Pearson New International Edition

Business Ethics

Richard T. DeGeorge

Seventh Edition

ALWAYS LEARNING

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internal violence, and to provide for the adjudication of disputes and the enforcement of contracts. Thus, armed forces, police, and a legal and penal system are allowable, but governmental activity beyond these is inappropriate.

In particular, libertarians attack the redistributive function of government. Government, according to this position, should neither tax people nor redistribute income through welfare and other similar programs. The attack on taxes is especially vociferous. Taxation by government, they claim, is theft. If someone at gunpoint stopped you in the street and forced you to hand over 25 percent of your earnings so that he could give it to the poor, you would certainly protest that you were being robbed. Government does the same thing in taxation. Moreover, the libertarians continue, government does not simply turn over to the poor the money it takes in taxes. It uses a significant percentage of what it takes in taxes simply to keep its own machinery and giant bureaucracy operating. Not only does government take money from all of us, but also it uses it in ways that many of us do not sanction. It wastes, squanders, and misspends enormous amounts. That it does so should come as no surprise. You and I are careful in how we spend our money because we have to make do on limited funds. Government spends not its own money, but yours and mine, and overspends with impunity—raising taxes if it needs more money, or printing or borrowing more. The resulting inflation further diminishes our real income, already cut by taxes.

The second strenuous attack by the libertarians is on government regulation of business. They see the capitalist system as one based on free competition. If allowed to operate as it could, they claim, there would be no need for government regulation. Competition would remedy the evils that government unsuccessfully and inefficiently tries to correct. Government has a penchant for overkill and overregulation, even when it operates with good intentions. Moreover, many regulations intended for big business slowly drive small businesses under. There are so many government regulations, and they are so complicated, that the small businessperson must spend more time and money than he or she can afford, on just keeping track of them and fulfilling their reporting requirements. The government guarantees loans to giants such as Lockheed and Chrysler when they are faced with bankruptcy but provides no help for the small businessperson. The libertarians do not advocate that the government help small businesspersons; the government should stay out of the business sector entirely, helping neither big nor small business.

The libertarian view is based on the notion of the sanctity of private property. Private property belongs to an individual. If he has worked for it, he deserves to keep what he has earned. If he has taken risks, if he has been lucky, if he has worked especially hard, and if he has been innovative, the market will reward him. The rewards he fairly receives rightfully belong to him; they do not belong to government. The truly needy will be taken care of through charity and insurance plans; the lazy and unworthy poor will be forced to change their ways or suffer the consequences of their own actions.

The libertarian view has, therefore, a moral thrust. It champions liberty as a moral virtue worthy of human beings. It faults government as acting immorally through taxation, welfare, and many of its other programs. It demands changes. Yet libertarians emphatically defend democracy in the political realm, just as they defend free enterprise in the economic realm.

The libertarian position has not received widespread support, but some of its claims have struck a responsive chord in a number of people. The contemporary American revolt against excessive taxation is one instance of this response. California's rebellion against unlimited property taxes has spread to other parts of the country. Rising inflation and an unreformed tax structure are leading more and more people to adopt the practice reportedly found in some European countries of cutting their own taxes, gambling on not being caught.

Historically, business has not been libertarian. Businesses sought and received protection from government in the way of tariffs and limitations on certain types of imports. They argued

that the United States had to be self-sufficient. Its industry had to be protected against the possibility that war might prevent imports. Farmers sought and received governmental support for the prices of their crops. They argued that such support was necessary if farming was to continue successfully. In these and other areas, business accepted the protection and help of government. Libertarians maintain that business has paid the price in regulation.

Yet, to be consistent, the libertarian cannot complain if people choose to be governed in certain ways (e.g., if they vote for taxes and for government spending) and if they freely choose security over freedom. He claims, however, that government is not truly responsive to the people; that people have not freely chosen that government act as it does; and that those who do not choose certain practices should not be bound by them. The practical matter of how to accomplish the ends libertarianism proposes is yet to be resolved. As an alternative to the present system, it is at best an indicator, an arrow pointing in a possible direction of change. It is not a ready-made alternative, just waiting in the wings as a panacea for the problems and immorality of the present system.

Workers' Democracy

The other alternative to the present system goes under a variety of names.[10] It is sometimes called workers' democracy, sometimes socialism. But the kind of socialism advocated follows neither the Soviet model nor the British model, for the claim is not that government should take over and run industry. The advocates of these systems attack government as strongly as do the libertarians, but for different reasons.

Workers' democracy sees government as inextricably intertwined with big business. Our elected leaders do not necessarily or consciously aim at supporting business interests at the expense of the interests of the ordinary citizen, but the structures of society are such that the interests of government and the interests of business are most often the same. Government has an enormous budget. Because it does not own industry, the government spends a good deal in contracts, which it gives to private industry. America's interests abroad are predominantly business interests. We protect these interests in foreign countries and support them at home; we fight wars over natural resources in distant lands; and growing numbers of people move easily from the halls of government to the offices of big business, changing hats with little difficulty.

Capitalism has produced for the American worker a better life. American workers have more goods, comfort, and luxury than workers in any other part of the world and in any other period of history, but the American free-enterprise system has become more oppressive than liberating. Yet it can be liberated. True democracy is now possible, if we extend democracy to the economic realm and revivify it in the political realm.

Defenders of workers' democracy point out that many of the decisions made by the major corporations in America affect all of our lives more than the decisions made in Congress. We elect our representatives in Congress, but we have no say at all in what the board of directors of General Motors or Exxon or any other large corporation decides. The allocation of resources, the building and closing of plants, and the creation and termination of jobs are all decisions that directly affect large numbers of people who have no voice in these decisions. Nor is government regulation the answer, because government is intertwined with big business.

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[10] See Michael Harrington, *The Twilight of Capitalism* (New York: Simon & Schuster, 1976); and Robert L. Heilbroner, *Between Capitalism and Socialism* (New York: Vintage Books, 1970). For other approaches see Christopher McMahon, *Authority and Democracy: A General Theory of Government and Management* (Princeton: Princeton University Press, 1994); and John R. Boatright, "Employee Governance and the Ownership of the Firm," *Business Ethics Quarterly*, 14, no. 1 (2004), pp. 1–21.

The appropriate reply of the American people has been slow in coming. Consumer groups have grown up to protect their interests and to provide some sort of response to big business. Environmentalists have also organized to oppose business projects they consider harmful to the environment. Unions have, of course, represented workers vis-à-vis management and have fought for better wages and working conditions. But because they have been wed to their adversarial role with respect to management, they have not typically sought worker participation in management, worker control of the productive process, or workers' democracy.

Furthermore, it is unclear exactly what many of the proponents of workers' democracy propose. If we grant that corporations affect the lives of most people more than does government, the obvious solution is not to give all voters a say in how individual companies operate. Nor is it clear that worker-owned and worker-run companies are very different from other companies. Worker-owned airlines charge competitive fares and to the consumer are indistinguishable from nonworker owned airlines. Worker-owned supermarkets seem basically the same as nonworker-owned supermarkets. Nor does the fact that a corporation is worker owned prevent strikes by workers or abuses by those who manage the company. Cooperatives sometimes work well and sometimes fail disastrously. There seems no easy model to adopt, no clear program to follow, and no comprehensive solution to the ills of the present system.

It seems unlikely that workers' democracy in the United States will be anything other than a peripheral movement for a long time to come.

Piecemeal Change

If the basic aim of libertarianism is the liberty of the businessman, the basic aim of workers' democracy is workers' control over their own destiny. In some ways the two positions are similar. Both want greater freedom for members of society than they have today. Both attack government and the interrelation of government and business. But the means they advocate are dramatically different from one another.

The worker in a workers' democracy, proponents claim, would have a say in what is produced and how it is produced. The division between workers and manager would give way. The workers would share directly in the profits of the firm. The adversarial relation between employer and employee would be replaced by a cooperative effort of all those engaged in the same enterprise. An effective voice in business decisions would mean as much as an effective voice in government decisions. The democracy we have cherished in the political sector must be recouped and extended to the productive sector, in their view.

The separation of management from ownership has already taken place in most large firms. Managers are as truly employees as are assembly-line workers. Peter Drucker has written about the unseen revolution, in which workers, through union pension funds and insurance funds, are the largest owners of business.[11] Management works for them in their role as shareholders, and this relation should now be translated into fact. There should be an end to domination of the workers, their exploitation, and their alienation.

The movement toward workers' democracy has been slow in developing, although consumerism and environmentalism have grown rapidly. The demand for worker representation on boards of directors has been adopted in Germany, but such representation is rare in the United States. Ironically, the workers themselves have been slow to respond to the call for workers' democracy.

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[11] Peter F. Drucker, *The Unseen Revolution* (New York: Harper & Row Publishers, 1976).

Both libertarianism and workers' democracy are straws in the wind. They are indicative of dissatisfaction with many aspects of big government and big business. They are rallying points for the expression of this dissatisfaction and for proposals for change. Both movements are wedded to change within the system, which may eventually lead to change of the system. They do not espouse violent revolution, or sudden, drastic change. Their gradualism is consistent with a piecemeal approach to the correction of the immoral practices within the system.

A small minority claims that the American system is free of immorality, is sufficiently just, and should not be tinkered with. But most Americans realize that they do not yet have a completely just society; that the social, economic, and political structures can be improved; that the war on poverty has not yet been won; that they still have to solve the problems of the appropriate use of energy; and that they have barely begun to face the moral demands made on them by the poor and underdeveloped countries of the world.[12] Yet the consensus in the United States is that no new system is needed. No other system is clearly morally preferable, or waiting to be adopted. Americans can and should make the morally necessary changes in American capitalism, improve it, and work toward a yet unattained maximal mix of freedom and justice. The real alternative to the present American system does not consist in holistic change. What is most likely to succeed is piecemeal change: correcting ills where possible, outlawing immoral practices, and implementing structural changes that promote moral conduct. American capitalism can be made more moral than it is, and the task for all of us is to make the required changes where and how we can. One of the functions of business ethics is to scrutinize, from a moral point of view, the practices and structures within the American economic system, to identify immoral ones, and to propose preferable moral alternatives where possible.

PHILANTHROPY

When we looked at the cases of Bill Gates and Warren Buffett, we noted that they have both pledged and have begun to give away the bulk of the wealth they have acquired. They are doing this through contributions to philanthropic charitable foundations. Americans in general, not only the wealthy, are known for their generosity when it comes to giving to charity, to causes, to the poor, and to those in need through natural disaster anywhere in the world. Through its tax system the American government encourages charitable giving. Some see such giving as the fulfillment of an imperfect duty to help those in need. Others simply see it as morally praiseworthy and appropriate, but not as an obligation. Whether the fulfillment of a duty or supererogatory act, giving to charity is widely practiced in the United States, which is often charged with being radically individualistic and its people being excessively self-interested.

It may seem difficult to fault either charity or philanthropy. Yet both have their critics. Philanthropy on a large scale, such as practiced by Gates and Buffett, is criticized not because they are giving away their money. After all, it is theirs to use as they want, and giving it to help other is, from a moral point of view, preferable to using it on lavish living, conspicuous consumption, or on other such purposes. The criticism is not of these and similar individuals, but of the system that allows them to accumulate such enormous wealth that they can indulge in such great philanthropy.

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[12] An interesting document that has caused a good deal of discussion is National Conference of Catholic Bishops, *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy* (Washington, D.C.: U.S. Catholic Conference, 1986).

A more equitable society would not have any superrich with the ability to contribute so much. Nor would a more equitable society have the need for individual philanthropy and charity, if the needs of people were properly addressed by society as a whole. Philanthropy, moreover, in some people's eyes took on a dubious pedigree when it was used by the late-nineteenth- and early-twentieth-century captains of industry who garnered their millions by dubious practices and at the expense of workers and the environment. Giving some of their wealth to causes they chose was seen as a way of trying, unsuccessfully, to make up for the ills they had caused.

Philanthropy is not, moreover, the rule for the American rich, although they often give generously. More often the bulk of estates, if not taxed heavily, is passed on to heirs. Gates and Buffett are noteworthy as exceptions, rather than as the rule. If such individual philanthropy were the rule, their actions would not be as noteworthy as they are.

Not only individuals are philanthropic. Some corporations have established charitable foundations to which they funnel a certain portion of their profits. Some pharmaceutical companies, for instance, through their foundations made available their drugs to those uninsured who need and cannot afford them.

The scope of American philanthropic giving is broad and includes support of the arts, religion, and institutions of higher education, among other things. In some societies, all such activities are supported by the state. In the United States, although the government supports scientific and health-related research and the humanities and the performing arts through competitive grants, free enterprise still dominates, and support by individual and corporations is essential to many cultural and educational activities and to all religious activities.

Philanthropy and charitable giving are part of the American system. Whether it makes up for what critics see as defects of the system is a matter of debate.

Study Questions

1. Microsoft continually revises its operating system. Based on those revisions, it then revises its application programs such as Word. It can make the latter changes before the revised system program is released to the public. Some competitors claim that this gives Microsoft an unfair advantage with respect to its application programs because other companies can revise their application programs only after a new version of the operating system has been released. Is their claim morally justified?
2. Is there anything immoral about an individual getting $1 billion a year from his or her business? Why or why not? Is there anything immoral about investors earning millions a year, even though they do not produce anything or contribute to society other than by investing?
3. Under what conditions is free enterprise morally defensible? Are these conditions met in the United States?
4. What constitutes a fair transaction? Defend the claim that these conditions make a transaction fair.
5. What are the traditional roles of government? Are these roles played by all governments, or only by certain kinds of governments, or only at certain times?
6. How does government deal with people who do not contribute to the economy? How should a government deal with them? Are there different categories of such people?
7. How does government enter the marketplace? Is its entry morally justifiable?
8. Why does government adopt fiscal and monetary policies?
9. How does government attempt to keep transactions in the marketplace fair? Is this a legitimate role for government? May a government morally favor,

protect, or otherwise treat some firms differently from others?

10. Is taxation morally justifiable? If so, show how; if not, show why.

11. Present and evaluate the Marxist claim that capitalism is based on exploitation. What is meant by exploitation? the labor theory of value?

12. Define alienation. Present and evaluate the Marxist claim that capitalism alienates human beings. Is alienation peculiar to capitalism?

13. Present and evaluate the Marxist claim that capitalism prevents the productive forces of society from serving the masses.

14. Present and evaluate the claim that capitalism creates waste and false needs. If the claim is correct, does it show capitalism is inherently immoral? Why or why not?

15. Present and evaluate the claim that capitalism feeds the military-industrial complex at the expense of the general population. Does it do so less now that the Cold War is over?

16. Present and evaluate the claim that capitalism creates gross and unjust inequalities. Are all gross inequalities of wealth unjust? Why or why not?

17. Describe and evaluate the libertarian alternative to American corporate capitalism.

18. Present and evaluate the alternative of workers' democracy.

19. What is the alternative of piecemeal change? Is it compatible with either the libertarian or the model of workers' democracy?

20. Showing that attacks on the morality of the American free-enterprise system are not conclusive is not the same as showing that the system is morally justifiable. Sketch out the kind of argument that would be needed to show that the system is morally justifiable.

21. Is philanthropy morally praiseworthy? If so, why? If not, why not?