action over regulatory mandates. Various versions of this market approach also appear later in this text.

Finally, alternative ethical theories raise several major challenges against utilitarianism. These challenges go to the very heart of utilitarianism by rejecting consequentialism, and particularly by rejecting the aggregating ("overall," "greatest number") aspect of utilitarianism, as an adequate basis of ethics.

Utilitarianism is concerned with maximizing the overall good. So, when a utilitarian decides how she should act, the only things that count in her calculation should be the predicted consequences of the action. Whether a particular act is justified depends entirely on the results. Clearly, this purely consequentialist approach to moral decision making is equivalent to accepting that the end justifies the means, which many people find ethically troubling.

Another way to explain this point is to recognize that we sometimes describe good people as acting out of a duty or on principle. There seem to be many cases in which we have a duty or an obligation to do something *even if* doing otherwise

produces better results in terms of collective happiness. (Philosophers sometimes refer to this approach to ethics as *deontological*, derived from the Greek word for "duty," to distinguish it from consequentialist theories like utilitarianism.) Truth-telling, keeping one's promises, treating other people with respect, honoring friendships, and maintaining loyalty to one's family or country are some simple examples of acting out of a duty or acting on principle. In contrast, utilitarians always calculate the effects of their acts before deciding what to do—seemingly just the opposite of acting from a duty or according to principle. Utilitarians are committed to the view that such central human interests as respect, freedom, and life are only to be valued to the degree that they increase overall happiness.

Perhaps the most troubling aspect of this means–ends problem arises when we recognize that utilitarianism is concerned not just with consequences, but with consequences for *aggregate* or *collective* welfare. Most of us are committed to the belief that some individual interests should be protected from actions aimed at improving the common good, that the good of the many is not always sufficient justification for sacrificing the interests of the few. In other words, the dominant contemporary picture of morality holds that individuals have *rights* that should not be sacrificed merely for marginal increases in the collective welfare (or simply to satisfy the preferences of a majority). This alternative, rights-based picture of morality regards at least some aspects of individuals as off limits to utilitarian maximizing calculations.

An admittedly extreme example highlights this point. In theory, nothing prevents the utilitarian from endorsing slavery of a minority if it can be shown that this would result in a net increase in the overall good. If a small minority were enslaved, it might increase the aggregate happiness, perhaps because it would be the most efficient means to ensure completion of undesirable but socially necessary work. Most of us, of course, would reject such a policy as unfair or unjust. We believe instead that each person possesses a dignity that prohibits him or her from being used solely as a means to the ends of others. It would be unjust to enslave people even if doing so would make the rest of society happier.

We can summarize these challenges by sorting them into two groups: those that can arise from within utilitarian perspectives, and those that challenge the entire utilitarian enterprise. Even utilitarians acknowledge that they must provide a reasonable method for determining and measuring when that good has been maximized, and a defensible accounting of the nature of the good. Critics from outside the utilitarian tradition point out that utilitarianism misses such important features of morality as acting on principle, acting from a sense of duty, and respecting individual dignity and rights. Various versions of these challenges are discussed in this chapter and arise in many of the readings in this text.

Before turning to a more detailed examination of the utilitarian defense of the free market and the model of corporate social responsibility that follows from it in Chapter Three, we examine two other major traditions within philosophical ethics.

ETHICS OF RIGHTS AND DUTIES

Like utilitarianism, the second ethical tradition we consider starts with what seems to be a commonsense observation: the ends don't always justify the means. The utilitarian claims that right and wrong action are a matter of consequences, but this second approach holds that some acts are right and wrong in principle, regardless of consequences. This tradition is sometimes called *deontological ethics*, from the Greek words for the study (*logos*) of duty (*deon*). This tradition holds that although producing beneficial social consequences and minimizing harm are good things, they do not override our ethical duties. The ends of beneficial social consequences do not justify the means of failing to fulfill our duties or violating our rights.

But what duties do we have? What principles are so commanding that we must act on them if doing so results in a net increase in unpleasant social consequences? One type of example is considered throughout this text when we examine situations in which individuals have role-specific duties. That is, when one assumes the role of auditor or attorney or manager or member of the board of directors, one assumes certain duties that define the role of auditor, attorney, manager, or director. (These role-specific duties are considered in some depth in Chapter Nine.) A classic example of this occurs when an attorney fulfills her duty to defend a client even in situations in which the person is capable of doing great harm. But role-specific duties are limited in their application. After all, not everyone is an attorney, auditor, or board member, and even people who are can avoid these duties by abandoning their role. A general ethical theory must offer an account of duties that are not dependent on roles and therefore could not be deserted by abandoning one's role. In other words, ethical duties must apply to all people regardless of the roles they play in society.

Different types of deontological ethics offer differing accounts of our basic ethical duties. Some within the deontological tradition argue that our most fundamental duties are to obey a natural law or obey the commands of God. But the foremost account of such universal ethical duties, and the version that is most relevant for studying business ethics, appeals to the concept of individual rights. On this approach, our basic ethical duty, the overriding duty that applies to all, is the duty to respect the rights of others.

Rights and Respect

Talk of moral rights arises as we attempt to express a belief about the inherent value of individuals. Most of us believe strongly that every person ought to be treated with dignity and respect. However, we are prevented from giving that belief practical significance if we adopt the aggregating perspective of utilitarianism and focus only on overall goods. Utilitarianism requires that we be willing to sacrifice any interest of any person, even the most basic, on the altar of collective welfare. At its heart, utilitarianism requires us to see persons merely as tools for achieving aggregate happiness. Under utilitarianism, individual persons seem to have little inherent value. Their significance

is mainly as loci for the interests that are to be satisfied or frustrated in pursuit of the greatest common good.

In the eighteenth century, Immanuel Kant suggested that the problem with aggregating, consequentialist theories was that they treated persons merely as means and not as ends in themselves. More recently, John Rawls has argued that utilitarianism fails to take seriously the distinction between persons. Perhaps the anti-aggregate perspective is most forcefully maintained by traditional religious moralities that hold each person to be created in the image of God and, for that reason, to have intrinsic worth.

We cannot claim to respect individuals if we are willing to do anything to them—for example, kill them, debase them, or enslave them—for the sake of some desired social goal. We can only give practical significance to the belief that persons deserve respect if we place some aspects of the person off limits. This is a primary function of rights: to protect some areas of a person's life from utilitarian or majority rule deliberations, or merely from the harmful acts of other individuals. A right to life aims to protect the person's life from others; a right to free speech aims to protect a person's ability to express an opinion even if others disagree with it. In protecting interests from society or from other individuals, rights can be seen as entitlements or justified claims that impose duties on others. In fact, there is a standard thesis about rights known as the *correlativity thesis*. It maintains that all rights create duties for some other party or parties. If I have a constitutional right to freedom from self-incrimination (as under U.S. law), I am legally entitled to refuse to testify at my own trial and the government has a duty not to punish me merely for that refusal. If I have a moral right to some property, such as my car, my claim to possess and use it places other individuals under an obligation not to deprive me of that car.

In talking about rights it is usually important to identify both what claim or entitlement a particular right justifies, and who is placed under a duty by that right. It is also important that we distinguish between legal and moral rights. Legal rights are those granted by the principles and statutes of a legal system, and they are often, but not always, enforced by courts. Ethical or moral rights, on the other hand, are derived from the principles of an ethical system and are often enforced through subtler sanctions, such as social expressions of disapproval that can range in seriousness up to treating the rights violator as a social outcast. Failure to distinguish between these types of rights can cause confusion. For example, imagine a situation in which a customer claims a (moral) right to be reimbursed for a defective product, whereas a business denies that there is any (legal) right because of an express warranty that negates liability. The two may talk past each other if they do not understand that they are asserting rights of different kinds. In our discussions, we typically are interested in identifying the relevant *ethical* or *moral* rights in a business ethics debate, although we sometimes try to specify the legal rights involved as well.

So, rights give some real, practical significance to the intuition that persons deserve to be treated with dignity and respect. This, however, only scratches the surface of a full philosophical theory of rights. A more developed account must also address a

number of other questions in detail: What is the basis of this belief in the dignity of persons? If rights protect interests, what interests of the person should be elevated to this protected status? For any given right, what is its limit or scope? For example, what specific entitlements are included in the right to property? What procedures, if any, are available when the rights of different persons conflict, as they inevitably will?

Like utilitarianism, criticisms and challenges have been raised again the rights and duty approach to ethics from both those sympathetic to and those critical of that tradition. Here we only outline answers to some of these challenges, but we develop this framework further in Chapter Four. Although philosophers disagree about many of the specifics of a rights-based approach to ethics, we believe that the interpretation of rights that follows best accounts for our deep commitment to rights and best explains how rights actually function in our shared moral experience. We leave it to the reader to evaluate whether our confidence in the account is warranted or misplaced.

Dignity and Autonomy

What gives rise to the intuition that persons deserve respect? Two answers present themselves. The first is that intuition is a basic tenet of ethics, a commitment that depends on nothing and is explained by nothing further. This answer, though possible, is not terribly satisfying. Usually we prefer to be able to explain our central beliefs, although, of course, explanation cannot go on forever. Moreover, if the belief in the dignity of persons is itself basic, we cannot integrate that belief into an account of why particular interests ought to be protected as rights, of what specific actions the dignity of others requires from us.

In fact, a second answer is given by a historically important tradition running from the ancient Greeks through the medieval period and up to contemporary ethical theorists. That tradition holds that the dignity of human beings is grounded in a peculiarly human attribute that philosophers have sometimes characterized as rationality, sometimes as free will, and sometimes—in a manner that combines the two—as autonomy. We define *autonomy* as the capacity to make reasoned, deliberative choices about how to act. Humans have a basic dignity and deserve respect because, unlike mere objects, they are capable of thinking and choosing for themselves. This definition includes the human capacities of both reason and free will. It is interesting to note that connecting human dignity to autonomy can be found not only in a long philosophical tradition but also in many religious traditions that regard humans as created in the image of God.

If autonomy explains the belief in the dignity of persons, we have to ask what, in practical terms, it would mean to respect that autonomy. Certainly it cannot mean allowing individuals complete control over their lives—the absolute ability to act in any way they choose. That would be anarchy. More important, it would be impossible because allowing me to act as I want would inevitably prevent some others from doing what they want. This, then, is too strong an understanding of what is required by respect for autonomy.

Just as certainly, respect for a person's autonomy cannot mean allowing a person to have some merely formal choice available. This is too weak an understanding. It would mean that the behavior of a thief who sticks the barrel of a pistol in my ribs and says, "Your money or your life," is behavior that is compatible with respect for my autonomy. (He gave me a choice, didn't he?) What is needed is some understanding of respect for persons that steers between anarchy and the meaningless and merely formal existence of choice. This understanding would explain those areas in which individuals ought to be free from interference in making decisions about their lives. In Chapter Four, we further develop a rights framework for ethics and evaluate a defense of the free market by appeal to rights to liberty and property.

VIRTUE ETHICS: WHAT TYPE OF PERSON SHOULD ONE BE?

The final ethical tradition that we describe is called *virtue ethics.* When we think about ethics within the context of a field such as business, it is easy to concentrate on questions like "What should I do?" "How should I act?" "What policies and rules should we follow?" After all, normative ethics is concerned with norms of ethical behavior. In normative ethics, we often seek a rule or a principle that will guide our behavior and answer these questions.

But there is a tradition within ethics that reminds us of another important aspect of living an ethical life. Virtue ethics approaches the fundamental ethical question of "How should I live?" less as a question about how to act and more as a question about the type of person to be. In this way, the challenge of an ethical theory is less about defending rules directing behavior, and more about describing and explaining the characteristics of an ethically good person and a worthwhile human life. Virtue ethics should be understood not as an alternative to utilitarianism and rights, as if one has to choose between them, but as a way to more fully account for the ethical life. *Virtues* are the character or personality traits that promote a meaningful and worthy human life; *vices* are those character traits that undermine the ability of persons to live a good life.

Virtue ethics can be explained in terms of what is often taken to be the central challenge of ethics, namely, the problem of self-interest. There often is a tension between doing what we want to do and doing what ethics expects of us, between pursuing our own self-interest and doing what is ethical. The problem of self-interest is, in part, the problem of motivating people to conform to ethical principles that (because they are impartial) do not necessarily benefit them. From at least the time of Plato, Western philosophical ethics has struggled to resolve this tension between ethics and self-interest.

Indeed, many cases of corporate misconduct in recent years are easily understood as occasions in which individuals pursued their own self-interest rather than doing the ethically responsible thing. Given this tension, much work in philosophical ethics attempts either to restrict self-interest with rules and laws, or to channel that self-interest in ethically beneficial ways. Thus, for example, a business might create a corporate code