PHOTO CREDITS

Credits and acknowledgments borrowed from other sources and reproduced, with permission, in this textbook appear on the appropriate page within text.

Copyright © 2014 by Pearson Education, Inc. All rights reserved. Printed in the United States of America. This publication is protected by Copyright and permission should be obtained from the publisher prior to any prohibited reproduction, storage in a retrieval system, or transmission in any form or by any means, electronic, mechanical, photocopying, recording, or likewise. To obtain permission(s) to use material from this work, please submit a written request to Pearson Education, Inc., Permissions Department, One Lake Street, Upper Saddle River, New Jersey 07458 or you may fax your request to 201-236-3290.

Many of the designations by manufacturers and seller to distinguish their products are claimed as trademarks. Where those designations appear in this book, and the publisher was aware of a trademark claim, the designations have been printed in initial caps or all caps.

Library of Congress Control Number: 2013948478
For my Dad

Kenneth G. Scalet
CONTENTS

Preface xiii
Acknowledgements xvi

INTRODUCTION: THE ETHICS AND VALUES OF BUSINESS AND ECONOMIC LIFE 1
I.1 Introduction 1
I.2 The Approach Taken in This Book 2
I.3 The Big Picture 4
   A. Personal and Institutional Points of View 4
   B. The Subject Matter of this Book 5
   C. Three Competing Perspectives about the Role of Ethics in Business and Economic Life
      Invisible Hand Arguments 8
      Law and Regulation Arguments 8
      Professional Ethics Arguments 9
   D. Organization of Chapters 9
I.4 What You Need to Get Started: A Primer on Ethics 11
   A. Ethics, Norms, and Law 11
   B. Ethical Theories 12
      Assessing the Consequences of Action 12
      Assessing Actions Apart from Their Consequences 13
      The Importance of People’s Motives 14
      Character and Virtue 15
      Methods of Ethical Reasoning 16
I.5 Summary 16
Key Terms 17
Discussion Questions 17

PART I  BASIC CONCEPTS 18

1. MARKETS 18
   1.1 Introduction 18
   1.2 What Are Market Exchanges? 19
   1.3 Why We Begin with Market Exchanges? 21
   1.4 Debates about How to Define Markets 22
   1.5 Blocked Exchanges 24
   1.6 Background Conditions for Markets to Operate 25
   1.7 Three Dialogues That Shape This Book 25
5. THE STAKEHOLDER THEORY OF CORPORATE RESPONSIBILITY 75

5.1 Introduction 75
5.2 A Global Perspective: “All Is Not Well” 76
5.3 Corporate Purpose, Stakeholder Rights, and Managerial Duties 78
5.4 Ethical Justifications 82
5.5 Interpreting the CSR Movement from the Stakeholder Perspective 84
5.6 Corporations and Government 85
5.7 Ethics, Self-Interest, and Markets 87
5.8 Personal and Institutional Points of View Revisited 89
5.9 Corporate Personhood 90
5.10 Summary of Chapters 4 and 5 92
5.11 Book Digest 92
Key Terms 93
Discussion Questions 93

PART III  EFFICIENCY AND WELFARE: THE MOST COMMON ETHICAL GUIDES IN BUSINESS AND ECONOMICS 96

6. EFFICIENCY AND WELL-BEING 96

6.1 Introduction 96
6.2 Pareto Efficiency as an Ethical Ideal 97
6.3 How Idealized Markets Create Efficiency Gains 98
6.4 Background Conditions 101
6.5 How Actual Markets Approximate Ideal Markets 103
6.6 How Efficiency Is a Basis for Criticizing Markets 105
6.7 The Ethical and Practical Appeal of the Efficiency Standard 108
6.8 Complications about the Meaning of Efficiency 109
   A. The Tangled Relationship between Efficiency, Preferences, and Well-Being 110
   B. The Difference between Welfare and Consent 112
6.9 Summary 113
Key Terms 113
Discussion Questions 113

7. PUBLIC GOODS AND THE UTILITARIAN TRADITION 115

7.1 Introduction 115
7.2 Public Goods 116
7.3 Two Neighborhoods and a Park: A Public Goods Problem 118
   Let’s Now Generalize the Problem 122
7.4 The Tragedy of the Commons 124
7.5 Ethical Motives, Government Regulation, Property Rights, and Corporate Responsibility 125
   A. The Personal Point of View: Ethical Motives and Social Norms 125
   B. The Institutional Point of View: Government Regulation and Privatizing Goods 126
   C. Corporate Responsibility 127
7.6 Limitations to Pareto Efficiency as a Normative Standard 129
7.7 The Tradition of Utilitarianism 130
7.8 The Attraction and Limitations to Utilitarianism 132
   A. Problems with Utilitarianism 132
7.9 Summary 133
Key Terms 134
Discussion Questions 134

8. THE INVISIBLE HAND: ETHICS, INCENTIVES, AND INSTITUTIONS 136
8.1 Introduction 136
8.2 The Metaphor of the Invisible Hand 138
   A. Limited Role for Ethics from a Personal Point of View 139
   B. Limited Role for Government and Law from the Institutional Point of View 141
   C. An Adjusted Invisible Hand Model 142
8.3 The Law and Regulation Model 143
8.4 The Professional Ethics Model 144
   A. Professional Ethics within an Efficiency Framework 145
   B. Noninstitutional Foundations for Professional Ethics 147
   C. Mutual Benefit as a Personal Value 148
8.5 Conflicts of Interest 150
   Read the Case Study Blowing the Whistle only on MySearchLab 152
8.6 Ethics and Values: Moving beyond Efficiency and Welfare Discussions 152
   A. The Dance between Ethics, Incentives, and Institutions 152
   Read the Case Study Sarbanes-Oxley only on MySearchLab 152
8.7 Looking Ahead 153
8.8 Summary 153
Key Terms 154
Discussion Questions 154

PART IV ETHICS BEYOND EFFICIENCY 156

9. LIBERTY 156
9.1 Introduction 156
9.2 Two Concepts of Liberty 156
   A. Negative Freedom 157
   B. Positive Freedom 158
## Contents

### 9.3 Institutional Implications of Negative Freedom 159
  A. Markets, Property Rights, and an Argument in Support of Markets 159
  B. Property Rights, Poverty, and an Argument Critical of Markets 160
  C. Markets, Voluntary Choice, and Noninterference 161

### 9.4 Institutional Implications of Positive Freedom 162
  A. Democracy and Markets 162
  B. Democratic Capitalism 163
  C. Two Visions of a Free Society Drawing on both Positive and Negative Freedom 164

- Read the Case Study *Smoking Laws* only on MySearchLab 166

### 9.5 Freedom and Ethics 166
  A. Ethics and Business 166
  B. A Tight Conceptual Link between Freedom and Ethics 167
  C. The Disconnect between Freedom and Ethics 169

### 9.6 A General Model of Ethics and Values 170

### 9.7 Summary 171

### Key Terms 171

### Discussion Questions 171

### 10. RIGHTS 172

#### 10.1 Introduction 172

#### 10.2 Preliminaries 173
  A. Legal, Natural, and Human Rights; and Other Distinctions 173

- Read the Case Study *Employee Privacy Rights* only on MySearchLab 173

#### 10.3 Rights as Side-Constraints 175

#### 10.4 Rights and Markets 178
  A. The Entitlement Theory of Justice 178
     - A History of Transactions 178
     - The Wilt Chamberlain Example 179
     - Rectifying Injustice 180
     - Applying the Entitlement Theory to Global Capitalism 181
     - The Interdependence of Ethics and Justice 183
     - Remedies: Invisible Hand, Government Regulation, and Business Ethics Models 183
  B. Undeserved Inequalities 184
     - Rights to Assistance 186
  C. Justifying Rights 186
     - Trade-offs among Values 188

#### 10.5 Criticisms of Nozick’s Entitlement Theory of Justice 184
  A. Undeserved Inequalities 184

#### 10.6 Summary 189

### Key Terms 189

### Discussion Questions 189

### 11. EQUALITY 191

#### 11.1 Introduction 191

#### 11.2 Fundamental Equality 193
## Contents

11.3 Implications for Institutions 195  
A. The Tilt toward Institutional Analysis 195  
B. Income and Wealth Inequality Revisited 196  
C. Equal Opportunity 198  

Read the Case Studies Hiring Practices and Discriminatory Practices only on MySearchLab 200  
D. An Equal Opportunity Society 200  

11.4 Professional Ethics and the Personal Point of View 202  
A. The Workplace: Internal Relationships 202  
B. Obligations and Aspirations 203  

11.5 Social Contract Theory: Liberty and Equality Joined 204  
A. Business and the Social Contract 205  
B. Professional Ethics and the Social Contract 206  

11.6 Summary 206  
Key Terms 206  
Discussion Questions 206  

12. What People Deserve 209  
12.1 Introduction 209  
12.2 The Concept of Desert 210  
12.3 Deserved Wages 212  
12.4 Desert and Professional Ethics 214  
A. Entitlements and Desert from a Personal Point of View 214  
B. Entitlements and Desert from an Institutional Point of View 215  

Read the Case Study CEO Pay only on MySearchLab 215  
C. Desert Sometimes Spurs Advocacy for Reform, Sometimes Not 216  
12.5 Capitalism and Debates about the Relevance of Desert 217  
A. Challenging the Relevance of Desert 217  
B. The Staying Power of Desert 220  
12.6 Deserving Anything at All 221  
12.7 Summary 222  
Key Terms 222  
Discussion Questions 223  

13. Relationships and Character 224  
13.1 Introduction 224  
13.2 Relationships 225  
13.3 Character: A Criticism of Capitalism 226  
A. Virtue Ethics 229  
B. The Ethics of Care 231  
C. Non-Western Ethical Approaches 233  
D. Relating Chapters 6–12 with Debates about Relationships and Character 234  
E. Public Policy Implications from an Institutional Point of View 235  
13.4 Relationships and Character: Defending Markets and Capitalism 236  
A. Tale of Two Capitalisms and the Pragmatic Point of View 240  

Read the Case Study Work-Life Balance only on MySearchLab 240
## Contents

13.5 Summary 241  
Key Terms 241  
Discussion Questions 241

### 14. Community and the Common Good 243

14.1 Introduction 243  
14.2 Creative Destruction and Community 244  
14.3 The Human Personality: Seeking Change and Tradition 245  
14.4 Market Triumphalism versus Concern for the Common Good 246  
14.5 Markets That Build Communities 247  

[Read the Case Study Life Choices only on MySearchLab 248]

14.6 The Meaning of the Common Good 248  
   A. The Common Good as the Shared Interests of Each Person 248  
   B. The Common Good as the Aggregated Interests of All Persons 249  
   C. The Common Good of Community Derived from the Social Nature of Persons 249

14.7 Communitarianism 251

14.8 Justice and the Common Good: Complementary or Conflicting Values? 252  
   A. A Progression of Ideas 252  
   B. The Relevance of Culture for Ethics and the Common Good 254

14.9 Summary 255

Key Terms 255  
Discussion Questions 255

Glossary 258

Index 264
Preface

This book develops a study of ethics as a path toward a deeper understanding of markets, corporations, and the business system. How can ethics guide our interpretation of this world and our choices within it?

This book is designed to help you make ethical decisions and find practical ways to discuss ethics with others. It’s written in a conversational tone. In practical settings much of ethics is less about being a lone ranger and more about initiating conversations with others at the right moments. A great practical skill is having the ability to discuss ethical challenges from several angles in dialogue with others. It requires a mix of honesty and humor. The book isn’t about giving advice or recommending positions. It’s about entering ethical discussions and then clarifying the strongest arguments for and against competing positions. The book aims to increase your comfort and skills for doing two things: (1) interpreting the business and economic system as a whole from an ethical point of view and (2) understanding specific ethical debates for developing your own decision-making within business and economic life.

Consider this puzzle. Some people believe that self-interest alone and free markets create the best business and economic system. In the words of political philosopher David Gauthier, markets ideally are morally free zones that allow for the unbridled pursuit of self-interest—and yet all for an ethical result. Others reject this idea, believing that in our professional lives, we must work beyond self-interest and bring ethical reflection directly within our everyday decisions. Both perspectives express a role for ethics but in different ways. Who is right? How do we decide who is right? Which ethical guidelines and self-interested considerations should guide our decision-making in business and economic life? This book addresses these questions, among many others.

The book begins by introducing basic but challenging ideas about ethical theories, markets, property rights, corporations, and law. These discussions lead to a debate about corporate responsibility in Part II. Some say that a corporation’s only responsibility is to maximize profits within the law. Others say that this credo misses the ethics part. We will examine this debate. Then, in Parts III and IV, the book introduces and applies ethical ideas about efficiency, liberty, rights, equality, what people deserve, character, community, and others. Each of these later chapters offers a central ethical value as a focal point of discussion. Taken together, these chapters integrate a range of values for assessing the moral complexities of business and economic life.

Distinctive Features of this Book
1. Current business context. The economic and financial crises of the last several years have motivated a cultural and global debate about the rules of the business system and the choices people make within that system. The book emphasizes a balance between personal and institutional perspectives, integrating a micro perspective about the
ethics of individual decision-making alongside a macro perspective about evaluating the rules of the system that shape those choices.

2. **Continuity across subjects.** The book examines the role of ethics in business and economic life from the perspectives of consumers, investors, managers, owners, and employees—basically, all those who participate in the system in one capacity or another. In this sense the book is for all readers who wish to deepen their understanding of markets, corporations, and the business system from an ethical perspective. The book covers all the major topics discussed in texts in business ethics, and the special emphasis is continuity and integration of subjects across business, economics, political philosophy, and ethics.

3. **Engaging chapters.** Each chapter analyzes a central concept with digestible and engaging discussions, and then applies these materials to debates in business and economic life. Students practice ethical reasoning throughout the chapters—including online case studies—to develop skills that are versatile and have many applications beyond the text.

4. **The challenge of ethical debate.** How is productive ethical debate possible? First, it requires mastery of a range of important basic concepts, which are covered throughout the book. Second, there is a fairly well-defined structure to the ideas that lead to competing visions about the role and content of ethics in business and economic life, and this book develops that structure. A study of ethics is more than a balancing of intuitions. An important question is how do those intuitions and debates fit into a more comprehensive understanding of ethics and values? This book focuses on developing this systematic perspective, which reveals intriguing, challenging, and enjoyable intellectual puzzles. Experiencing and responding to these intellectual puzzles can lead to a healthy respect for ethical debate.

5. **Chapter organization.** The goal of each chapter is to integrate and develop important ideas on the chapter topic, analyze provocative ethical puzzles, and indicate how the chapter ideas have versatile applications. The text emphasizes core concepts underlying many ethical debates and how they form building blocks for competing arguments across topics.

   Each chapter includes a listing of skills to be developed in that chapter, an introduction, a summary, a listing of key terms defined within the text, and discussion questions. The discussion questions are especially notable for this text. They are an integral part of the study of each chapter for those who seek a more advanced understanding of the material. These questions can focus your interests on some particular aspect of the reading or indicate additional puzzles beyond the core discussion. The online materials include a brief list of recommended readings that can also be assigned in tandem with the main text. As the chapters progress, the materials become part of an expanding network of ideas for engaging ethical discussions and debates. Taking all of these organizational elements together, each chapter is designed to allow for great flexibility to focus on themes that are of greatest interest.

6. **Practical Applications.** The text includes many applications and examples, and there are accompanying online materials with case studies for analysis, which are indicated by the [insert book icon] symbol within each chapter. In addition, your own online searches can also yield a treasure trove of examples. Many of the best cases and examples happen in real time, and the daily news invariably provides revealing and exciting
applications. By following current events, you can witness the ideas of the text playing out in real time before your eyes.

7. **Background.** This book offers a comprehensive introduction and requires no previous acquaintance with philosophy, business, or economics. The fourteen chapters are designed for a one-semester course of study. The book defines all of its key terms and in that sense is a self-contained study for introductory classes; but the discussions are designed to offer challenges at varied levels of analysis. The writing is appropriate as an introduction for business, philosophy, and general education students; as the main text for business ethics and professional ethics classes; and as a text for interdisciplinary majors that combine philosophy, politics, economics, and law. In addition, the writing is designed for broader and more advanced backgrounds for MBA courses and advanced applied ethics, political philosophy, or ethics and economics courses.

This text is available in a variety of formats—digital and print. To learn more about our programs, pricing options, and customization, visit www.pearsonhighered.com.
ACKNOWLEDGMENTS

After a decade of teaching and writing, this book began to take shape through my experience and conviction that many people enjoy and seek discussion of ethical puzzles in business and economics but the opportunities can seem too few. This book responds to the hope of contributing to greater public dialogue about the role of ethics in public life.

There are so many people to thank for all of the discussions, debates, and inspiration—more than I could possibly list. It's a product of many influences and many years.

Let me begin by thanking my Dad to whom this book is dedicated. Over a long career I saw how his undergraduate and MBA students loved his humor, common sense, and humanity about all matters concerning business and economics. Were I to carry forward even in small part his years of inspired teaching, I would feel lucky. I still remember our first conversation about economics—he started by asking me the purpose of businesses—and ever since the two of us have discussed and debated economic issues, always to my enjoyment and profit. I will always cherish the countless conversations through the many drafts of this book, with his probing questions at every step of the way. For everything, Dad, this book is dedicated to you.

I thank my wife Debby and daughter Sophia for their endless encouragement and support, especially in those moments when the work took many times longer than I imagined that it would. Debby always fortified me to take the time that I needed to bring this book to life. My family not only endured innumerable hours that I spirited away on research and writing, but they endured the scintillating conversations that I couldn't help but initiate about topics such as externalities, deontological ethics, and global governance gaps. For this and far more than I could ever write here, I am forever grateful.

At Binghamton University, outstanding students generated dynamic debates year after year, including an introductory class called “Markets, Ethics, and Law” that enrolled more than 2,000 students over a decade. This collective dialogue was a source of great creativity in my thinking and writing. The ideas in this book were also refined through other advanced undergraduate and graduate courses and in my teaching at the University of Baltimore, where I now work. Teaching at a university can keep you young because it provides a continuing antidote to those who think that the younger generation has lost its way. The hard work, intelligence, and passion of young people that I experienced year in and year out is truly remarkable. I have so many students to thank for these years of conversations—too many to mention given the great cumulative impact. Let me especially mention Samuel Itin, Lucas Testiori, Murray Friedman, and Dustin Frost—their interest in this book project led them to read and offer helpful comments on early versions of this manuscript. These conversations included many alumni interactions as well. I'd like to especially thank Owen Pell, Binghamton University class of 1980, not only for the enriching dialogue on topics related to this book but his inspiring views on education and the role of ethics in business and economic life.
I have special gratitude to David Schmidtz, my advisor at the University of Arizona, where I taught my first course in business ethics and learned new ways to connect philosophy and economics. David created an intellectual community where ideas germinated in an atmosphere of freedom—an idyllic environment. David continues to mentor generations of students into the philosophy profession.

I would like to thank friend and colleague Chris Griffin for years of debate and discussion on topics related to this book. In the tradition of Socrates, Chris will disagree with great zest about anything philosophical that sounds off-base—not just to find better answers but as one friend to another. And in our conversations he’s had plenty of opportunity to display this sign of friendship! (Whatever errors remain in this book are probably because I didn’t try out the ideas on him first.)

As a senior research scholar at Binghamton University, I thank former Harpur College Deans Peter Mileur and Don Nieman for their support of my research efforts, including research time while employed at Binghamton University for developing early drafts of the book. I have many colleagues to thank at Binghamton for conversations related to this book, including John Arthur, Eric Dietrich, Thomas F. Kelly, Stefan Sciaraffa, and Melissa Zinkin. I thank the University of East Anglia (UEA) in Norwich, England, during my visiting appointments in 2008 and 2010, for office space, time to think and write, and the generous collegiality of its faculty members. I am thankful for those experiences, as well as the study abroad and UEA students who debated the topics of this book. I also thank the University of Baltimore for summer research grants to complete this work as well as my colleagues in the Division of Legal, Ethical, and Historical Studies for their support, and, in particular, Joshua Kassner.

The anonymous reviewers provided incisive comments at various stages of production. I am grateful for their detailed suggestions and ideas. Finally, I would like to thank Barbara Smith Decker for her efforts as development editor, Saraswathi Muralidhar as senior project manager, and the Pearson editorial team for seeing this project through, including production manager Reena Dalal.