

## Solomon: Introduction (revised)

### A. Solomon believes both of the following:

Perhaps: (1) consistently maintaining integrity and fair dealing (call this IFD) are necessary for a flourishing and enduring business (call this FEB). So if FEB, then IFD.

Almost always: (2) business that neither plays by the rules nor obeys the law and refuses to treat employees, managers, and customers fairly (call this NPOR) are sufficient for business failure (call this BF). So, if NPOR, then BF.

Both NPOR and IFD, and FEB and BF are contradictory pairs (meaning that one must be true and the other false.) Solomon assumes that FEB is widespread. If FEB is widespread, then IFD also is widespread and so both NPOR and BF are rare. However, 2002 polls show that people believe that NPOR is widespread, which means that BF is widespread, so that FEB and consequently IFD are rare. (Solomon calls this the image problem.) What do you think? Is FEB widespread as Solomon assumes, or is NPOR widespread as the poll suggests? If you believe that both are true, then you must disagree with the truth of either (1) or (2).

### B. Business ethics concerns the values of business life.

Business skills are taught in other classes, **integrity** here. The point being that business is not a purely economic activity, but a social activity which is held together by integrity and without which the economic activity is not successful.

A general goal for all of us: happiness and living the good life (H/GL). For most us, the necessary means is some sort of business activity (BA). This means that BA is necessary for H/GL: if one attains H/GL, then prior BA must be done, cp. the transpositive without prior BA, then one doesn't attain H/GL. Solomon's point is that this is only half the story, we need to look to what is sufficient for H/GL. He believes that BA is consistent with some level of unhappiness so that BA alone is not sufficient for H/GL. Solomon's goal is to develop both the necessary and sufficient conditions for H/GL. In other words, he wishes to develop supplement BA in order to develop a concept which is logically equivalent with H/GL.

C. Business activity: with a particular profession, like accounting, the emphasis is on skills, but for general business activities, the emphasis is on **personal character**. Character is how we see ourselves and others and evaluate what we see (i.e., self-esteem). For Solomon, it is this sense of character (PC) which when combined with BA is sufficient for H/GL. The main rival of this sufficient condition is the claim that the attainment of an adequate level of financial well-being (FWB) is enough. Solomon characterizes the difference between PC and FWB as the difference between being "self-satisfied" and possessing "self-worth." While FWB denotes the importance of making money and beating the competition, it is PC which tells us to look at how we make money and beat the competition. This latter condition is, for Solomon, a fuller sense of wealth and respectability.

## Solomon chapter one: Business, Ethics, and the Good Life

Ethics aims to understand the concept of the “Good Life.” We can also call it the complete life or the life worth living. There are various ways of spelling out this concept, see the contemporary checklist on p. 13 or Aristotle’s list on p. 14. Philosophers analyze concepts by using a formula like the following: “x is the good life iff x is ....” The variable ‘x’ ranges over different examples and various items can be substituted for the dots and we can evaluate whether these items are sufficient for, or necessary for the good life, or both.

A. Let’s try the following: x is the good life iff x is the pursuit of wealth.” This is rejected as not sufficient with the thought experiment counterexample in the box on p. 18.

B. Try “x is the good life iff x is a successful life.” Success is defined as a socially variable goal which may differ in importance and between different people – see box on p. 19 - and involves recognition by others and is linked to achievement by effort. This is rejected as not sufficient because it may exclude the enjoyment important to the good life, see p. 20, first full paragraph.

C. Try “x is the good life iff x hedonism.” Hedonism is defined as pleasure or satisfaction of desires. This is rejected as not sufficient with a counterexample in the box on p. 23.

D. Try “x is the good life iff x asceticism.” Asceticism is defined as the rejection of wealth and success. This is not explicitly rejected, but note whereas B. above rejects success as sufficient for the good life, D. here rejects is also as necessary! (You should be able to come up with a counterexample to that!) Solomon says the real problem with C. and D. is an issue of mistaking ends and means. Ascetic measures may be necessary **means** to the good life, but they are not equivalent to the good life. Likewise, pleasure may be a necessary **means** or component to the good life, but it is not equivalent to the good life.

E. Try “x is the good life iff x is the puritan ethic (PE).” PE is defined as possessing self-discipline and wanting to do the right thing. This is rejected as not sufficient on pp. 29-31. The issue is that PE is a wholly individual quality, and overlooks social qualities of love, friendship, and the value of knowledge and culture.

### Discussion Items:

1. Three Job Offers: clearly, only the Humongous offer conflicts with what Solomon is saying is necessary for the good life. 2. The Opportunist (J.F. Cooper): portrays the risks and silliness of overaccumulation. 3. Business and Ideology (Macroethics): ideology is the way we conceive of the world and the values we place on parts of it. For example, an emphasis on material well being, the legitimacy of profit making, and significance of consumer desires are parts of a capitalist ideology. Macroethics studies the legitimacy of these general values and their basis in facts. For example, certain parts of a capitalist view may be grounded in a competitive, versus a cooperative, view of human nature. Microethics looks at an individual’s role, once ideologies are accepted or rejected.

## **Newton chapter one: Ethics: Terms and Forms of Reasoning.**

A. Morality concerns three areas: rules (duties governing behavior), values (desired states of affairs), and virtues (desirable characteristics of people). Ethics, as philosophy, studies how we think/talk about these three areas with an aim of arriving at a systematic understanding of morality. Morality is a precondition for ethics in two senses. One, it is the subject matter of ethics and, two, the activity of ethics involve a “moral” commitment to reason (not intuitions or dogmatism) and impartiality (not preferential treatment or egoism).

B. Moral duties, values, and virtues are “grounded” in human nature. People are embodied. This means that we all have needs that can be met or not and the result will lead to some degree of pleasure or pain. This gives content to our concept of welfare. John Stuart Mill’s Utilitarianism develops the moral implications of this concept. People are rational. This means that we can conceive of alternatives, deliberate, and choose our own actions. As a result, it is natural that we value autonomy and responsibility. This gives content to our concept of dignity. Immanuel Kant’s deontological theory develops the moral implications of this concept. People are social. This means that we have a social structure to share the benefits and burdens of our condition. As a result, it is natural that we value fairness and equality. This gives content to our concept of justice. John Rawls’ theory of justice develops the moral implications of this concept.

C. These three concepts are the sources of every moral dilemma. Moral dilemma can concern values or imperatives. See pp. 21-24, a list of duties is developed from each concept. In every moral dilemma, the conflict is a result of our inability to satisfy relevant duties.

Cases: New England Fisheries, the Impaired Driver, the Starving Children, Mother in Decline, Abortion Clinic.

Decision Procedures:

ADAPT: Attention, Dialog, Assumptions, Proposals, Test.

ORDER: options/outcomes, rights/rules, determination/decision, evaluation, review.

DISORDER: Definition/Inquiry/Stakeholder, then ORDER.

DEAL: Dialog, Experiment, Assessment, Legitimacy.

## Newton chapter two: From Ethics to Business Ethics

### 1. Historical Roots of Business.

The ancient philosopher Aristotle, one of the great philosophers and scientists of all time, believed that commerce, usury, and trade were petty and bad for one's character. Producers such as farmers, herders, and craftspeople who produced consumable goods from natural products were good, but anyone who then traded these goods without producing them were not. Aristotle thought that instead of developing production skills, commerce developed qualities of pettiness and hoarding! This anti-business attitude lasted into the middle ages. St. Benedict, in the early middle ages, taught that a calling to work at any menial task is a divine vocation and helped to develop the notion of a work ethic (work as a good in itself). This was extended by the 16<sup>th</sup> century Protestant Reformation to include every person.

Prosperity in the later middle ages led to the growth of commerce and the middle class. Preexisting moral obligations rooted in duties to royalty or the church were not enough to govern the wide range of commercial business activities. The concept of a mutual promise or contract arose as a standard way by which business was conducted over great distances and times. It was a powerful and flexible voluntary formal moral obligation that is able to handle novel situations.

Political philosophers used the concept of a contract to justify the existence of a state apart from the authority of the church and royalty. Seventeenth century British philosopher John Locke justified the possession of private property as arising from the situation of a state of nature where common unowned property is mixed with one's labor; thereby justifying the laborer's possession of the "worked" property. The only restriction to this was that there must remain enough unowned property for everyone else to do the same.

Eighteenth century British philosopher Jeremy Bentham's utilitarianism began with a claim that the basis for all moral value lies in each person's preferences of what is pleasurable or not (this is how Bentham defines good). He then goes on to define moral duty/obligation as to maximize the sum of all individual goods, defined in the above sense. All people are able to use this moral "calculus" if they are rational and honest (able to consider everyone's good). The simplicity and attractiveness of this view is that the full range of moral duties and obligations (also called the common good) are then generated on the basis of individual preferences.

Adam Smith extended Bentham's calculus to commerce. Presupposing Locke's justification of the origin of private property, commerce is equally concerned with the fair exchange of private property. Smith claimed that a fair/moral exchange between parties was voluntary and self-interested (it maximized one's preference of what is pleasure or good). This allow exchange rates for goods to be negotiated in an open market where competition serves as an invisible hand which leads exchangers to produce the best good at the lowest cost to them and sets the proper exchange rate of what people are willing to exchange.

1776 was the year of the Declaration of Independence and the publication date of Bentham and Smith's major works. This led to the development of the ideal of the bourgeois tradesman. The ideals of the "pursuit of happiness" in the Declaration of Independence came from Bentham's identification of each person's preferences of pleasures as the sole source of moral value. It is also the basis of Smith's "invisible hand" which determines the just prices of goods and services and so their just distribution across society. In conclusion, this business ideal is for individuals freely able to enter into trade with another on the basis of mutual self-interest, but is limited by Bentham only to the extent to which these exchanges maximize the overall common good of the community. This latter notion serves to define the full range of moral duties/obligations for each individual over and above his/her own "self-interest." (Incidentally, this is part of the theoretical justification for democracy in political theory: a majority vote of rationally self-interested individuals will to a social policy which maximizes individual self-interest across society.)

## 2. The role of corporations.

A corporation is legally a fictional person that enters into contracts like any individual. It is a legal entity that allows individuals to invest a limited amount of property. Individuals then can be held liable for the actions of the corporation only to the extent of what is invested (any other property owned by individuals is protected from liability). So defined, it is limited liability corporation. Let's now place corporations in the place of individuals who can negotiate in the open market.

There are different levels of agency in a corporation. In its simplest form, a corporation is managed by an owner, or a group of owners. This corporation is subject to all of the duties and obligations that follow from Bentham/Smith's moral views. It acts in pursuing its own self interest in the open market and it is subject to all moral duties/obligations which maximize self interest for the whole society. In this simple corporation, *the agent of action in a corporation is identical to the subject of moral duties* for the common good.

In a slightly more complex form, investors hire a manager to run the corporation and circumscribe specific *fiduciary duties* for that manager. As such, the manager is not subject to all of the duties and obligations that follow from Bentham/Smith's moral views (only the owners are so subject). The manager can only act according to instructions given by the investors. If the investors circumscribe management's fiduciary duties to maximize profits and obey the law, the manager is not bound morally to any other duty and must consult with the investors before considering other duties/actions. At this level of corporate organization, *the agent of corporate action, i.e., the manager, is distinct from the subject of moral duties for the common good, i.e., the owners*. (This distance increases in cases where investors of large corporations participate in voting for a board of directors that hires a manager, thus putting an additional layer between the agent of corporate action and the subject of moral duties.)

In large publicly held corporations, the relationship between the agent of corporate action and subject of moral duties for the common good disappears, practically speaking. The owners of these corporations are stockholders. Stockholders, in turn, vote for a board of directors which then hires a manager. However, stock ownership can vary greatly over time and may well extend around the world, in some cases. Stock ownership, itself, has become a means of generating income so that many owners are either unaware of which corporations they own or unconcerned with the particular issues of these corporations. As a result, managers who are bound by fiduciary duties to maximize profits and obey the law, are not able to effectively consult with owners before considering other duties/actions. At this level of corporate organization, *the subject of moral duties for the common good, i.e., the owners, has effectively disappeared*.

### 3. Riccardo, Malthus, and the law of subsistence wage.

As outlined above the ideal of the bourgeois tradesman works well for trades like cobbling where a low number of cobblers may lead to a high price for shoes, which in turn leads to more cobblers, which then by producing more shoes, lowers prices. The overall price of shoes is thereby related to the number of cobblers. This is the law of supply and demand. However, shoe making turns into a factory production utilizing unskilled workers, then the wages paid to unskilled workers depends upon the overall population. If workers are plentiful, then wages will be lower, however if wages go too low, then the population will decrease and fewer unskilled workers will lead to increased wages. The overall level of wages is thereby related to the overall population and will stabilize at a subsistence level. This is the law of subsistence wage. In the above ideal scenario, all people involved in shoemaking participate in the open market with respect to the price of shoes and this is directly related to one's standard of living. However, in the latter scenario, unskilled workers participate in the open market only with respect to wages. One's standard of living is directly related not to the price of shoes, but the number of available unskilled workers.

### 4. Moral response by Dickens and Marx and Solomon/Newton.

Subsistence wage levels have traditionally led to poverty conditions that were publicized by Charles Dickens (in England) and Upton Sinclair (in the U.S.), among many others. The results have been a series of labor laws concerning wages and work conditions that have increased the level of wages for unskilled workers over subsistence levels. Karl Marx's solution is to "socialize" property such that all (both unskilled workers and factory owners) equally participate (and benefit) in the open market negotiation of prices. There is a puzzle about the above economic laws. If they are meant to be *empirical* laws and intended to describe the economic behavior of people, then they are false. However, if they are intended to be *normative* and only to prescribe how things should be under certain conditions, then we need to evaluate them differently. We need to form an ideal of what reality we should strive for and then appeal to economic laws as prescriptions of how to achieve those ideals. One such ideal is to curb the restricted notion of fiduciary responsibility by including ten proposed duties, see pp. 74-76.

## Solomon Chapter 2: Business Life, Law, and Ethics.

1. Historically, the notion of business as the pursuit of profits and carried on by corporations is an 18<sup>th</sup> century phenomenon. The history of business is decidedly anti-business.

Historical Interlude: Ancient Times (pp. 62-64). Extensive trading of goods existed to the time of 3000 B.C. At about 300 B.C. the ancient philosopher Aristotle sought to specify the fairness of transactions on the basis of the value to us of what is traded and the satisfaction of needs on the part of the traders. There was no use of an open market where prices are negotiated. (This is a contrast between a system of fixing a trade on the basis of the content/value of what is traded versus a system of fixing a trade on the basis of the formal means by which the trade is performed: a mutually agreed upon trade.) For Aristotle, economics concerns transactions of goods for the practical necessity for obtaining what you need. Any transaction beyond this level, e.g., that allowed an acquisition of wealth beyond one's needs is not allowed.

Earl Christian theology warned against profits and usury, e.g. see the boxes on p. 43 and an interesting picture of pre-eighteenth century business in the box on p. 41.

Historical Interlude: The Middle Ages (pp. 64-67). St Thomas Aquinas "applauded the idea of a society that had no need of merchants." Trading of goods was allowed only for necessities, but not for an attempt to make a profit. Guilds regulated trades groups but for the purpose maintaining a monopoly and preserving their social role. Any innovation of goods was prohibited.

2. **Individualism and Freedom.** See the list of 5 social factors, on p, 42, that gave rise to notion of modern business. A key development occurred in the Protestant Reformation which allowed the ideal of an accumulation of wealth as a sign of salvation. In general, the ideal of *individualism* was triumphed by Adam Smith (and others) as the proper way of achieving a common good. In other words, it is only by all individuals working for their own self-interest will the common good of society be promoted. The latter will be achieved although no one intends to achieve it: this is the source of the phrase "an invisible hand" leads to the common good (see the box on p. 44). *Freedom* of individuals in an open market is presupposed by the above and this is distinct from freedom of corporations, and other individual freedoms of religion, politics, etc.

The *freedom* of individuals in an open market also requires respect for private property (e.g., the goods brought by individuals to the open market), contracts (agreements reached in the open market), and fair play (no coercion in negotiation). It is analogous to a sports competition. Furthermore, every open market requires protection from rule breakers, this is called legal protection. Legal protection takes the form of regulations and taxes. Furthermore, morality is required in the form of mutual trust, understandings and expectations, as well respect for the law.

3. **Business Life.** The notion of business life (BL) is not equivalent to the notion of making money in a certain way according to certain rules. Physical laborers and gangsters satisfy the latter notion. BL is not necessarily involved in production; rather it involves transactions with the aim of financial gain within a set of rules of fair play. BL is not a profession with a set of specific skills and knowledge with clear content specific goals. Its focus is on negotiations with others on the open market. It is primarily a people centered life designed around fitting into social situations, motivating others, being effective in communications, and analytically understandings an organization in terms of its goals. Communication may require a specialized language and community is variable, but linked by mutual understandings and responsibilities.

4. **Discussion Item, p. 67-69.** Read Heilbroner's thought experiment and try to explain how "people acting on the basis of simply what they want to do," and "people acting so as to satisfy all of society's needs" really do amount to the same thing.