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**CAPITALISM AND THE BUSINESS SYSTEM**

Capitalism as we know it is usually traced to the work of Adam Smith (1723–1790), a Scottish philosopher and economist, and a small number of his European contemporaries. The fundamental "capitalist act" is the voluntary exchange: Two adults, of sound mind and clear purposes, meet in the marketplace, to which each repairs in order to satisfy some felt need. They discover that each has that which will satisfy the other's need—the housewife needs flour, the miller needs cash—and they exchange, at a price such that the exchange furthers the interest of each. The marginal utility to the participant in the free market of the thing acquired must exceed that of the thing traded, or else why would he make the deal? So each party to the voluntary exchange walks away from it richer.

Adding to the value of the exchange is the competition of dealers and buyers; because there are many purveyors of each good, the customer is not forced to pay exorbitant prices for things needed (it is a sad fact of economics that, to the starving man, the marginal value of a loaf of bread is very large, and a single merchant could become unjustly rich). Conversely, competition among customers (typified by an auction) ensures that the available goods end in the hands of those to whom they are worth the most. So at the end of the market day, everyone goes home not only richer (in real terms) than when he came—the voluntary nature of the exchange ensures that—but also as rich as he could possibly be, since he had available all possible options of goods or services to buy and all possible purchasers of his goods or services for sale.

Sellers and buyers win the competition through efficiency, through producing the best quality goods at the lowest possible price, or through allotting their scarce resources toward the most valuable of the choices presented to
them. It is to the advantage of all participants in the market, then, to strive for efficiency—to keep the cost of goods for sale as low as possible while keeping the quality as high as possible. Adam Smith's most memorable accomplishment was to recognize that the general effect of all this self-interested scrambling would be to make the most possible goods of the best possible quality available at the least possible price. Meanwhile, sellers and buyers alike must keep an eye on the market as a whole, adjusting production and purchasing to take advantage of fluctuations in supply and demand. Short supply will make goods more valuable, raising the price and bringing more suppliers into the market, whose competition will lower the price, to just above the cost of manufacture for the most efficient producers. Increased demand for any reason will have the same effect. Should supply exceed demand, the price will fall to a point where the goods will be bought. Putting this all together, Smith realized that in a system of free enterprise, you have demonstrably the best possible chance of finding for sale what you want, in good quantity and quality, at a reasonable price. Forget benevolent monarchs ordering things for our good, he suggested; in this system we are led as by an "invisible hand" to serve the common good even as we think we are being most selfish.

Adam Smith's theory of economic enterprise and the "wealth of nations" emerged in the Natural Law tradition of the eighteenth century. As was the fashion for that period, Smith presented his conclusions as a series of iron laws: the law of supply and demand, which links supply, demand, and price; the law that links efficiency with success; and the laws that link the absolute freedom of the market with the absolute growth of the wealth of the free market country.

To these laws were added others, specifying the conditions under which business enterprise would be conducted in capitalist countries. The laws of population of Thomas Malthus concluded that the supply of human beings would always reach the limits of its food supply, ensuring that the bulk of humanity would always live at the subsistence level. Since Smith had already proved that employers will purchase labor at the lowest possible price, it was a one-step derivation for David Ricardo to conclude that workers' wages would never exceed the subsistence level, no matter how prosperous industrial enterprise should become. From these capitalist theorists alone proceeded the nineteenth-century assumption that society would inevitably divide into two classes, a tiny minority of fabulous wealth and a vast majority of subsistence level workers.

That condition hardly satisfies our intuitions about justice. As a young nineteenth-century philosopher, Karl Marx, pointed out, the situation could only, by the same laws, get worse. It was in the nature of capital-intensive industry to concentrate capital within itself: Its greater efficiency would, as Adam Smith had proved, drive all smaller labor-intensive industry out of business, and its enormous income would be put to work as more capital, expanding the domain of the factory and the machine indefinitely (at the expense of the cottage and the human being). Thus would the wealth of society concentrate in fewer and fewer hands, as the owners of the factories expanded their enter-
prises without limit into mighty industrial empires, dominated by machines and by the greed of their owners.

Meanwhile, Marx went on to argue, all this wealth was being produced by a new class of workers, the unskilled factory workers. Taken from the ranks of the obsolete peasantry, artisans, and craftsmen, this new working class, the “proletariat,” expanded in numbers with the gigantic mills, whose “hands” they were. Work on the assembly line demanded no education or skills, so the workers could never make themselves valuable enough to command a living wage on the open market. They survived as a vast underclass, interchangeable with the unemployed workers (recently displaced by more machines) who gathered around the factory gates looking for jobs, their jobs. As Ricardo had demonstrated, they could never bargain for any wage above the subsistence level. In Marx’s scenario, as capitalism and its factories expanded, the entire population, excepting only the wealthy capitalist families, sank into this hopeless pauperized class.

So Marx took from Ricardo the vision of the ultimate division of Western society under capitalism into a tiny group of fabulously wealthy capitalists and a huge mass of paupers, mostly factory workers. The minority would keep the majority in strict control by its hired thugs (the state—the army and the police), control rendered easier by thought control (the schools and the churches). The purpose of the “ideology” taught by the schools and the churches—the value structure of Capitalism—was to show both classes that the capitalists had a right to their wealth (through the shams of liberty, free enterprise, and the utilitarian benefits of the free market) and a perfect right to govern everyone else (through the shams of democracy and equal justice). Thus the capitalists could enjoy their wealth in good conscience and the poor would understand their moral obligation to accept the oppression of the ruling class with good cheer.

Marx foresaw, and in his writings attempted to help bring about, the disillusionment of the workers: He predicted a point when the workers will suddenly ask, why should we accept oppression all our lives? Marx believed the search for answers to this question would show them the history of their situation, expose the falsehood of the ideology and the false consciousness of those who believe it, show them their own strength, and lead them directly to the solution that would usher in the new age of socialism—the revolutionary overthrow of the capitalist regime. Why, after all, should they not undertake such a revolution? People are restrained from violence against oppression only by the prospect of losing something valuable, and the industrialized workers of the world had nothing to lose but their chains. 5

As feudalism had been swept away, then, by the “iron broom” of the French Revolution, so capitalism would be swept away by the revolt of the masses, the irresistible uprising of the vast majority of the people against the tiny minority of industrial overlords and their terrified minions—the armed forces, the state, and the church. After the first rebellions, Marx foresaw no lengthy problem of divided loyalties in the industrialized countries of the world. Once the scales had fallen from their eyes, the working class hirelings of army and police would
quickly turn their guns on their masters, and join their natural allies in the proletariat in the task of creating the new world.

After the revolution, Marx predicted, there would be a temporary "dictatorship of the proletariat," during which the last vestiges of capitalism would be eradicated and the authority to run the industrial establishment returned to the workers of each industry. Once the economy had been decentralized, each factory turned into an industrial commune run by its own workers and each landed estate into an agricultural commune run by its farmers, the state as such would simply wither away. Some central authority would certainly continue to exist, to coordinate and facilitate the exchange of goods within the country (one imagines a giant computer, taking note of where goods are demanded, where goods are available, and where the railroad cars are, to take the goods from one place to the other). But with no ruling class to serve, no oppression to carry out, there will be no need of state to rule people; what is left will be confined to the administration of things.

Even as he wrote, just in time for the European revolutions of 1848, Marx expected the end of capitalism as a system. Not that capitalism was evil in itself; Marx did not presume to make moral judgments on history. Indeed, he believed capitalism was necessary as an economic system to concentrate the wealth of the country into the industries of the modern age. So capitalism had a respectable past, and would still be necessary in the developing countries to launch their industries. But that task completed, Marx asserted, capitalism had no further role in history, and the longer it stayed around, the more the workers would suffer and the more violent the revolution would be when it came. The sooner the revolution, the better; the future belonged to communism.

As the collapse of the Communist governments in Eastern Europe demonstrates, if demonstration were needed, the course of history has not proceeded quite as Marx predicted in 1848. In fairness, it might be pointed out that no other prophet of the time had any more luck with prognostication; the twentieth century took all of us by surprise. But there is much in Marx's analysis that is rock-solid, possibly for reasons, especially ethical reasons, that he himself would have rejected. He pioneered the moral critique of capitalism, and made it possible for us to subject business enterprise, in whole or in part, to moral scrutiny. That reflection brings us to the present time.

THE HISTORICAL MOMENT

The recent past—from the middle of the 1960s to the first years of the third millennium—has shown as much ferment about business and its proper place in our society as did Karl Marx's time. It is not an accident that all the alarm bells seemed to go off at once. The time of the cases in this volume—generally, the last three decades of the twentieth century—has been a time of political and ethical as well as economic ferment. Alive with the idealism of the "soaring sixties," the victories of the civil rights movement, and the first stirrings of
the environmentalist movement, the **inheritors of the mantle of liberalism** had been promised something that was not true: that concerted and reasonable moral effort could change the world permanently for the better. As the 1970s began, the nation saw also the defusing of the worst terrors of the Cold War, which had paralyzed the fifties. In the intoxication of this heady new tonic, this new vigor, the engagement in Vietnam came to seem intolerable, and the peace movement was born. When the scandals of bribery and corruption that accompanied Richard Nixon's election in 1972, terminating with Watergate, came to light, the protests swept him out of office. Incriminated in that scandal were all the professions (especially the legal profession), all American business (especially those that had profited from the war effort and contributed, illegally, to Nixon's campaigns), and the entire structure of trust and authority that had cemented society during the rapid industrialization and technologization of the United States during the greater part of the twentieth century. There was a new revolution of rising moral expectations for American business. To meet the challenges, we would need a whole new way of doing business.

**Reference Points**

It is very hard to summarize the triumph and torment of a generation. Let us focus on a few of the threads that made up the weave of that fabric.

Picket lines and confrontation were adopted as tools for change. A picket line is a military practice. When an army pitches camp for the night or for a period before battle, it rallies a detachment of soldiers (or "pickets"). They march to posts in a circle around the camp, to watch for enemies and to make sure none cross the line. The point of a picket line is that none shall cross. So when the labor movement instituted the practice of a labor strike, they adopted the picket line: Union workers would be posted in a circle to ensure that none should pass into the workplace and that all work would be halted. Once the picket line was established, workers could not enter the worksite and all others who sympathized with the union would also refuse to cross that line. The "rallies" before the picket line were also absorbed into the labor movement, to encourage workers who had every reason to fear that a strike would be dangerous for their livelihood and lives. Leaving military practice behind, the workers also carried signs identifying themselves, the union, and their cause, to inform and to alert the public to their cause. The public aspect of the picket line was picked up by the demonstrators in the civil rights movement, who carried signs around places that refused to serve African Americans or that otherwise countenanced racist policies; the same signs were hoisted in the rallies that accompanied the march and the picketing. The peace movement, which extended from the civil rights movement, used the same signs, organizing them in rallies and parades for public effect, only rarely actually picketing a military establishment, corporate headquarters, or plant. By the time the cases that interest us were current, the picket line, the protest demonstration, and the seizure of buildings were well established in the repertory of all activists.
The circle of community widened and environmentalism became a force on the political scene during these decades. The movement had been around since John Muir, of course, and had its early adherents, but they were confined to organic gardeners and birdwatchers, and lacked any political influence. Laughed at in the 1940s, ignored in the 1950s, the writings of Aldo Leopold, Rachel Carson, and to some extent the Ehrlichs (The Population Bomb) began to be taken seriously in the 1960s. By 1970, at the first Earth Day, environmental claims would have a hearing in any forum in the land, and by 1980 all businesses knew they had to take them seriously.

So as a people, as a national community, we were well prepared for the possibility that corporate America might turn out to be an alliance of wrongdoers that would have to be actively opposed, by public condemnation and by public demonstration, in order for morality to survive. This new tone, known for obvious reasons as “Post-Watergate Morality,” has pervaded the interactions of business and public since the mid-1970s. We are still learning how to deal with it.

IN BRIEF: THROUGH THE CHAPTERS

It is tempting to divide the cases into classics—the Pinto case, the Challenger decision, all the others we’ve always known—and contemporaries, like sexual harassment. We have resisted the temptation in this edition. All these cases are classics. They deal with the stuff of human nature—greed, bullying, weakness of will, shame, social pressure, complacency—as it shows up on the business scene.

So we begin the book with the newest case, but the oldest human story. Suppose we decide to tamper with the basic stuff of nature, the fundamental instructions of Creation. DNA: Can we, should we, make a profit from modified crops? Is such tampering progress or unendurable hubris—defiance of the gods, dangerously wrong?

When forces rally to protect the old way, the natural way, are they always right? The problems that Nestlé S.A. had with the NGOs is now the stuff of legend.

Sexual harassment has to fight for headlines, if only because it is such an old story, and in a world where some nations subject women to death by stoning for “adultery” (often rape), it can hardly seem unusual. But can men harass men? The story keeps taking bizarre turns.

The story of tobacco is a standard in the business ethics curriculum, as a very successful industry that fought to stay alive when its product was found to be inevitably harmful to human health.

The classic Pinto case, modified through the Bronco and the Explorer, is different—there is no earthly reason why your family car should be hazardous to your health, but sometimes it is. Whose fault is that?
INTRODUCTION

With Love Canal, we come upon one of the phenomena that drive businessmen nuts. Whatever Hooker Chemical did in the 1940s, it was completely legal; the company was very careful to specify that no buildings could be put on the site of the dump; the provisions were forgotten, the buildings were built, and the company was held responsible. Some days it doesn’t pay to get out of bed.

Where the insider trading scandals are concerned, we have the other side of the business coin: What the players did was illegal, and they knew it, but they calculated that in a relaxed regulatory climate, they could get away with it. The parallels with breaking cases in 2002 will be striking.

The case of the space shuttle Challenger, and the decision process that preceded its disastrous launch, has been scheduled to remain unchanged from the first edition. It stands, forever, as an example of the kind of pressures that can drive business in ways that it will later regret, and we had hoped there would never be a need for another chapter in the story. The tragic loss of the Space Shuttle Columbia changed the schedule; overtones of the same problems echo through this new disaster.

Union Carbide takes us abroad. How shall we decide what is adequate governance for a foreign partner—especially when the chemicals are dangerous and lives could be at stake?

The savings and loan debacle and the questions raised about the accounting industry in its wake, return us to today’s headlines. The accountants have served us well for most of the twentieth century. Is their day over? Will we have to find other watchers?

These cases are all classics in that the central problem for each is bound to recur in some form in many others. Each is one of a kind yet exemplary of its own field and of the difficulties facing corporate executives in the contemporary world. Enjoy the book, learn from the cases, and get out there and do better.

QUESTIONS TO KEEP IN MIND

1. What is the purpose of business? Are human beings a means of production, or is production a means of being human? What about business practice follows from your answer to this question?

2. Why is return on investment (ROI) so often taken to be the core value and test of a business ethic? Are there circumstances in which ROI should be ignored?

3. Where do the appropriate responsibilities of business begin and leave off? After the return on shareholder investment, what may a company strive for? Diversity in the workforce? Mutual help and job satisfaction in the employees? Community service?
READINGS

The following works are major works in ethics and excellent sources for your continued exploration. Most are available in several editions and all can be found at your local library.

Thomas Aquinas, *Summa Theologica*, IA-IIAE, QQ 55–67; 90–96
Bernard Gert, *Morality: A New Justification of the Moral Rules*
Stanley Hauerwas, *A Community of Character*

Thomas Hobbes, *Leviathan*
Immanuel Kant, *Groundwork of the Metaphysics of Morals*
John Locke, *Second Treatise: Of Civil Government*
Alasdair MacIntyre, *After Virtue*
John Stuart Mill, *Utilitarianism*
John Stuart Mill, *On Liberty*
John Rawls, *A Theory of Justice*
W. D. Ross, *The Right and the Good*

ENDNOTES
