

REDEFINING SUCCESS:
Social Justice and the Ends of Business

A thesis submitted in partial fulfilment of the
requirements for the degree of

Master of Arts
in
The Department of Philosophy
of
Rhodes University

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July 2013

ABSTRACT

Success in business is for the most part defined in financial terms and, because of this, business operations are almost entirely, if not entirely, directed to this end. The principle behind this rationale has been informed by the thought that the best contribution businesses can make to social justice is to focus on the bottom line. By appealing to enlightened self-interest and the high premium people place on freedom, neoliberal economists like Milton Friedman and Friedrich Hayek argue that maximising profits is necessarily socially responsible. And, moreover, that not to pursue this end is socially irresponsible. Social responsibility is the ultimate justification that thinkers such as Friedman and Hayek appeal to when claiming that the business of business is to maximise profit. Yet this position is internally inconsistent. The position is ultimately justified by what is socially just but this means that in fact social justice, and not profit-making, ought to be the end of business. I shall argue that taking this commitment seriously involves rejecting the idea that the aim of business is to maximise profits. This is not to say that businesses should not make profits, rather it implies that this feature is not what ultimately makes them successful. The central contribution of this project is to resolve the contradictions embedded in the traditional approach to business by arguing that the primary aim of business is the promotion of social justice. To this end success in business needs to be redefined so that it reflects the achievement of its ultimate ends and not simply its instrumental means (profit) to the realisation of these aims. We ought then to revise our fundamental assumptions about the structures and policies that are necessary for business to achieve its real end of social justice.

ACKNOWLEDGEMENTS

I would like to thank all my friends and family members who have gone far beyond the call of duty in supporting me during my studies. To my family in Zimbabwe who continuously welcome me into their fold at the worst of times, thank you. To my distinctive friends Kelly Brittle and Kim Taylor: thank you for your comments, insights and friendship. To my father Paul Zorn thank you for all that you are and for your unfaltering love, support and sense of humour. My brother, also a Paul Zorn: thank you for you. Maman, Lydia Atteridge, none of this would have been possible without you, I am eternally grateful. Thank you for listening to and reading countless drafts of this work and for keeping me grounded but at the same time reminding me of the ability to soar. The financial assistance provided by Rhodes University and the Rhodes Philosophy Department is also here acknowledged and sincerely appreciated. The continuing support of my colleagues and pupils at Port Alfred High School has been, and continues to be, a source of great reassurance. Professor Marius Vermaak provided invaluable insight and encouragement. Finally, to my supervisor Professor Pedro Tabensky thank you for your relentless efforts to turn me into a writer and for sharing story after horrid business story with me. Thank you for making me do better than I ever thought possible.

DEDICATION

This thesis is dedicated to

Savannah and Skye Swanepoel

CONTENTS

| | |
|--|-----------|
| Introduction | 1 |
| Chapter 1: The Bottom-line: Two Arguments for the Primacy of Profit | 4 |
| I. The Argument from Enlightened Self-interest | |
| A. Adam Smith | 8 |
| B. Milton Friedman | 13 |
| C. Friedrich Hayek | 21 |
| II. The Argument from Freedom | |
| A. Milton Friedman | 26 |
| B. Robert Nozick | 28 |
| Chapter 2: The Invisibility of the Invisible Hand: the Social, Environmental and Economic Failure of the Bottom-line Approach to Business | 35 |
| I. Social Failures | |
| A. Violation: Sweatshop labour | 36 |
| B. Domination: The Coffee Industry in Brazil | 42 |
| II. Environmental Failure | |
| Degradation: Oil and Natural Gas Operations in the Niger Delta | 44 |
| III. Economic Failures | |
| A. The Free-market in Practice: the Deregulation of Electricity in California | 48 |
| B. The Free-market in Practice: Financial Deregulation in Iceland | 54 |
| Chapter 3: Social Justice: The Ultimate Social Responsibility of Business | 60 |
| I. What is Social Justice? Fairness and Equality of Opportunity | 62 |
| II. Business and Social Justice | 73 |
| Chapter 4: Effecting Change: A New Paradigm for Success | 78 |
| I. Internal Changes | |
| A. Corporate Governance and Stakeholder Management | 81 |
| B. Business Cultures and Moral Agency | 84 |
| II. External Changes | |
| A. Regulation | 88 |
| B. Stock-market Changes: A New Paradigm for Measuring the Success of Business | 91 |

| | |
|--|------------|
| C. Consumer Awareness, Investor Responsibility and Education | 95 |
| D. Global Commitment | 99 |
| III. Case Studies | |
| A. The Grameen Bank | 102 |
| B. Interface | 103 |
| Conclusion | 106 |
| Bibliography | 108 |

INTRODUCTION

The market is the institutionalisation of non-responsibility¹

This project is a response to the claim that social responsibility in the world of business lies in profit-making. Classical and neoclassical economics teaches that successful business is the most critical instrument for the assurance of an equitable distribution of wealth and benefits across society. By making money and ensuring that money is made in the most efficient manner possible, business imparts benefits to society that go far and beyond any measures that governments or philanthropists can do to ensure a just society, or so the argument goes. Creating employment, satisfying consumer demand and generally contributing to the economic health of a nation are some ways in which business forwards the public good. As everyone primarily acts from self-interest business actors will, in seeking to advance their own financial ends, ensure that efficiency is maximised, thereby making the product or service as cheap as possible for the consumer. Furthermore because of the desire to outdo the competition quality will also be maximised. The conclusion reached by both classical and neoclassical economists is that market conditions should therefore be conducive to the fostering of a business climate that is primarily, if not entirely, geared towards the bottom-line. For neoclassical economists like Milton Friedman and Friedrich Hayek of the so-called Chicago School of economic thought, protecting market freedom is the most important thing that a nation can do to guarantee social equity. Deregulating business operations ensures that the market will not be one of coerced conformity to restrictive legislations, but rather one of voluntary cooperation where business, employees and customers choose for themselves the terms of trade.

A free and just society thus begins with a free-market within which people seeking to advance their own financial ends indirectly and effectively advance the public good. There are two aspects to this position. The first is that there is a correlation between acting from self-interest and acting for the good of society in general. Selfish intentions are hence enlightened in the sense that they simultaneously advance social ends. They are therefore to be encouraged. Secondly, the argument goes, because hindering selfish intentions is not a good thing (as above), protecting freedom is first and foremost among the conditions necessary to ensure social justice. These arguments must not then be considered in isolation.

¹ Schumacher, E.F., as quoted in Solomon, R.C. and Martin, C., *Above the Bottom Line*, p.246.

Together they attempt to provide rational grounds for the bottom-line approach to business, where these grounds are primarily ethical, as they are concerned with ensuring that economics and economic structures are so arranged as to ensure social justice.

However both of these arguments fail. Given that both classical and neoclassical economists are primarily concerned with ensuring justice in society, their proposals turn out to be essentially contradictory. It is not true that justice is advanced by treating it as an incidental benefit of making money. The argument from enlightened self-interest is misguided because there is not enough of a correlation between acting for one's own benefit and acting for the benefit of society in general to justify such an approach. Also in its statement that financial bottom-line concerns ought to be the primary focus of a business, it inverts the proper relationship between instrumental and ultimate value, making what economic theorists know to be ultimate (the public good, social justice) secondary in value to that which we know to be only instrumentally valuable: money. Such a treatment of ultimate value is clearly inappropriate. It is for this reason that there is little to no positive correlation between acting from the desire for personal financial gain and ensuring social justice. The argument from freedom is similarly problematic because the condition of a free-market that the position justifies leads to the protection of moneyed interests often to the detriment of others' interests. Free markets enable certain businesses to become extremely powerful and so better suited to advance their bottom-line interests than other parties. Freedom is thus defended in elitist terms as the freedom of the wealthy to obtain more wealth. Neoliberalism, in other words, advances a very narrow conception of freedom as being attached above all else to capital worth. For these reasons there is a wealth of evidence to suggest that in fact the social responsibility of business cannot simply be to increase its profits.

Social justice is the real end of business operations, which even neoliberals do not dispute, so this is what must be protected first and foremost. Doing this requires social justice to be an explicit and direct responsibility of business that cannot be hidden behind desperate appeals to an 'enlightened self-interest'. Social justice is too often written off in the bottom-line climate, which still principally prevails today. Although it might be true that neoliberalism has been largely discredited there is a need to look, from a philosophical point of view, at *why* this system has failed in order that we may not repeat any of the same contradictions and flawed assumptions. In particular the assumption that business is all about making money needs to be reconsidered, both because this is simply incorrect and because it remains predominant. I shall argue that in order to ensure that value concerns are not trumped in the name of the bottom-line, we need to redefine business success in terms of the end

which is ultimately aimed at: broad social flourishing or social justice. This is not to say that profits are not important, rather it is to say that profits are not of ultimate importance and that hence they cannot and should not be the measure of success.

In Chapter One I shall present the classical and neoclassical positions that have given rise to the belief and practice that businesses are socially responsible by mere virtue of a burgeoning bottom line. I shall show how these positions are conceptually flawed. In Chapter Two I aim to demonstrate that the bottom-line approach in practice can be extremely detrimental and harmful to society, to the environment and even to business and national economies. In other words, enlightened self-interest is in many ways an elusive concept, as is the freedom that such a system is intended to defend. It must be noted that in this thesis I shall conflate environmental justice to fall under the umbrella term social justice. This is not to say that I necessarily think that the environment is only valuable insofar as it is instrumental to human existence, but for the purposes of this project I will focus only on its instrumental value.

In Chapter Three I shall argue that businesses have a positive and primary duty to advance the ends of social justice because they are critical social players capable of intensely morally relevant impacts on people and the planet. Social justice is the point of economic thought (and the resultant structures) in the first place and so this cannot be ignored in the way that the bottom-line approach advances by the argument from enlightened self-interest. As money is not an ultimate value, it is wholly inappropriate that it receives the status it does in current business climates. We have, I shall conclude, to instate the real end of business – which is social justice – as the ultimate determinant of success and value in business life. Finally in Chapter Four I shall very tentatively attempt to demonstrate the kind of changes that would be necessary (both internal and external) to business functioning to ensure that social justice and not profit-making becomes the end of business. I shall argue that not only is such a shift possible, it is both necessary and inevitable.

It is not my intention to argue for or against any particular economic system. Rather, my aim is to argue that it is inappropriate, at least and extremely damaging at worst, to approach business from a bottom line perspective. This project is an attempt to ameliorate the harms caused by the bottom-line approach by analysing the arguments made in its defence and suggesting a new paradigm within which operations should occur. Such a paradigm can stay true to the incentives provided by competitive capitalism for product development and market innovation, but it can also be sensitive to the fact that profit is not good for its own sake.

CHAPTER 1: THE BOTTOM-LINE: TWO ARGUMENTS FOR THE PRIMACY OF PROFIT

The role of well run companies is to make profits, not save the planet²

The invisible hand has been more potent for progress than the visible hand for retrogression³

In this chapter I shall present two classical arguments of the dominant view that the ultimate end of business is to maximise profit. The first argument as it is made by Milton Friedman⁴ and Friedrich Hayek⁵ implies that in order for society as a whole to flourish and to ensure maximum economic benefits for the greatest number of people the maximisation of profits ought to be the guiding value in business. The best way in which a business can make a positive contribution to society is by engaging in activities that are designed to ensure the greatest profit. What makes this argument particularly appealing is that it suggests that there is a direct correlation between doing what is in one's own interests and doing what is the interests of society in general. There is no need to be 'self-effacing' in any way, we need only be motivated by selfish intentions for society as a whole to meaningfully benefit. I have called this argument 'the argument from enlightened self-interest'.

Although these views are clearly inspired by Adam Smith's invisible hand argument⁶ there are certain critical differences between the so-called 'classical' economics of Smith and the 'neo-classical' or 'neoliberal' economics of Friedman and Hayek. It is important that these differences are made apparent and so to this end I shall discuss Smith's advocacy of self-control and 'fellow-feeling'⁷ in order to show that Smith is an advocate of competitive capitalism but only insofar as it is not left "to the mercy of rapacious individuals or groups or imperfect market conditions."⁸ Hence, there is a crucial difference between the kind of self-interest that Smith discusses and the self-interest that Friedman and Hayek advocate. It is

² Wolf, M., 'Sleeping with the Enemy: Corporate Social Responsibility Distorts the Market by Deflecting Business from its Primary Role of Profit Generation', *Financial Times*, 16 May 2000, p.21.

³ Friedman, M., *Capitalism and Freedom*, p.200.

⁴ In both *Capitalism and Freedom* (1962) and the *New York Times* article 'The Social Responsibility of Business is to Increase its Profits' (1970) Friedman argues for the bottom line as the trumping concern in business activities.

⁵ I shall discuss Hayek's arguments as they appear in *The Fatal Conceit: The Errors of Socialism* (1988), and more loosely in *The Road to Serfdom* (1944). Although Hayek's surname was actually von Hayek, I shall go with convention and simply refer to him as Hayek.

⁶ Smith, A., *An Inquiry into the Nature and Causes of the Wealth of Nations*, p.478.

⁷ Although Smith's major economic work appears in *The Wealth of Nations* (1776), it must be considered in the light of the arguments that he makes in *The Theory of Moral Sentiments* (1799), as I shall argue below.

⁸ Fisher, C. and Lovell, A. *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.361.

arguable that it is only Smith's conception of enlightened self-interest that is genuinely enlightened.

The second argument that I shall discuss is 'the argument from freedom' as it is made by Friedman⁹ and Robert Nozick.¹⁰ Simply put this argument centres on the idea that demanding that a business does any more than focus on the bottom line constitutes a violation of the liberty of business owners. The idea is that if excess legislation and prescriptions are demanded of business then this will hinder legitimate profit-making abilities. Excessive regulation hence impinges on the freedom of individuals to pursue their own financial interests. It also, the argument goes, restricts the freedom of consumers to participate in the market by 'voting' with their dollars. This is because market regulations create artificial conditions which often do not accurately represent consumer desires. If market conditions are distorted by government interference, Friedman argues, then this "threatens both national security and domestic harmony."¹¹ Furthermore, he continues, as many of the legislations exist in order to benefit the poor, such legislations will constitute a redistribution of wealth which is not in keeping with our modern concept of democratic liberty.¹² For Friedman, and for Nozick, freedom is the ultimate value worth protecting and economic coercion, in the form of regulation, constitutes "coercion in general."¹³ Friedman's stance on enlightened self-interest must necessarily be understood in light of his argument from freedom, as he believes that the only way for enlightened self-interest – the invisible hand – to truly operate is under the conditions of free enterprise.

I shall go on to argue that the bottom line approach to business, which is the end of both the argument from enlightened self-interest and the argument from freedom, has failed on at least three critical levels: socially, environmentally and economically. In the next chapter I shall present various case studies in order to show these failures and to show how they are directly linked to the bottom-line approach. My intention is to question whether empirical evidence supports the separate (but related) claims that the best way for a business to aid society at large and the best way to protect individual freedom is to maximise profits.

⁹ This position is presented in *Capitalism and Freedom* (1962); 'The Social Responsibility of Business is to Increase its Profits' (1970); and *Free to Choose: A Personal Statement* (1979), which Friedman co-wrote with his wife, Rose Friedman.

¹⁰ As it appears in *Anarchy, State and Utopia* (1974).

¹¹ Friedman, M., 'The Paternal State', *Newsweek*, 22 January 1979.

¹² Friedman argues, rightly perhaps, that most regulatory measures such as price and wage controls and, in particular, taxation exist in order to ensure that the poor are protected, hence his labelling of regulation in business as existing within a 'paternalistic state'. See for example 'The Paternal State', *Newsweek*, 22 January 1979.

¹³ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.422.

This critique aims to ask whether “the evidence we have of the globalising and deregulating effects on world markets display an overall elevation of people’s well-being.”¹⁴ We need to examine whether or not this approach to economics is indeed the superior option, that is, given that the end of economics is indeed to elevate social well-being. The inclusion of such evidence is revealing because it points to systemic trends and so to large-scale failures.

In addition to providing empirical evidence against bottom-line thinking I also aim to show that the very idea that businesses are profit maximisers is conceptually problematic. This is the major aim of this chapter. My point is that there is a problem at the very heart of bottom-line thinking and this explains *why* there is a wealth of evidence demonstrating that the bottom-line approach to business typically ends in disaster of some sort. If the primary concern of a business is profit-making then this implies that bottom line considerations ought to trump all other considerations. So, for example, if it is fashionable to use ‘green’ packaging materials, and if this will increase sales, then, according to defenders of bottom-line thought, a business ought to employ such packaging methods. The driving motivation to do so is not environmental sustainability but profit-making. Further, if listing on the Johannesburg Stock Exchange Social Responsibility Index (JSE SRI)¹⁵ will increase investment in a public corporation then a company ought to restructure operations in order to meet the SRI listing criteria. However, by bottom-line logic, this should only be done if the cost of restructuring is less than the increase in potential investment. The motivation to list on the SRI index is again profit.

So, if profit-making is the ultimate guiding business value, then we can reasonably hold that considerations for environmental and social justice ought only to extend as far as these will increase the bottom line. Yet this conclusion, I shall argue, is unacceptable. Social justice (which includes environmental justice) cannot simply be valued in this sense, in other words, it cannot only be instrumentally valuable.¹⁶ The bottom-line stance towards business causes the treatment of those values which we hold to be non-instrumental (such as social justice, fairness, human rights, environmental protection) in an instrumental way, making profits or money the ultimate criterion for acceptability. Rather, money, I shall argue, is an

¹⁴ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.313.

¹⁵ In order to list on the JSE SRI index a company has to conform to a certain number of criteria under the categories ‘Environment’, ‘Society’ and ‘Governance and Related Sustainability Concerns’. These range from skills development for employees to family benefits, confidential whistle-blowing avenues to empowerment of local peoples, and from GHG emissions reductions to data on water consumption. The SRI index will be discussed in greater detail in Chapter Four.

¹⁶ I shall elaborate on the concept of social justice in Chapter Three.

instrumental value and so hence it cannot, and should not, be treated as the be-all-and-all of business life. My critique of the bottom-line approach to business on this point is that a conceptual error in bottom-line thinking leads to a critical moral error. I shall argue that as social justice cannot be valued in the way that it is from a bottom-line perspective, it is not appropriate to suggest, as Friedman and Hayek do, that the sole ‘social responsibility of business is to increase its profits’.

I should stress that this is not to say that I think that profits are of little importance to business. Quite the contrary is the case. What I do believe, and what I will defend here, is the idea that profits are crucial in a manner that is analogous to the importance of the human digestive system. The digestive system is essential for human living, but it is not that for the sake of which humans live. Similarly, profit is arguably essential to the survival of business, but it is not that for the sake of which businesses ought to exist and nor should it stand as the measure of their success.

The reason that Friedman and Hayek reach the conclusion that they do is because they think that social justice is best served by financial success in business. Their common starting point is in fact collective social well-being. Interestingly, this means that they endorse the idea that social justice is good in and of itself (i.e. that it is not instrumental). However, it is their means to achieving this end, both on paper and in practice, that raises profound concerns. On the one hand social justice is treated as good in itself but, on the other, it is treated as wholly instrumental, which means that their theories are internally inconsistent. We cannot treat as instrumental that which we hold to be ultimately valuable for the sake of serving that value. A problem here – which, as I shall below, Friedman does not think is problematic – is that this conflates doing the good with actually being good. As suggested above, the motivation to engage in some social or environmental project is, for a bottom-line business, profit. So, in Friedman’s model, for example, there is never an independent reason to be ethical. A further conceptual problem is that the argument from enlightened self-interest makes the normative claim that people are fundamentally, and almost entirely, self-interested and that self-interest is narrowly conceptualised in terms of personal financial gains, as I shall demonstrate below. However, in the way of introduction, this claim is in itself deeply worrying because it entails a very limited conception of what motivates us as human beings. The argument from freedom is likewise conceptually limited because it provides a radically inadequate notion of freedom, as I shall argue below. Given these limitations, the arguments made by Friedman and his acolytes are deeply problematic because they suppose that social justice necessarily flows from their deficient views on ethics, human motivation and liberty.

My task in this chapter is not to question the stated fundamental purpose of neo-classical economics – that is, social well-being or social justice - but rather to question whether or not the proposed means to this end are conceptually sound. I shall begin this task by discussing Smith’s exposition of the intricate workings of the market wherein lies the genesis of the argument that the social responsibility of business is to increase its profits.

I. The Argument from Enlightened Self-interest:
A. Adam Smith:

In *An Inquiry into the Nature and Causes of the Wealth of Nations*¹⁷ Smith argues for the primacy of market-based capitalism for economic and social coordination. His suggestion is that profit-making in business ensures the health and thriving of the national economy and that this in turn is the surest way to ensure broad social prosperity. Smith justifies this *seemingly* self-interested pursuit of profits by arguing that there is a correlation between doing what is in one’s own interests (making money or more loosely, advancing one’s financial status), and doing what is in the interests of society in general (social justice). He makes, an albeit passing, reference to a market concept which he dubs ‘the invisible hand’. He writes, “By pursuing [one’s] own interests [one] frequently promotes that of the society more effectually than when [one] really intends to promote it.”¹⁸ Smith makes his point regarding the workings of the invisible hand by arguing that:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages¹⁹

Smith suggests that it is ultimately better for society at large if people pursue their own (self-interested) profit-making intentions than if they set out to actively relieve the symptoms of poverty. In Smith’s opinion overt justice-promoting economic activities, such as price controls, are not as effective as the creation of wealth in lessening the plight of the poor.²⁰ He comments, “I have never known much good done by those who affected to trade for the public good.”²¹ So, as Robert Solomon and Clancy Martin comment:

¹⁷ This is often shortened simply to *The Wealth of Nations* and from here on I shall refer to it as such.

¹⁸ Smith, A., *An Inquiry into the Nature and Causes of the Wealth of Nations*, p.478.

¹⁹ *Ibid*, p.477.

²⁰ *Ibid*, p.478.

²¹ *Ibid*, p.478.

Economic life, according to Smith, does indeed proceed on the principle of self-interest – namely, that the general welfare, will be served best if individuals are allowed to pursue their own financial well-being²²

Hence if we are genuinely concerned with greater social equity, as indeed Smith was, with the ‘wealth of the (entire) nation’, then we should rather allow the invisible helping hand of a thriving economy to aid the poor. According to Smith, the way to expunge poverty is not through visible hand-outs and charitable giving but rather through the creation of a competitive market enterprise driven fundamentally by the personal desire to make money. Smith writes that business people, “by directing [their] industry in such a manner as its produce may be of the greatest value [to themselves],” intending only their own gain are, “in this, as in many other cases, led by an *invisible hand* to promote an end which was no part of [their] intention” (my emphasis).²³ This argument is rather peculiar as Smith is suggesting that business people focused on making money for their own ends are more effective in meeting the end of social justice than those who overtly work to promote justice. In other words he is saying that those motivated by their own gain (in essence, by greed) are better positioned to serve the greater good than those who are primarily motivated by the end of social justice. Smith holds this view because (like Friedman and Hayek, in their turn) he thinks that thriving business is better for society as a whole than charity is. Creating employment is more effective in alleviating poverty, for example, than charitable giving. We are reminded of the old saying that it is better to teach a man to fish than to give him a fish. People cannot thrive, the argument goes, if business is not thriving, so it is better to focus on creating a healthy business economy than on treating the symptoms of an unhealthy economy, such as poverty. This is why Smith argues for market deregulation (I shall describe this argument below): remove the barriers to trade and you improve the bottom lines of businesses. This in turn, both classical (Smith) and neoclassical (Friedman and Hayek) economists argue, will ensure social flourishing. The suggestion is that there is a strong correlation between personal interests and the interests of society in general. Hence this is an ‘enlightened’ self-interest and so is not to be condemned.

However, the implication of this argument is that people should not do the good intentionally, which means that they are blinded to the ends that the system ultimately aims at. In other words there is an improper understanding of what economics is all about. In such

²² Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.204.

²³ Smith, A., *An Inquiry into the Nature and Causes of the Wealth of Nations*, p.478 .

a system people's intentions are formed in a way that they do not have an explicit understanding of the proper aims of business. Essentially the motivation (greedy self-interest) does not accord with the actual end (social justice). This disjuncture can quite legitimately be offered as one of the reasons why neoliberal economics has failed to deliver on its aims. Economic actors ought rather to form intentions that directly accord with the aims of justice. My suggestion here is that justice is best served by actually forming intentions which have, as part of their content, an explicit understanding of the proper aims of business. This idea will be developed throughout this thesis.

Yet, to be fair to Smith, it must be said that despite the fact that he thinks that self-interest ought to be the driving force of social justice, it would be disingenuous to argue that he confines self-interest to material greed. Friedman and Hayek, as we shall see, do think that this is the case. Smith, by contrast, argues that part of our motivation as human beings is indeed an explicit desire for social justice. So there is a critical difference between the self-interest that Smith argues for and the self-interest that Friedman and Hayek argue for.

To this end Smith's socio-economic vision in *The Wealth of Nations* cannot be wholly understood without referencing his later arguments made in *The Theory of Moral Sentiments* in which he develops the notion of 'self-control'. It is most likely because this latter work has been largely overlooked that Smith's work is often misunderstood. Essentially Smith allows for a broader motivational set than neoclassical economists do. He would not have condoned the kind of unbridled greed that travels in the neoliberal world of today under the banner of social responsibility. While he advocates the pursuit of personal interests in *The Wealth of Nations*, he argues at the opening of *The Theory of Moral Sentiments* that:

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it²⁴

So self-love for Smith is not to be equated with selfishness. Hence, when he condones appealing to the butcher's 'self-love' he is not implying that economic issues should be "left to the mercy of rapacious individuals or groups."²⁵ Rather, he argues, such self-love should be tempered by self-control.

²⁴ Smith, A., *The Theory of Moral Sentiments*, p.3.

²⁵ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.361.

Smith argues in *The Theory of Moral Sentiments*, as Plato and Aristotle do before him,²⁶ that self-control is a virtue in its own right and that hence it ought to be cultivated. He argues that deregulated climates are ultimately better for socio-economic coordination (I shall describe this argument below) but that such a climate is conditional on two important elements, as Colin Fisher and Alan Lovell describe.²⁷ The first is that any business should not be allowed to get too powerful as this interferes with the ends of competitive market-based capitalism. The second important condition is that people possess a “constrained self-love.”²⁸ In *The Theory of Moral Sentiments* Smith argues that people ought to be guided by two forms of jurisdiction: their conscience (‘the man within’) and the judgement of strangers (‘the man without’).²⁹ If people act so as to appease both of these aspects they will develop what Smith calls a ‘fellow-feeling’ which will ensure that their self-love is constrained; that they express self-control.³⁰ Smith thus places a great deal of responsibility on individual people to control their impulses to be greedy, because for him self-control is a virtue. He recognises the risks embedded in the kind of market-based competitive capitalism which he advocates but he is optimistic about the cultivation of the moral inclinations of ‘man’ to experience a ‘fellow-feeling’ so as to offset these risks. So Smith’s economic argument is ultimately that self-love is an important part of ensuring social justice: it is necessary to drive business and economic development. But this self-love ought to be tempered by self-control. Unfortunately, as I shall argue below, neither of Smith’s two conditions have been met in reality. Businesses are extremely powerful and individual greed is largely unbridled. Relying solely on people to express their moral sentiments has proved insufficient to control what has become an era of ‘*capitalisme sauvage*’.³¹

Although Smith differs from modern economists because he endorses self-control to harness the greed that can result from a market-based economics, he is still often referred to as the ‘father of modern economics’ and this is not entirely inappropriate. He was indeed responsible for formulating what are known today as the ‘market mechanisms’ and he did believe that society as a whole would be better off if businesses were given a free-rein to pursue their financial ends. This does not contradict what Smith writes regarding restrained self-love. Rather, the two should be understood as being complementary: we ought to be free

²⁶ See for example, Plato, *The Republic* (Penguin: 1987) and Aristotle, *Nicomachean Ethics* (Cambridge: 2005).

²⁷ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.361.

²⁸ *Ibid*, p.362.

²⁹ *Ibid*, p.363.

³⁰ *Ibid*, p.363.

³¹ Translated from French as ‘savage capitalism’ or ‘capitalism gone wild’.

to pursue our own financial interests, but we ought to do so in a manner that is in keeping with the recognition of others as fellow human beings. Smith argues that the nation as a whole is wealthier if business people are enabled, by deregulation, to freely pursue their own self-interested financial ends, although, for him, these ought to be tempered by self-control and a recognition of the other as a ‘fellow’.

Smith argues in *The Wealth of Nations* that the market possesses its own self-regulating forces that should not be disrupted by artificial, government-imposed restrictions and legalities that serve to divert attention from the bottom line (i.e. from people’s financial self-interest). Instead, if money is allowed to flow freely in the market, society at large will enjoy the benefits of increased quality and reduced prices. Central to Smith’s theory is the law of supply and demand: a “self-controlling device of society.”³² This law, in effect, drives the invisible hand. Basically, the mechanism must be allowed to operate independently from government interference to ensure that prices are indeed an accurate reflection of society’s interests. The greater the demand, the greater the supply and from there, the cheaper the prices and the better the quality. Competition to meet demand, for self-interested reasons, hence optimises the well-being of the nation. Solomon and Martin write, “It is with this mind that we must understand Smith’s insistence that the government should leave the market alone.”³³

This elegantly functioning system which Smith describes is, he argues, disrupted when government restrictions, such as price controls, cause artificial fluctuations in the market mechanism. In such cases it is the poor that are most affected as although controlled product x might be cheap, other products will become more expensive to compensate for the loss of profits in x. Commodities that used to be affordable now become too expensive, especially for the poor. Therefore the best way to ensure the greatest economic benefits for all is not to introduce well-intentioned restrictions and regulations, but rather to create the conditions necessary for “an open, competitive market place, with free exchange and without coercion.”³⁴ Such an economy is known as a deregulated economy, or a free market.

The suggestion made here by Smith is that government presence in the market in any form other than in the most basic sense, say as mediator and enforcer of contracts, is inappropriate as it prevents the market from reflecting accurately the needs and interests of society. Hence, in order to ensure the maximum social and economic benefits for the greatest

³² Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.205.

³³ *Ibid*, p.206.

³⁴ The Adam Smith Institute, ‘Social Order Based on Freedom’ (online).

number, we ought not to restrict the market with measures *directly* intended to help people, particularly the poor. Rather, we should allow the *indirect* effects of the invisible hand to operate by encouraging the self-interested pursuit of profit-making, and from there the most pressing needs will be catered for. This means that we ought then to remove all legislations that impede the ability of a business to concentrate on profits. So, for Smith, the principle value behind business operations should be the self-interested pursuit of profits. However, and this is critical, that self-interest must necessarily be constrained. It is not the responsibility of governments to ensure such constraint, rather it is the responsibility of individual business people to temper their own self-interest with a ‘fellow-feeling’. Profit-making in Smith’s model should hence not be confused with profit-maximising, this is because it is not *only* profit that motivates us, according to Smith.

B. Milton Friedman:

Friedman’s argument is in many ways a development of Smith’s but in the sense that Friedman supposes that we are almost entirely motivated by personal greed we might be inclined to suggest that his argument constitutes a regression from Smith’s. Friedman comments, “Is there some society you know that doesn’t run on greed? ... The world runs on individuals pursuing their separate interests”.³⁵ His arguments are centred on the idea that people create the most social benefits when they focus on their own ends, and so essentially the more self-interested people are – the more they want for themselves – the more society gains. People are all fundamentally greedy, Friedman argues, and so “the problem of social organisation is how to set up an arrangement under which greed will do the least harm”.³⁶ His solution to this perceived problem is to encourage greed by making it work for society as a whole. This is achieved by free-market capitalism, he argues.

The idea of ‘allocative efficiency’³⁷ is a central tenement of Friedman’s arguments in this regard. Anything that distorts allocative efficiency is a bad thing, whilst anything that ensures it is a good thing. For Friedman making profits the sole purpose of business is a good thing because it ensures that allocative efficiency is maximised, thereby imparting the greatest amount of socio-economic good to society. Hence, his argument is also an ethical one: the free market focused on financial gain is integral to the achievement of social justice.

³⁵ Friedman, M. on the Phil Donahue Show, ‘What is Greed?’ (online: Youtube).

³⁶ *Ibid.*

³⁷ In a business context this requires the use of the most efficient practices at all levels so that profitability is maximised.

So self-interest, here defined in terms of greed, should hence not be curtailed but encouraged as it is the fundamental driving force of the market.

Like Smith, Friedman argues that establishing a free market is critical to social flourishing. He argues that the restriction of self-interested profit-making by government intervention in the market is not only ineffective in aiding society but is in fact *harmful*. He strongly supports deregulation, arguing, as in the epigraph to this chapter, that “[t]he invisible hand has been more potent for progress than the visible hand for retrogression.”³⁸ Businesses are far better suited, Friedman argues, to ensure the conditions necessary for people to flourish because, for example, they create jobs and will deliver fairly priced goods and services at the best possible quality if businesses are free to focus only on profit-making. Hence, for Friedman (and Smith), ensuring social justice requires deregulation. In *Capitalism and Freedom* Friedman critically discusses various governmental measures that, although well-intentioned, are actually a hindrance to the achievement of social justice. Among others he discusses minimum wage laws, price controls, state sanctioned monopolies, public education, licensing, particularly of the medical profession, and trade tariffs. He shows how each measure is in fact damaging to society as it creates artificial conditions in the market, ultimately increasing prices and reducing quality. With regards to minimum wage laws Friedman argues that these tend to increase poverty because employers can no longer justify employing some of their workers who lack the relevant skills to justify being paid a minimum wage. This means that those who can least afford to give up their income, “small as it may appear to the people voting for the minimum wage,”³⁹ are rendered unemployed. Their lack of skills ensures that they will not easily find employment elsewhere, leaving Friedman to conclude that, “Minimum wage laws are about as clear a case as one can find of a measure the effects of which are precisely the opposite of those intended by the men of good will who support it.”⁴⁰

Friedman argues that rather, in order for everyone to live in conditions under which they have the potential to thrive, we should not restrict business activities with ‘red tape’ legislations but allow business to simply get down to the business of making money. The implicit assumption being that if businesses are thriving then so will people in general. The free enterprise market system is, for Friedman, “a ‘just’ way of solving the economic problem

³⁸ Friedman, M., *Capitalism and Freedom*, p.200.

³⁹ *Ibid*, p.181.

⁴⁰ *Ibid*, p.180.

of producing and distributing goods as fairly as possible throughout the whole society.”⁴¹ Hence, business itself “is to be defended in loftier terms as an instrument of [distributive] justice.”⁴² In a deregulated economic climate people are best enabled to focus on their own desire for personal wealth accumulation and because this is their goal, allocative efficiency will be maximised, which will be to the benefit of all. The competitive market that results from such a deregulated system ensures that goods and services are produced at the best possible price and at the best possible quality for consumers.

By making business the harbinger of social justice Friedman maps out a vast task for business, but the beauty of this task is that it involves nothing else but relying on people’s own self-interest. There is no need for regulation; this, according to him, inhibits the functioning of the market system. Yet nor is there a need in Friedman’s model for self-constraint. It is *because* people are not restrained that the market works as it does. Self-constraint for Friedman is not a virtue in the market, it is a vice. Hence, greed for Friedman is not to be frowned upon, it is to be encouraged. There is no need to limit greed as Smith suggests there is, rather if we truly desire to ensure social flourishing then we should be motivated wholly by our own self-interest. So Friedman – and indeed the neoliberal tradition as a whole – departs from Smith in key ways.

According to Friedman, increasing profits is thus the *social responsibility* of business. Society is best served not by overt justice-promoting activities but by the indirect (‘invisible’) benefits of personal wealth accumulation. So, for example, if a business makes money it will employ people. If it operates in a free-market allocative efficiency will be maximised and so prices will be fair and products of a good quality. If the markets are open and greed is encouraged then people will be more innovative, benefiting all. If a business is about making money then customers and employees will not be discriminated against, say for being Jewish, and so discrimination in society will be lessened.⁴³ So, for Friedman self-constraint is a detriment to the market and hence to society. Therefore, for him, profit-making in fact entails profit maximising. The clear difference here between Smith and Friedman is that Smith thinks that economic actors ought to be motivated by more than their own greed. They will not, if they are virtuous, pursue bottom-line interests at any cost. Friedman, on the other hand thinks that self-constraint in the market is not a virtue: bottom-line interests *should* be maximised because this is the socially responsible thing to do. In Friedman’s model the more

⁴¹ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.320.

⁴² *Ibid*, p.320.

⁴³ These are just some of the benefits of being selfish in a free-market described by Friedman in *Capitalism and Freedom*. I have just mentioned them briefly here.

money business makes the better society does. So profit maximising - or as Friedman refers to it – ‘increasing profits’ – and not simply profit-making is a market virtue.

To be fair, Friedman’s support of greed as the driving force of the market is best understood in terms of sustained profit-making. To this end he argues for the necessity of some kind of constraint in business actions for pragmatic reasons. It is not beneficial to the bottom line, for example, if a business breaks the law, so there is an instrumental reason to exercise some constraint in business. Friedman’s economic model includes two important conditionals in this regard which are often overlooked. He argues that a business ought, for the purposes of social well-being, to “engage in activities designed to increase its profits,”⁴⁴ but that it ought to do so, “while conforming to [the] basic rules of the society, both those embodied in law and those embodied in ethical custom.”⁴⁵ So, Friedman does not encourage breaking the law or violating ethical custom in the pursuit of profits.

The question, however, is whether he is implying that respect for the law and ethical custom is good in and of itself or if it is only good for instrumental reasons relating to profit maximisation. There is strong evidence to suggest that Friedman thinks that respect for the law and ethical custom is only instrumentally valuable to profit-making. For example, in his pertinently titled paper “The Social Responsibility of Business is to Increase its Profits” Friedman explicitly argues that actions such as employee reward and incentive schemes and community development projects could be justified if they serve to “attract desirable employees ... reduce the wage bill or lessen losses from pilferage or sabotage.”⁴⁶ Further, he writes, if such efforts are tax deductible then this could serve as another (bottom-line) reason to respect ethical custom.⁴⁷ If we consider that treating employees fairly and engaging with the community is a part of ‘ethical custom’ then it seems clear that the justificatory status that Friedman places on this is merely instrumental. As regards CSR (corporate social responsibility) projects, he writes:

In the present climate of opinion, with its widespread aversion to ‘capitalism’, ‘profits’, the ‘soulless corporation’ and so on, this [CSR] is one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified on its own self-interest⁴⁸

⁴⁴ Friedman, M., ‘The Social Responsibility of Business is to Increase its Profits’, *New York Times*, 13 September 1970.

⁴⁵ *Ibid.*

⁴⁶ *Ibid.*

⁴⁷ *Ibid.*

⁴⁸ *Ibid.*

Friedman simply shrugs off the implication that this kind of ‘window dressing’ is at best dishonest and at worst fraudulent, stating that he “cannot summon much indignation” for such a cloaking of the intentions behind business activities. It does not matter that the reason to support ethical customs is instrumental, in fact such programmes should only ever occur, according to Friedman, if they serve the purpose of increasing the bottom line. This instrumental approach to CSR has become so embedded that there are even a number of economic terms to describe it. For example, Fisher and Lovell label it “prudential altruism”⁴⁹ and Michael Porter and Mark Kramer refer to it as “strategic philanthropy.”⁵⁰

Friedman’s conditional claim that the law must be obeyed also has, for him, a bottom-line motivation: obey the law or you will ultimately end up losing money. Yet, some laws, he thinks, should be ignored. Disobeying minimum wage laws, for example, would be a good thing for the public good, because, as Solomon and Martin comment, in Friedman’s model:

Even sweatshops that pay below the minimum wage are useful ... because they give the otherwise unemployable and untrained worker a chance to climb onto the bottom rung of the economic ladder, learn a skill, and so go on to a better paying job⁵¹

For Friedman obeying the law is not then ultimately valuable, and this is probably correct.⁵² Obeying or disobeying the law, for him, hinges entirely on what is best for the bottom-line and by extension, for society at large. By employing illegally cheap labour the company benefits, but so do those whom the company employs. In Friedman’s model the decision of whether to obey the law or not does not depend on external value criteria but rather on what is in the best long-term financial interests of the company. Similarly, his argument for obeying ethical custom is that this would be instrumental to sustainable growth. From there – by the argument from enlightened self-interest – this might later turn out to be in the interests of the public good. But the value for the business has not been placed on social justice, it has been placed on the bottom line. This is the wrong way to value ethics, or as Friedman refers to it ‘ethical custom’. I shall expand on this argument in Chapter Three.

These two conditionals (obeying the law and obeying ethical custom) do not coherently fit with Friedman’s claim that ‘the social responsibility of business is to increase its profits’. If the motivation to be ethical and obey the law is bottom-line based, then if there

⁴⁹ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.311.

⁵⁰ *Ibid*, p.311.

⁵¹ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.320.

⁵² For example, South Africa’s pass laws during apartheid were not valuable.

are good bottom-line reasons to ignore ethical custom or to break the law, such acts can, in fact, be justifiable. There is a wealth of evidence that suggests that in a bottom-line world this is exactly what often happens. Just as Smith's second conditional for the free-market fails because we cannot depend solely on people to express their moral sentiments, so we cannot rely on people in a bottom-line world to always obey the law and ethical custom. The problem is that both Smith and Friedman appear to have implicitly realised the dangers of the free-market system: their inclusion of conditionals gives evidence to this claim. Businesses will become powerful, people will find it hard to exercise moral constraint and the law and ethical customs might often be disregarded. The fact that they both see the need for conditionals at all implies that their economic systems are far from flawless. Yet their idealistic appeals to some kind of personal constraint (for whatever reason) are far from sufficient to offset the volatility of such a system. The real issues are systemic and so if it is the system that has a fault then it is the system that should be fixed.

By my thought, the major systemic fault embedded in bottom-line logic, classical and neoclassical, is that making the self-interested pursuit of profits the driving force of the market causes all other values to be treated as instrumental to this aim. This constitutes a treatment of morality that is not in keeping with our basic ethical assumptions. Profit is not good in and of itself, it is only good insofar as it is instrumental to the achievement of other goals. (Again, this argument shall be expanded in Chapter Three.) So although Smith's and Friedman's models are both premised on the social good, in fact profits become the ultimate value in both of their systems. Hence, their theories are internally inconsistent.

Essentially, both Smith and Friedman argue that if we truly desire to do good for society then we should not mandate business to be concerned with social justice issues. This would divert attention from the bottom line and so disrupt allocative efficiency, leading to disruptions in prices, quality and other areas such as employment. It is because business is profit-oriented that social justice will come about. This means that the indirect means ('the invisible hand') of the market are, for Smith and for Friedman, a much better way of ensuring social justice than the direct means of protective laws and philanthropy. Placing profits as the ultimate business value is, for them, a good thing, as this is the best instrument to social justice. To be fair to Smith we have seen that self-control ought also to be a market value, but the problem is that it is simply not clear how this value is to be nurtured in such a system. The major problem here is that although profit-making is *meant* to be simply an instrument to social justice, if profits are the driving business value, or the aim of business, then social justice issues in fact become instrumental to profit-making. So, profits become what is truly

valued in such a system and social justice ‘plays second fiddle’ to this end. Hence both Smith’s and Friedman’s models are in essence contradictory. We cannot treat as instrumental those things which we hold to be ultimately valuable even, and perhaps particularly, in a business context.

The problem with the argument from enlightened self-interest then is that it leaves little room for the recognition of ultimate values, if it leaves room for these at all. If Friedman is correct and the only ‘social responsibility of business is to increase its profits’, then commitments to other values can only be held instrumentally. This means that the only question business people end up asking is whether or not their actions will benefit the bottom-line. In such a business culture there is a dearth of recognition of the ends that the system ultimately aims at, namely social justice and flourishing. This approach ensures that doing the good is severed from actually being good – as in ‘strategic philanthropy’ – which is a serious conceptual problem. Intentions ought to be formed in such a way that they accord with the proper aims of business, but this is extremely hard, if not impossible, to do in a bottom-line world. In a system designed to favour one value (profit-making⁵³) over all other values, this outcome is unavoidable.

Smith’s attempts to offset the risks embedded in the system are wholly insufficient and Friedman does not seem to think that an instrumental treatment of ultimate values is even problematic. Whichever way one chooses to look at it then a free market economic system ultimately implies that what is good is entirely grounded on the concern to maximise profit. This is surely so if the bottom line is the only criterion for acceptability and value in business life. Social justice is, I shall argue in Chapter Three, an ultimate value and as such it can never only be instrumentally valuable. In the next chapter I shall argue that because of the systemic weaknesses of neoclassical economics – created by the conceptual flaws illustrated above – business has been enabled to be, at best, amoral and at worst, immoral. As social justice is not valued in the way that it ought to be, the system in practice often fails to deliver on its primary aims. Greed is encouraged and ethical values become instrumental to the achievement of financial gain and so when values are of no use to the bottom line they are regularly ignored. The point is that by Friedman’s logic, this is what *ought* to happen, ultimately *for* the public good. Thus he contradicts himself.

By way of introducing Hayek to the discussion, I shall return briefly to Friedman’s case as it is made in *Capitalism and Freedom*. He argues that one of the valuable incidental

⁵³ Which is on close analysis an instrumental rather than an ultimate value, even for Friedman, once his contradictions have been ironed out.

benefits to be had from deregulation and profit-maximising is a reduction in socio-economic inequality, or a reduction in the gap between the rich and the poor. Writing on the distribution of income he asserts that inequalities appear to be less “the more highly capitalist the country is.”⁵⁴ Friedman cites John Stuart Mill’s comments on the industrial revolution which despite an explosion in the amount of work available had done little to “effect those great changes in human destiny”⁵⁵ which it had seemed the increase in opportunity ought to have done. Instead, by Mill’s observations, the rich simply got richer, while the middle class continued to enjoy their modest comforts, but the poor carried on living “the same life of drudgery and imprisonment”⁵⁶ as they had always done. However, Friedman concludes that, with the passage of time, and the workings of the invisible hand, “certainly no one could write this today about the advanced capitalist countries”,⁵⁷ although it would not be inappropriate, he continues, to write this about the rest of the world.

Friedman’s reasoning in this regard is that the market eradicates inequality in a far more effective way than any other method. This means that if we attempt to redistribute wealth in the way that most socialist countries have allegedly done then we are essentially removing the potential for the upliftment of the poor and genuine social equity. Instead, Friedman argues, the possibility of failure (risk) undertaken and the possibility of return on risk is a fundamental principle that enables people to better their circumstances.⁵⁸ Friedman concludes that:

The great achievement of capitalism has not been the accumulation of property, it has been the opportunities it has afforded to men and women to extend and develop and improve their capacities⁵⁹

However this assertion can only be understood with reference to its context. The ‘socialist threat’ was a major concern in the United States in the 1960’s when Friedman wrote *Capitalism and Freedom* and the book is in many ways a response to this perceived threat. So while it might perhaps be true that people are better off in a capitalist country when compared to a socialist country this is not to say that therefore free-market capitalism is the best option. Hayek makes a similar error.

⁵⁴ Friedman, M., *Capitalism and Freedom*, p.169.

⁵⁵ Mill, J.S., as quoted in Friedman, M., *Capitalism and Freedom*, p.170.

⁵⁶ *Ibid*, p.170.

⁵⁷ Friedman, M., *Capitalism and Freedom*, p.170.

⁵⁸ *Ibid*, p.169.

⁵⁹ *Ibid*, p.169.

C. Friedrich Hayek:

In *The Fatal Conceit: The Errors of Socialism* Hayek makes analogous arguments to those presented by Friedman and his work is also to a very large extent a response to the ‘threat of socialism’. Like Friedman, Hayek argues that the opportunities that are created by inequality are in fact central to meaningful social development. Hayek suggests that socialistic attempts to eradicate inequality are not only inappropriate but are in fact harmful.⁶⁰ Instead, Hayek argues, disparities of income are justified by the fact that they provide incentives for further exploration into methods of economic expansion. In other words, if people want to do better for themselves then they have to search for opportunities in the market by being creative. In this way he argues that in a free market the productive capacity of a nation is multiplied, boosting the economy and with that social standards.⁶¹ Hayek’s arguments concerning the ideal economic setup are based on the idea that the pervasive working of market forces is the best route to broad social benefits and so, like Friedman, he argues that business operations ought to be motivated purely out of a concern for profits.⁶² This, he argues, ensures that the most effective use of resources (allocative efficiency) is made possible. Such economic efficiency positively affects the economy and in turn, by Hayek’s argument, society. Hayek argues that a free market dominated by the desire for profits “gives most people the material and information resources that they need in order to obtain *what they want*” (Hayek’s italics).⁶³ His larger point is that socialistic attempts to eradicate social inequality and poverty by means of redistribution do not spur social development but rather stunt it. Therefore if we are genuinely concerned with social equity we ought not to condemn the private search for profit, but rather we ought to encourage it and create the economic conditions within which it can flourish. In Friedman’s vein, Hayek does not think that greed is necessarily a bad thing.

Like Friedman, and to a certain extent Smith, Hayek argues for the existence of an invisible hand in the market that delivers broad social benefits as a result of the self-interested pursuit of profits, but he calls his version of this process “the extended order.”⁶⁴ He argues that by focusing on our own purposes we ensure the health of the independently functioning processes of the market, which makes our actions “generally beneficial.”⁶⁵ Hayek quotes David Hume in stating that the market makes it possible to “act to the advantage of the public

⁶⁰ Hayek, F., *The Fatal Conceit: The Errors of Socialism*, p.7.

⁶¹ *Ibid*, p.104.

⁶² *Ibid*, p.104.

⁶³ *Ibid*, p.104.

⁶⁴ *Ibid*, p.78.

⁶⁵ *Ibid*, p.77.

though it be not intended for that purpose by another.”⁶⁶ The extended order of the market is what justifies, in fact *necessitates*, the self-interested pursuit of profits.

According to Hayek, the extended order requires that we embrace such self-interested pursuits as it is in being focused on our own ends that we best serve the needs of society. He therefore urges us to observe the “abstract rule”⁶⁷ of bending our efforts towards self-serving ends. Selfish behaviour is thus not a bad thing for Hayek and so is better understood as an enlightened self-interest. If people deny their own selfish intentions in the way that they might be mandated to do in a redistributive, socialist economic framework, then they are in essence disrupting the subtle workings of the extended order. Hayek’s argument on this point is quite complicated and so it needs to be carefully dealt with. He argues that the extended order is “the most complex structure in the universe”⁶⁸ and that we have evolved as a species in accordance with it.

Hayek’s extended order can be explained by using an analogy of the evolutionary term ‘spontaneous order’. The reason, some evolutionists argue, that birds do not fly into each other when flying in huge flocks is because of ordering principles that guide and direct their behaviour. It is not only in the best interests of an individual bird to ‘embrace’ these instincts but it is also in the best interests of the entire flock that it does. If one single bird did not ‘trust’ its own instincts to fly in a certain way then it would collide with other birds, causing the whole flock to go into disarray. Proponents of spontaneous order argue that the reason that birds, such as swallows, can fly together in huge flocks is because each bird operates ‘for itself’. It ‘thinks’ not of the flock as a whole but of its own ‘instincts’ to fly in a certain way. This allows them to migrate as a team, reducing losses to predators for example, and so strengthening the flock as a whole.

Similarly Hayek’s economic version of this process (the extended order) has enabled our survival so much so that Hayek suggests we “owe our existence”⁶⁹ to it. This is because as soon as we ignore our internal drives to ‘fly in a certain direction’ or, in economic terms, as soon as we repress our self-interest – that is, our desire for personal wealth acquisition – we will essentially be disrupting the entire flock. So, Hayek argues, while it might seem that actively pursuing social ends is a worthy cause, in fact, it is far more beneficial, on the whole, if people pursue personal ends. These ends may well be materialistic in nature: this is not a particular problem for Hayek. For him, it is in the desire to advance our own material ends

⁶⁶ Hume, D., as quoted in Hayek, F., *The Fatal Conceit: The Errors of Socialism*, p.47.

⁶⁷ *Ibid*, p.81.

⁶⁸ *Ibid*, p.127.

⁶⁹ *Ibid*, p.128.

that we are forced to be creative, essentially creating new knowledge that is to the benefit of all.⁷⁰ Thus the extended order is nurtured and not hindered by selfishness. He concludes that, “It is hence hard to believe that anyone accurately informed about the market can honestly condemn the search for profit.”⁷¹

For example, Hayek mentions how in striving for personal profit Henry Ford also at the same time benefited society at large.⁷² Out of his desire to make his company more efficient the assembly line was developed, enabling mass production. In the case of Ford this enabled the mass production of cars, but of course, on a larger scale, this enabled the mass production of almost all consumables produced today. Ford satisfied an observable need of a large group of people in order to advance his own wealth. He allowed for the cheaper and more efficient production of vehicles, which has undoubtedly had a tremendous impact on human life. Hayek thinks that this impact has been extremely beneficial, and there is no doubt that we all in many ways depend on the method of mass production that Ford developed. Of course, on the other hand, there is a strong argument that can be made in terms of the negative environmental, social and geopolitical consequences of this revolution in manufacturing. However, it is enough, in order to illustrate Hayek’s point that we at least grant that Ford’s desire to beat out the competition and amass personal wealth was the direct cause of a revolution in production which has had a profound, and at least in some ways positive, impact on the quality of life of millions. So the idea is that if we do not embrace our own intrinsic desires for personal wealth acquisition, and if we instead attempt to redistribute wealth in a socialistic manner, then we will stunt the incentives for creativity and so contribute to our own demise as a species.

The socialist agenda, Hayek concludes, therefore poses “a grave threat to civilisation”⁷³ because it is stifling of creativity. By removing the incentive of personal wealth acquisition Soviet-style socialism promoted, through policy and coercion, conformity of the highest order. The ‘fatal conceit’ referred to in the title of Hayek’s book is thus the socialist’s mistaken assumption that she can alter the *natural order* of healthy economic functioning by trying to create a motivational set premised on welfare and not self-interest.

⁷⁰ The likening of the extended order to spontaneous order is also revealing in other ways. Perhaps it is true that birds obey their own instincts – and so behave ‘selfishly’ – but it is also true that some animals might do as they do for the benefit of the group – and so behave ‘selflessly’. For example worker bees devote their existence to the benefit of the queen bee and so to the bee colony as a whole, and not to the pursuit of their own ends. So, if we are going to extend the notion of spontaneous (natural) order to humans then it might also reveal that some of our intentions might not necessarily be selfish.

⁷¹ Hayek, F., *The Fatal Conceit: The Errors of Socialism*, p.105.

⁷² *Ibid*, p.93.

⁷³ Hayek, F., *The Fatal Conceit: The Errors of Socialism*, p.119.

The road to socialism is thus also the road to serfdom.⁷⁴ For Hayek creativity, and the development that flows from the creative efforts of entrepreneurs, depends on selfishness. Yet, this means that he implicitly presupposes that genuine creative entrepreneurialism is always the result of greed. Of course it is indisputable that greed often makes people go the extra mile, but Hayek is surely wrong to assume that only motivational sets of this sort will do the job of properly motivating entrepreneurial activity.

There are obvious problems here with the false dichotomy set up by Hayek between socialism and capitalism, an issue that applies (as above) to Friedman as well. It is certainly not obvious that we cannot combine aspects of capitalism and socialism to create a new system. It seems to be the case that Hayek thinks that we can either have deregulated capitalism or staunch redistributive socialism. However it is not incoherent with the ends of capitalism, and the creative market forces that arise from inequality and personal endeavour, to suggest that business operations should be regulated and limited and that they should serve ends other than profit maximisation. Solomon and Martin write, with reference to Friedman, that, “Any effort of society as a whole to affect the social welfare through government interference with business ... he badly labels ‘socialism.’”⁷⁵ It is not necessarily socialist, as Friedman and Hayek suppose, to suggest that business operations should occur in a manner that directly promotes social justice. I shall argue in Chapter Three that businesses ought to be explicitly and directly committed to social justice, but for now it is enough to simply point out that we are not, as Hayek and Friedman seem to suggest, socialists if we are not free-market capitalists.

Hayek’s defence of the bottom-line approach to business leads him, like Friedman, to argue for market deregulation. Hayek explains that collective command over available resources by a central authority is detrimental to the market because it inhibits innovation. The stricter the regulations in a market, the less people will be willing to take risks. Hence, for Hayek, deregulation increases competition as more people are willing to enter the market if it is free from burdensome ‘red-tape’. Increased competition, as explained above, leads to both an increase in quality and a decrease in prices, thereby making it collectively beneficial. Therefore Hayek, like Smith and Friedman, argues that it is better for society as a whole if markets are deregulated and government involvement in the market is restricted to the settling of disputes and the enforcing of contracts.

⁷⁴ *The Road to Serfdom* is another of Hayek’s works that deals with the social and economic threats posed by socialism.

⁷⁵ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.425.

However, as I shall discuss in the following chapter, deregulation in practice appears to work quite differently. By allowing the drive to make profit to run free, as it were by indulging greed, deregulation enables business to transfer some of their greatest costs to society. Lack of environmental regulation, for example, places no onus on businesses to protect the natural environment in which their operations occur and where their raw materials are sourced from. The consequences of environmental degradation is a cost that society, and not business, has to incur. In a bottom-line deregulated world a business's obligation is to itself - to its own bottom line - and so the more costs that can be transferred the better. Businesses have a pressing motivation to write off as many 'externalities' as possible in this way. Friedman defines an externality as, "The effect of a transaction between two individuals on a third party who has not consented to, or played any role in, the carrying out of that transaction."⁷⁶ It must be noted that the term 'externalities' does not only refer to negative outcomes. There are also positive externalities created by business such as life-saving pharmaceuticals. However it would be rash to suggest that negative externalities are in some way set-off, or balanced, by positive ones. Just as businesses define themselves through their positive impacts (or at least through the profits generated by these) so their negative impacts are a part of their core, and are certainly not 'external'. Deregulation however enables externalities to be written off because there are fewer (or no) regulations to either prevent harms or to hold businesses accountable for their harmful actions. So, as a consequence of deregulation and the opportunities it creates to simply write off 'unfortunate' outcomes, "corporate profits are [often] overstated and shareholders receive inflated returns."⁷⁷ Solomon and Martin argue that deregulation does not bring the attendant benefits that it is professed to. They write:

The orthodoxy of deregulation that characterised the 1980s and 1990s was supposed to bring with it intense competition. Instead consumers have seen less competition, higher prices, and deteriorating service in industry after industry⁷⁸

They provide evidence from the following industries (in the United States) to give truth to this claim: airlines, banks, savings and loans services, the bus industry, cable television, railroads, telecommunications and trucking.⁷⁹

⁷⁶ Friedman, M., as quoted in an interview for *The Corporation* (Documentary film) written by Bakan, J.

⁷⁷ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.506.

⁷⁸ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.424.

⁷⁹ *Ibid*, p.424-425.

Hence the lack of controlling legislation allows a business to be more aggressive in its bottom-line pursuits. With the removal of the threat of punishment for the violation of restrictions imposed by regulation businesses have even less of an incentive to care for anything other than making money. Moral concerns which are typically safeguarded by regulation go out the window – unless they are beneficial to the bottom line, but that is to understand the ethical in the wrong register – and businesses are free to pursue their bottom-line ends without any other ‘niggling’ concerns. This climate does indeed appear to be very beneficial to the bottom line, which makes sense because many of the most important costs have been disregarded, or externalised. However, in the next chapter I shall argue that deregulation cannot only be harmful to people and the environment, it can even be bad for business. The short-term approach to profit-making that deregulation encourages – by defining success in financial terms – can make businesses unsustainable in the long run. Indeed Friedman’s (and by extension Hayek’s) model does not necessarily preclude a long-term approach to profit-making, as previously mentioned. But the problem is that the system is so designed as to put enormous pressure on quarterly financial performance. This means that a long-term approach is often sacrificed for the sake of the job of the CEO who has to answer for a poor quarterly bottom line. I shall emphasise this systemic problem with reference to the deregulation of electricity in California and financial deregulation in Iceland, in order to reveal the economic failure of the bottom-line approach to business. Before turning to the empirical evidence on the failures of this approach to business there is another argument that is separate, but related to, the argument from enlightened self-interest that is important to consider. This argument also concludes that the bottom line should be the final business value; it is the argument from freedom, and it is made by, among others, Friedman and Nozick.

II. The Argument from Freedom:

A. Milton Friedman:

Friedman’s argument against deregulation is not only premised on enlightened self-interest, he also suggests that government interference in the market is “an infringement of our fundamental right to economic freedom.”⁸⁰ Solomon and Martin write that for Friedman, “Freedom is not only the basis of the market itself, it is also the most valuable result of the market system: the freedom of each individual to choose.”⁸¹ The market must be free from

⁸⁰ *Ibid*, p.421.

⁸¹ *Ibid*, p.421.

coercion, not only to ensure that allocative efficiency is maximised, but also to ensure that liberty, as a democratic principle, is protected. Regulation by a controlling state is, for Friedman, unacceptable. The consequences of regulation are for him more unsavoury than those of deregulation. In *Free to Choose: A Personal Statement* Friedman (in partnership with his wife Rose Friedman) sums up his opinions by quoting U.S. Justice Louis Brandeis: “The great dangers to liberty lurk in the insidious encroachment by men of zeal, well-meaning but without understanding.”⁸² According to Friedman if the economy is controlled, then so are citizens in general.

The free market is hence not only about protecting the liberty of business owners to pursue their financial interests, it is also about protecting the liberty of all individuals. Friedman suggests that consumers in a free economy are enabled to “vote with their dollars.”⁸³ If people are unhappy about the operations of a certain business then they can meaningfully affect that business’s bottom line by refusing to support the business, thus ‘voting with their dollars’. However, Friedman argues, in a regulated economy such exertions of liberty are hindered because government interference in the market creates artificial conditions, which amounts to the government telling consumers what they want. Hence, if we truly value liberty we cannot but support the free market.

Friedman argues that when we demand certain things from business - say that they contribute a percentage of their profits to small business enterprise development - then we are demanding that business owners spend a portion of their earnings in a certain way.⁸⁴ Such moves essentially entail forcing people to be charitable with their earnings. This is because any deduction from the bottom line is a deduction from the dividend paid to owners or, in the case of a corporation, to shareholders. Friedman argues that charity is a personal choice and cannot be forced, and so it ought to be done in a personal capacity. If it is not then it is an encroachment on our personal liberty.⁸⁵

However, Friedman’s argument goes even further than this. He argues that even if stockholders collectively decide that a portion of the profits ought to go to some form of social development this is still inappropriate as the cut in profits will have trickle down effects on employees, who will be paid less, and on customers, who will be charged more.

⁸² Brandeis, L., [in *Olmstead v. United States*, 277 U.S.479 (1928)] as quoted in Friedman, M. and Friedman, R., *Free to Choose: A Personal Statement*, p.1.

⁸³ Friedman, M., as quoted in Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.423.

⁸⁴ Friedman, M., ‘The Social Responsibility of Business is to Increase its Profits’, *New York Times*, 13 September 1970.

⁸⁵ *Ibid.*

The less money a business makes, the less they will pay their employees and the more expensive their products will have to be to defray the additional costs. The only way that such projects could be justified are in the manner discussed above with reference to Friedman's first argument, that is, if they will serve an instrumental purpose to the bottom line. Friedman states that endowing business with responsibilities beyond profit-making is equivalent to 'taxation without representation' as employees and customers, although 'taxed', in the sense that they are deprived from a portion of their earnings (either by being paid less or having to pay more) do not have a say in how this money is to be spent.⁸⁶ Unlike taxes paid to the government, Friedman continues, this kind of 'taxation' is all the more inappropriate as the businessperson has now 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 on⁸⁷

Therefore, Friedman concludes, suggesting that business has a social responsibility beyond increasing profits is not in keeping with our common sense notions of liberty. So not only is it good for society if a business makes money in terms of the beneficial trickle-down effects (such as, decreased prices, increased employment, greater efficiency and a reduction in poverty) but it is in fact a fundamental violation of freedom if we demand that a business ought to be *directly* concerned with social justice issues.

B. Robert Nozick:

Nozick's *Anarchy, State and Utopia* defends the political analogue to neoliberal economics and is primarily concerned with the legitimate functions and justifications of government. He argues that only minimal state regulation is justifiable. This minimal state is responsible for the protection of its citizens, against, for example, theft, force and fraud. Basically it only exists in order to ensure that contracts (legal as well as basic social ones) are respected and enforced. Nozick argues that any state that is involved in more than these most basic functions is unjustifiable because it would constitute a violation of the freedom of individuals and society. In this vein he argues that we cannot either force or coerce people to help others nor can we prohibit people from certain actions for their own good. Although this may appear

⁸⁶ *Ibid.*

⁸⁷ *Ibid.*

to be “apparently callous towards the needs and sufferings of others,”⁸⁸ Nozick argues that we simply cannot justify a more extensive state on the grounds that anything else is a violation of our basic and most primary right to freedom. Nozick hence suggests that we are inhibited by moral side constraints from making redistribution, or indeed any form of charity, compulsory. This is because according to Nozick, we are separate individuals with separate lives and so we cannot be *compelled* to sacrifice for the sake of others. Nozick is hence opposed to the utilitarian ethic which claims that some sacrifices could be justified on the grounds of the greater good.⁸⁹ Instead, he argues, we should protect freedom and thus allow people to make the personal choice of whether or not they wish to make sacrifices on another’s behalf. Nozick does not deny that we are partially social products, but he argues that this “does not create in us a general floating debt which the current society can collect and use as it will.”⁹⁰ He continues: “we are not in the position of children who have been given portions of pie by someone who now makes last minute adjustments to rectify careless cutting.”⁹¹ For Nozick then the greater good – or what is just – consists in the protection of liberty.

Hence, Nozick argues, forcing people to pay taxes which are redistributive in nature interferes with our individual actions and choices. It compromises our freedom, which he takes to be the supreme value that cannot be trumped.⁹² Some minimal taxes, for example for public infrastructure, are justifiable according to Nozick. But taxes that are imposed for welfare purposes are wholly unjustifiable. Nozick thinks that just holdings of capital results in a just society. His ‘entitlement theory of justice’ expounds the conditions of a just holdings of capital. Roughly:

the general outlines of the theory of justice in holdings [the entitlement theory of justice] are that the holdings of a person are just if he is entitled to them by the principles of justice in acquisition and transfer, or by the principle of the rectification of injustice⁹³

For Nozick ‘just acquisition’ is about being entitled to retain the whole of what you have earned, or inherited. If each individual person’s holdings are justly acquired then the total set of holdings, or the overall distribution of wealth, is also just. Income tax intended for welfare

⁸⁸ Nozick, R., *Anarchy, State and Utopia*, p.ix.

⁸⁹ *Ibid*, p.33.

⁹⁰ *Ibid*, p.95.

⁹¹ *Ibid*, p.149.

⁹² *Ibid*, p.166.

⁹³ *Ibid*, p.153. As far as ‘the principle of the rectification of injustice’ goes Nozick suggests that this should be limited to those directly affected and that victims should be assisted only in the most basic sense.

purposes is therefore not in keeping with the entitlement theory of justice because taxing a person's income is equivalent to an unjust distribution of holdings. It is, Nozick argues, "on a par with forced labour"⁹⁴ because it is like forcing a person to work n hours for another's purpose.

Like Hayek, Nozick argues that inequalities among people are necessary as they "serve to raise the position of the worst-off group in society"⁹⁵ by providing the incentives to do better. In a world of open and free competition where everyone is entitled to their own income everybody receives only their marginal contribution. According to Nozick this is what is most fair. Welfare and/or socialist states are for Nozick inappropriate because they allow people to live off state benefits and so there is no incentive for them to work. Market innovation and creativity is stunted in a system that does not have economic freedom.

The issues become more problematic when we consider that many wealthy people are wealthy simply because their parents were, i.e. they inherited their holdings. However, Nozick argues, it is still unfair to suggest that these people then have a responsibility to poverty alleviation because "no one has a right to something whose realisation requires certain uses of things and activities that other people have rights and entitlements over."⁹⁶ Essentially if we are born into a poor family then this is nobody's fault, and hence nobody's responsibility to rectify. Likewise, if we are born into a rich family, we cannot be unfairly discriminated against by being taxed on our inheritance. This is not to say that such discrepancies are not unfortunate, it is simply to say that to truly live in a just society is not to compensate those less endowed by taxing those who are more fortunate. It is up to each individual to improve their own lot. For Nozick this is part of the very definition of what it is to be a dignified person in a free, libertarian, society.

Nozick continues by arguing that if some redistribution is made acceptable then it becomes very difficult to draw the line as to where to stop. If it is acceptable to aid the poor then why is it not also acceptable to redistribute other talents and attributes as well. Is it fair, Nozick asks, that he should have to pay for plastic surgery for the man that his wife turned down in order to balance the scales of attractiveness and desirability? For Nozick the fact that we are immediately compelled to answer in the negative suggests that it cannot be assumed that equality should form a part of any theory of justice. That is, we cannot be compelled to level the playing field just because some people are in a better position than others. Instead,

⁹⁴ *Ibid*, p.169.

⁹⁵ *Ibid*, p.188.

⁹⁶ *Ibid*, p.238.

Nozick argues, justice necessarily entails inequality because firstly we cannot control the socioeconomic situation that we are born into and secondly we are entitled to that which we acquire through our own effort. As some people are born rich and others poor, and as some work harder than others or have a better financial acumen, there are bound to be inequalities in society. A just society is hence not an equal one, it is one in which we do not take what people have a legitimate entitlement over in order to give it to somebody else. Friedman agrees. He argues that “equality is impossible to achieve, given the obvious differences in skills and talents.”⁹⁷

Nozick’s conception of justice implies that we are free to pursue our own ends, as long as those ends are within reasonable bounds. So stealing and killing, for example, would not be acceptable. The economic implication of this stance is that regulation and government interference in the market would constitute a violation of the freedom of individuals to accumulate wealth. Such regulations are therefore inappropriate. In other words, a business cannot legitimately – in a truly free society – be compelled to conform to government measures that have a redistributive purpose, for example, minimum wage laws. According to Nozick this would entail an arbitrary display of preference because in a free and just society the interests and purposes of one party cannot be sacrificed to those of another. So although Nozick does not spend too much time talking about business in *Anarchy, State and Utopia*, there are definite implications of his theory of justice for business.

However, protecting the freedom to pursue one’s own ends in a market context creates the potential for businesses to seriously violate the freedom of other individuals. So although Nozick asserts that we should pursue our freedom within reasonable bounds, there would – in the kind of free society that he describes – be very few structures to protect those bounds. Many businesses thus acquire wealth in a manner that is *not* in keeping with the principle of justice in acquisition and transfer, some examples of which I will describe in the next chapter. In other words, they lay claim to that which others have a legitimate entitlement over.⁹⁸ By Nozick’s own logic this economic setup would hence be unjust. So some control of freedom, by regulation, might in fact be a good thing.

Friedman argues that:

A society that puts equality - in the sense of equality of outcome – ahead of freedom will end up with neither equality or freedom. The use of force [regulation], introduced for good purposes, will end up in

⁹⁷ Solomon, R.C. and Martin, C. *Above the Bottom Line: An Introduction to Business Ethics*, p.422.

⁹⁸ For example, the environment or the fair price for one’s labour.

the hands of people who use it to promote their own interests ... On the other hand a society that puts freedom first will, as a happy by-product, end up with both greater freedom and greater equality⁹⁹

Thus Friedman relates the argument from freedom with the argument from enlightened self-interest. If the market is free, and consumers can participate freely in it, then the pursuit of personal ends will uplift society (by the invisible hand) and simultaneously ensure greater personal freedom. These freedoms must be considered both in terms of the freedom to pursue one's own self-interest and in terms of the freedom of consumers to 'vote with their dollars,' either by purchasing or not purchasing a certain product or service. Consumer sovereignty is paramount to the workings of the market mechanism and business sovereignty (deregulation) is vital to creating the climate of competition which ensures consumer sovereignty.

One response to this argument – which I shall return to in Chapter Three – is made by John Kenneth Galbraith who argues that the classical conception of the workings of the market mechanisms in the free market system is simply wrong.¹⁰⁰ He argues that the picture of independent entrepreneurs competing for business with one another has been replaced by “the monolithic corporation,”¹⁰¹ whose presence in the market is far too powerful to ensure consumer sovereignty. Instead of supply following the genuine demands of an independent public, mass market advertising actually creates consumer desire, *telling* people what they need. Hence the apparent freedom that the free-market is intended to ensure is almost entirely absent: consumers are not sovereign, business is. Indeed both Friedman and Nozick's positions on freedom are brought into doubt given the power that such systems create. Like Smith does in his first conditional, Friedman acknowledges that an asymmetrical balance of power in favour of large businesses might result from the free market system. Solomon and Martin write that Friedman's economic model “assumes that no force in the marketplace [should have] an undue amount of power, especially economic power, over any other group.”¹⁰² However, protection against this inescapable eventuality for both Smith and Friedman amounts to nothing more than simply stating that no business should be allowed to get too powerful. This is wholly insufficient: regulation is needed to ensure that this does not happen, but stating this would be in stark contradiction to their basic free-market assumptions. The systemic problem here is blatant and inexorable: whilst Friedman and

⁹⁹ Friedman, M. and Friedman, R., *Free to Choose*, p.29.

¹⁰⁰ See for example, Galbraith, J.K., *The Economics of Innocent Fraud: Truth for Our Time* (2004) and Galbraith, J.K., *American Capitalism: The Concept of Countervailing Power* (1957).

¹⁰¹ Galbraith, J.K., *The Economics of Innocent Fraud*, p.383.

¹⁰² Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.425-426.

Nozick have been very careful to ensure that the power of bureaucracy is safe-guarded against, this has simply given rise to a new power they that is far more dangerous to liberty. While it is certainly not the case that *all* government presence serves the public good, it is certainly more suited to do so than the profit-motivated corporation.

The argument from freedom – particularly when coupled with the argument from enlightened self-interest, which, as we saw, treats social justice as merely instrumental – appears to lead to the protection of the liberty of business owners and shareholders only, despite Friedman’s claims to the contrary. *Entitling* business owners to pursue their own interests in a deregulated climate often conflicts with the interests of other groups. Businesses can easily write off their negative externalities in a free market, forcing others to pay the true price of their operations. The treatment of all values other than profit as instrumental means that businesses are foremost loyal unto themselves. If this means paying employees below a living wage and forcing them to work long hours for little or no overtime then so be it. If this means ravaging natural habitats then so be it. The neoliberal claims that such practices are necessary stepping stones to greater socio-economic freedom, but in reality they appear to be stepping stones to *less* socio-economic freedom, as I aim to demonstrate in the next chapter. If we are genuinely concerned with social justice and the public good, which economics fundamentally is, then we need to find a way of balancing the freedom of *all* members of society.¹⁰³ Friedman and his acolytes are similarly too optimistic about the workings of the invisible hand. Advancing a limited conception of freedom and treating as instrumental those values which we hold to be non-instrumental creates a system rife with injustice. This is because, as I have argued, the neoliberal holds a highly impoverished conception of value. What drives business in their view is profit, but this cannot be right because profit is clearly an instrumental value and so it becomes parasitical on ultimate values. As Friedman, Hayek and Nozick are concerned with what is just in the first place, we need to examine whether or not the methods of acquisition in a free-market are indeed just.¹⁰⁴

In conclusion, we have good reasons to re-examine the fundamental assertion that the best way in which a business can be socially responsible is by focusing on profits in a free market. The two arguments discussed in this chapter – the argument from enlightened self-interest and the argument from freedom – attempt to provide rational grounds for the primacy of profit-making in business. However in the first case the argument from enlightened self-interest inverts our basic assumptions regarding ultimate value. Those things which we hold

¹⁰³ This is largely my aim in Chapter Four.

¹⁰⁴ In Chapter Three I shall argue that social justice has necessarily to include more than freedom.

to be ultimately valuable are positioned by Friedman, Hayek, Nozick and even Smith to a certain extent, to be only instrumentally valuable, whilst that which we hold to be instrumental (money) becomes ultimately valuable. A further conceptual problem with the argument from enlightened self-interest, and to a lesser extent the argument from freedom, is that they make the assumption that we are primarily motivated by material greed, which portrays a very narrow understanding of human concern, and even of the concerns of entrepreneurs. The freedom to act in a certain self-interested way (which for Friedman and Nozick boils down to not much more than the desire for personal wealth acquisition) is not always in keeping with the freedom of other individuals. This is most obvious if we consider someone's desire to kill another person, which Friedman and Nozick would certainly not condone. However if we are prepared to restrict the liberty of people in this sense, allegedly in order to protect the public good, then it does not seem to be obvious that we cannot restrict it in other senses for the same reason. These conceptual issues described in this chapter result in major systemic problems for the neoliberal tradition.

CHAPTER 2: THE INVISIBILITY OF THE INVISIBLE HAND: THE SOCIAL, ENVIRONMENTAL AND ECONOMIC FAILURE OF THE BOTTOM-LINE APPROACH TO BUSINESS

There are not too many sweatshops but there are too few¹⁰⁵

If one finger brings oil it soils the others¹⁰⁶

It is difficult to get a man to understand something when his salary depends on his not understanding it¹⁰⁷

In this chapter I aim to briefly show the real-world implications of the contradictions and conceptual errors embedded in bottom-line logic. In the previous chapter I argued that a genuine commitment to the idea that businesses are socially responsible when they maximise profits leads one to treat as instrumental that which we hold to be ultimately valuable, namely moral concerns, and in particular, social justice. If making money is the social responsibility of business then other legitimate concerns are too easily ignored, ironically in the name of social justice. In this chapter I aim to show that focusing on one's own (materialistic) concerns will not impart broad social benefits in the best possible way. Neoliberals are too optimistic – far more so than Adam Smith – about the workings of the invisible hand. Similarly, the argument from freedom also fails to deliver on what it promises: greater freedom across the board. If the end of business truly is social justice then we have legitimate cause to question the assertion that the aim of business is to maximise profits.

The cases discussed in this chapter are intended to point to trends that result from a commitment to bottom-line logic and are thus meant to be seen as indicators of larger systemic problems. For example, the indirect effects of the invisible hand are not necessarily positive ones. In fact, as argued in the previous chapter, a deregulated climate allows for negative externalities to be all too easily written off. Furthermore, placing the freedom of the market first does not mean that a society will necessarily “as a happy by-product end up with both greater freedom and greater equality,”¹⁰⁸ as Milton Friedman argues. In fact, freeing the market from regulation ensures that there is little in the way of a moral tether on the actions that a business can perform. Hence the freedoms of those other than shareholders and capital

¹⁰⁵ Sachs, J., as quoted in Arnold, D. and Hartman, L., ‘Beyond Sweatshops: Positive deviancy and global labour practices’ (online).

¹⁰⁶ Nigerian proverb (online).

¹⁰⁷ Sinclair, U., as quoted in Wade, R., ‘The Crisis: Iceland as Icarus’ *Challenge*, vol.52, no.3, May-June 2009, p.6.

¹⁰⁸ Friedman, M. and Friedman, R., *Free to Choose*, p.29.

or business owners are often violated, not enhanced. Inequality has, in many instances, increased. So, given that the point of both classical and neoclassical economics is to ensure the most just distribution of goods throughout society, there is serious cause to question whether these models are in fact the best route to such a goal. I shall argue that the bottom-line approach to business, as it is embedded in the neoliberal economic model, is not the best way in which a business can contribute to social justice. There are at least three levels at which this approach has failed: socially, environmentally and even economically.

The bottom line approach to business has, as these cases aim to show, led to businesses behaving, in essence, amorally and so at times, immorally. If a particular business is only concerned with moral issues insofar as they will serve to increase profits, then we could say that this business is amoral. Moral concerns are not thought to be a part of a business's basic and primary functioning and so being moral is not something that is an explicit concern in the bottom-line business, unless these concerns will be instrumental to profits. This understanding of morality can, in turn, lead a business to violate accepted moral standards, making it immoral. Given the crucial position that business holds in modern society it is unacceptable for businesses to adopt a bottom-line stance because either they can justifiably be immoral or, if there are instrumental reasons to be moral, such an approach to morality does not express genuine ethical behaviour.¹⁰⁹ In other words, moral actions of this sort are in the wrong register. The greater problem is that bottom-line theory is so designed as to make amorality not only acceptable, but even mandatory. If the social responsibility of business is to maximise its profits then social justice will never be properly valued and so moral concerns will always remain, at best, on the periphery. The issue is not only that bottom-line thinking can potentially lead to immorality, it is that it often does and unless we fundamentally redesign business and our economic assumptions, then practices, such as detailed in this chapter, can and will continue to occur.

I. Social Failures:
A. Violation: Sweatshop Labour

The first failure of the bottom-line approach to business that I shall discuss is social. This means that there have been negative effects on people and communities as a direct result of

¹⁰⁹ This statement is not intended to imply that morality is somehow connected to size and scope. As far as any action – whether it is performed by an individual or a global corporation - impacts on others it has ethical import. Immorality is unacceptable wherever it occurs. Business does hold a critical social position and so it is largely true that it has a greater scope to affect others than individual actors. It is indeed odd that we do not accept immorality at the individual level but are prepared to accept it at an institutional level.

business operations that are purely bottom-line motivated. The first case discusses the use of sweatshop labour as an example of such harm. It shows that the bottom-line approach to business can serve to justify the use of exploitative labour methods, and thus immorality. In fact, this kind of harm is not even particularly problematic for a bottom-liner. Firstly they argue that sweatshops are in fact justifiable. For example, as mentioned in the previous chapter, by Friedman's logic:

Even sweatshops that pay below minimum wage are useful ... because they give the otherwise unemployable and untrained worker a chance to climb onto the bottom rung of the economic ladder, learn a skill, and so go on to a better-paying job¹¹⁰

However, I shall argue that firstly sweatshop labour does not necessarily result in the proposed social benefits. Secondly, I shall discredit this view by arguing that the idea of treating people inhumanely for the sake of profits, or even for the sake of social justice is, on its own, deeply problematic.

Bottom-liners could alternatively argue that sweatshop labour is not necessarily a product of their thought. For example, they might argue that given how unpopular sweatshops have become, a company is at risk of antagonising their consumers if they employ such labour methods, and so there is a bottom-line reason not to use sweatshops. I shall respond to this position by arguing that such a theorisation continues to treat the moral as instrumental in such a way that doing the good is severed from actually being good, which is, for reasons I shall describe below, unacceptable. I shall conclude by arguing that however bottom-liners attempt to overcome the problem of sweatshop labour, they fail.

Consider the following logical formulation of the bottom-line argument for sweatshop labour:

- P1 The social responsibility of business is to increase its profits
- P2 Increasing profits involves minimising costs
- P3 Labour is a cost
- C1 Therefore it is socially responsible to employ the most efficient form of labour

- P4 Sweatshop labour is extremely efficient
- C2 Therefore sweatshop labour is socially responsible

As unacceptable as this final conclusion might initially seem many bottom-line neoliberals openly defend C2. Their argument is that sweatshops are a good thing because the low labour

¹¹⁰ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.423.

costs invite international investment, which creates jobs and thus uplifts the local community as a whole. For example, in his article, “In Principle, a Case for More Sweatshops”, Allen Myerson argues that sweatshop jobs “are precisely the jobs that were the stepping stones [to socio-economic prosperity] for Singapore and Hong Kong.”¹¹¹ Hence, he concludes, such jobs ought not to be seen in a negative light. Indeed the areas where sweatshops exist are typically areas of extreme desperation and poverty and so as soon as a factory opens up it is hence perceived by the local people as a ‘god-send’ because it promises employment, no matter how harsh the conditions.

The International Monetary Fund (IMF) and the World Bank have also played a part in contributing to the creation and spread of sweatshop labour in the poorest areas of the world. The IMF, for example, attaches conditions to its loans and assistance by prescribing what it calls ‘structural adjustment programmes’ or ‘SAPs’.¹¹² These programmes ensure that a country’s policies are in sync with neoliberal economic principles and they typically include three main prescriptions: privatisation, government deregulation and cuts to social spending.¹¹³ The argument is essentially that a reduction in red-tape will act as a lure for international investment in the local economy, which will create jobs and bolster economic growth. Thus the IMF attempts to ensure that the loan given will actually be paid back. Yet, the lack of restrictive labour laws ensures that there are no legal repercussions for long worker hours, excessive overtime, unsafe work conditions and so on. Companies are thus able to save money in the bottom line by operating in such climates: they can exploit their labour force *and* get away with it. So, even though the manufactured products will have to be shipped to the market areas – mainly in the United States and Europe – what is paid for in transport costs is more than made up for in savings on labour costs.

However, as beneficial as these labour arrangements have been to increasing profits there are strong reasons to doubt that the companies involved have been socially responsible. For example, recent news reports from China reveal that workers in the factories of the supplier company Foxconn, which manufactures goods for, among others, Apple, Sony and Nintendo, have been forced to sign pledges that they will not attempt to commit suicide.¹¹⁴ A

¹¹¹ Myerson, A. R., ‘In Principle, a Case for More Sweatshops’, *New York Times*, 22 June 1997, p.4-5.

¹¹² See for example ‘Structural Adjustment Programmes’ by the World Health Organisation (online) or Shah, A., ‘Structural Adjustment – a Major Cause of Poverty’ (online). For the IMF’s response to criticism regarding SAPs see ‘The IMF’s Enhanced Structural Adjustment Facility (ESAF): Is It Working?’ by the IMF (online).

¹¹³ ‘The IMF’s Enhanced Structural Adjustment Facility (ESAF): Is It Working?’ by the IMF (online).

¹¹⁴ ‘You are not allowed to commit suicide: Workers in Chinese iPad factories forced to sign pledges’, *The Daily Mail*, 1 May 2011 (Staff reporter). Most sweatshops are not actually owned by the corporations that manufacture their products there, rather most multinational corporations outsource to locally owned factories, like Foxconn. However this disjuncture in no way exonerates the multinationals from responsibility. The

number of suicides on Foxconn premises in 2010 resulted in the company having to pay large compensation packages to the families of the deceased.¹¹⁵ So, in 2011, in order to avoid further such financial losses, workers were forced to sign anti-suicide pledges, which entailed their families only being able to receive minimal compensation if they did kill themselves. The excessively demoralising work conditions in these factories are almost entirely to blame for the suicides. During peak demand periods for Apple's iPad, for example, workers only received one day off in every 13 days.¹¹⁶ They are banned from talking on the factory floor because, as Foxconn spokesman Louis Woo comments, "conversations may distract [the workers] from the attention needed to ensure accuracy and their own safety."¹¹⁷ They live in communal dormitories attached to the factories with as many as 24 people in a room and "some only go home to see their families once a year."¹¹⁸ "Despite a legal [overtime] limit of 36 hours per month,"¹¹⁹ 60 to 80 hours of overtime a week is normal at Foxconn factories and "one payslip showed a worker did 98 hours of overtime in one month."¹²⁰ Leontien Aamoudse who works for the NGO that researched this information comments that, "Conditions are harsh and [the workers] don't have a social life. Their life is just working in a factory and that is it."¹²¹ Apple however has benefited hugely from this exploitation: its net profit in the first quarter of 2011 was approximately US\$6 billion.¹²²

Naomi Klein spent time researching factories in the Cavite area of the Philippines, particularly in what are called the 'Economic Processing Zones', basically fenced in areas that contain a high density of sweatshops. In her book *No Logo* she reveals that seamstresses sewing garments for Gap, Guess and Old Navy told her that the bathrooms are kept locked except for two fifteen minute periods each day.¹²³ This is to ensure that worker productivity is not lost to toilet breaks. As a result these women "sometimes have to resort to urinating in plastic bags under their machines."¹²⁴ There are a myriad of other such stories. A simple

conditions are widely known and so the corporations are certainly complicit in the harms committed. The deregulated climate allows them to ignore many abuses, as they are not actually illegal.

¹¹⁵ Most of the suicide cases involved people leaping from the high-rise windows of the factory, and so Foxconn also installed safety nets around the perimeters of their buildings to prevent further such deaths.

¹¹⁶ 'You are not allowed to commit suicide: Workers in Chinese iPad factories forced to sign pledges', *The Daily Mail*, 1 May 2011 (Staff reporter).

¹¹⁷ *Ibid.*

¹¹⁸ *Ibid.*

¹¹⁹ *Ibid.*

¹²⁰ *Ibid.*

¹²¹ *Ibid.*

¹²² *Ibid.*

¹²³ Klein, N., *No Logo*, p.211.

¹²⁴ *Ibid.*, p.211.

‘Google’ search of ‘Instances of sweatshop harm’, for example, generates nearly 12 million responses.¹²⁵

By Friedrich Hayek’s and Friedman’s logic, as long as sweatshop labour is increasing profits, it is socially responsible, but this conclusion is simply unacceptable. Firstly it is not true that sweatshops are necessarily ‘stepping stones’ to greater socio-economic prosperity, and secondly, as above, the utilitarian idea of treating people inhumanely for the sake of profits, economic growth, or even social justice, is on its own deeply problematic. With regard to the first claim, although it might be true that Singapore and Hong Kong secured economic growth from sweatshop labour, as Myerson argues above, there are other countries that have not. Klein, for example, writes that:

The no-pain-no-gain defence of sweatshops ... took a severe beating when the currencies of those very countries supposedly benefiting most from this development model began crashing like cheap plates. First in Mexico, then Thailand, South Korea, the Philippines and Indonesia, workers were, and in many cases still are, bringing home minimum wage paychecks worth less than when the ‘economic miracle’ first came to bless their nations years ago¹²⁶

It is simply unclear that “development built on starvation wages”¹²⁷ will lead to greater overall social prosperity. In the case of sweatshop labour, Klein argues that governments “put their own people on the auction block, falling over each other to offer up the lowest minimum wage, allowing workers to be paid less than the real cost of living.”¹²⁸ Increasing profits by employing the most efficient form of labour possible is thus not always an instrument to economic growth and therewith social development. Empirical evidence, in this case, can serve to refute the existence of the invisible hand because increasing profits is not necessarily socially responsible. In fact, in at least some cases, focusing exclusively on increasing profits has proved to be socially irresponsible.

With regard to the second claim above, sweatshop labour restricts the freedom and dignity of persons in a manner that is not in keeping with our basic moral assumptions. Even if bottom-liners are attempting to make a utilitarian-style argument in support of sweatshop labour, i.e. that some harms might be necessary for the greater good, it is still legitimate to question a practice that sacrifices ultimate values. Would we, in other words, really be contributing to greater overall social flourishing if getting there means having to forfeit the

¹²⁵ Last searched on 18 June 2013.

¹²⁶ Klein, N., *No Logo*, p.228 (sic.).

¹²⁷ *Ibid*, p.228.

¹²⁸ *Ibid*, p.206.

freedom and dignity of a great number of people? Even a hardcore utilitarian would be pressed to accept that this would actually be for the greater good. From an Aristotelian point of view this society would not even be one worth living in, as a society which attempts to justify such atrocities is morally devoid.¹²⁹ However bottom-liners attempt to justify sweatshop labour conditions, the point is that such harms are simply unjustifiable.

As we saw in the previous chapter the problem with bottom-line thinking is that the instrumental treatment of ultimate values is inescapable. By bottom-line logic (and Friedman's own admission) social values are only worth considering if doing so will increase the bottom line. By extension this implies that they will often be trumped by profit-making – if there is a good bottom-line reason to trump them. It is this inevitable conclusion that makes sweatshop labour seemingly justifiable. The argument that increasing profits *will* result in social prosperity is, in a word, naïve because of course there will be cases of genuine conflict, that is, where bottom-line aims clearly do not accord with social aims. In the case of sweatshop labour it is simply not clear that the invisible hand is always working for anything other than the bottom lines of hugely powerful multinational corporations. Hence, we ought rightly to question a practice that sacrifices ultimate values on the altar of neoliberalism, as we cannot ever coherently condone a system that treats people as instruments for bottom line ends.

Bottom-liners could attempt to argue against sweatshop labour by claiming that such methods will turn out to be unprofitable in the long run. For example, as more and more people object to the conditions businesses might start to lose consumer support and so sweatshop labour will not be a good bottom-line practice. The market will 'correct itself,' so to speak, and more equitable labour policies will become the norm. However this is still problematic as the reason for being moral remains instrumental.¹³⁰ In this way doing the good is severed from actually being good. Businesses informed by bottom-line logic are not ethical even though at times they might act ethically. They are not ethical because ethics is for them nothing more than an instrument and hence is not valued as it should be. It is valued for the sake of profits and hence its value is merely contingent. This explains why the ethical behaviour of many corporations is so fickle. Rather, a minimum requirement for being genuinely ethical is an ethical consistency that is born of the right sort of commitments. These commitments must in the first instance be commitments to being ethical rather than in the first instance to profit. So corporations that adopt ethical policies for the sake of the

¹²⁹ Aristotle, *Nicomachean Ethics*.

¹³⁰ It also problematic because it places the onus to be moral solely on consumers.

bottom line are not ethical as they express no deeper understanding of the ultimate nature of moral concerns. Further, if economics is ultimately supposed to serve social justice then this end ought not to be masked behind profits. In order for social justice to be genuinely served people ought to have an explicit understanding that this is the real end of business, but this cannot be achieved in a system that places ultimate value on profits. The real intentions are obscured in such a system. Intentions ought rather to be formed in a way that is consistent with a proper understanding of the role of business in society. In Chapter Four I shall provide a tentative framework for how this might be achieved in practice. Social justice is the ultimate end of economics and this ought not to be forgotten.

Robert Nozick's concerns regarding freedom are also relevant in this case. For him a just holdings of capital would have to be in accord with the principles of justice in acquisition and transfer. Given that sweatshop labour restricts the freedom of individuals, in the most extreme cases, for example the freedom to go to the toilet, we can rightly conclude that this situation is unjust. The labourers do not receive adequate compensation for their efforts and so the corporations are unjustly retaining that which actually belongs to another person, i.e. their fair living wage. So by Nozick's logic sweatshop labour is unjustifiable.

We ultimately need to ask whether or not we are prepared to defend a system that treats human beings as instruments for the sake of profits and which often does not even deliver the indirect social benefits it professes to. If there is a way to actually achieve greater socio-economic justice – and this without violating the freedom and dignity of persons – then this method ought, from a moral point of view, to be preferred. In Chapter Four I shall argue that such a system is at least plausible.

B. Domination: The Coffee Industry in Brazil

This brief case study reveals that far from reducing inequality and ensuring social prosperity, a deregulated neoliberal climate can in fact increase inequality and reduce general living standards. Coffee production is the world's second biggest industry next to oil¹³¹ and approximately "25 million people worldwide base their lives on its production."¹³² The impact of the coffee trade on many people's lives is therefore unquestionably profound. Kelly Watson and Moira Achinelli demonstrate that the overriding global themes that have

¹³¹ Pendergrast, M., *Uncommon Grounds: The History of Coffee and How it Transformed our World*.

¹³² Watson, K. & Achinelli, M., 'Context and Contingency: the coffee crisis for conventional small-scale coffee farmers in Brazil', *The Geographic Journal*, 174, 2008, p.223.

developed as a result of coffee production are the marginalisation of traditional peoples and small-scale farmers, as well as “overall rural decline and poverty.”¹³³

As with the case of sweatshop labour the primary cause behind the associated harms is the deregulation of industry to encourage foreign investment. This has resulted in less protection for small-scale producers and wage labourers but increased revenue for agricultural and processing corporations. For example, in Rosário da Limeria, a province of Brazil, many small-scale coffee farmers have been forced to sell their land as a result of looming bankruptcy because they are simply unable to compete with the power and financial clout of the large-scale coffee growing corporations. Most of these farmers have now gone to work on the bigger farms and now are only being paid minimum level wages, far less than they had previously earned as independent growers.¹³⁴ The large-scale producers benefit because they are able to buy the land for a percentage of its true value. Smaller scale farmers are bullied out of the market because they cannot produce coffee as efficiently as the well-resourced corporations can, and so they find themselves in desperate financial situations and end up having to sell their land to the corporations. Before deregulation in the early 1980’s there was a fairly equitable distribution of land ownership in Rosário da Limeria, but as of 2010, 20% of the landowners now own roughly 60% of the land.¹³⁵ The large coffee-growing corporations are enjoying ever-increasing monetary profits, however the average citizen in Rosário da Limeria is *worse* off financially. It is not correct then for Friedman and his acolytes to assume that economic growth in terms of increased national revenue and monetary profit translates into a general increase in living standards. As John Maynard Keynes concludes, “It is not a correct deduction ... that enlightened self-interest always operates in the public interest.”¹³⁶

These two case studies on the social failure of business also give cause to question Friedman’s aforementioned assertion that inequalities appear to be less “the more highly capitalist the country is.”¹³⁷ Friedman argues that greater equality is a “happy by-product”¹³⁸ of free-market capitalism, however the above cases show that, in fact, at times inequalities appear to increase as a result of deregulation. Given that for Friedman deregulation and free-

¹³³ *Ibid*, p.224.

¹³⁴ Cleland, D., ‘The Impact of Coffee Production on Local Producers’, California Polytechnic State University, 2010, p.16 (online).

¹³⁵ *Ibid*, p.15.

¹³⁶ Keynes, J.M., as quoted in Solomon, R.C. and Martin, C. *Above the Bottom Line: An Introduction to Business Ethics*, p.346.

¹³⁷ Friedman, M. *Capitalism and Freedom*, p.169.

¹³⁸ Friedman, M. and Friedman, R., *Free to Choose*, p.29.

market capitalism would be the ‘highest form of capitalism’, we might not be as willing to accept the above assertion as true, particularly when there is good evidence to suggest that inequalities might in fact be exacerbated by such extreme forms of free-market capitalism. This fact gives us cause to question whether or not deregulation is in fact the best route to the desired end of social justice and flourishing.

We do not only have good cause to question Friedman’s assertions on equality, but also his belief (and to a certain extent Nozick’s belief, insofar as he argues for minimal government) that free-market capitalism ensures greater freedom. Rather, these two cases demonstrate, freedom is often severely limited in a deregulated situation. Certainly the freedom of business owners and stockholders to advance their financial interests is protected but the freedom of other parties (for example, in these cases employees and the community) appears to be restricted. Sweatshop labour, by its very definition, makes highly unreasonable demands on the liberty of persons. Freedom has necessarily to be understood in much broader terms than the limited conception defended within the neoliberal tradition. The idea that free-market capitalism protects the fundamental right to freedom is indeed naïve, to say the least. Instead, if we are concerned with defending a broad conception of liberty then we need to broaden our parameters beyond the dogmatic consideration only of capital owners, but doing this means that we will have to regulate, and not deregulate, business operations.

II. Environmental Failure: **Degradation: Oil and Natural Gas Operations in the Niger Delta**

The cumulative effects of oil and natural gas operations conducted by Shell, Total, Agip, Exxon-Mobil and Chevron in the Niger Delta demonstrate just how environmentally devastating the mining of non-renewable energy resources can be. The Niger Delta covers an area of about 20 000km² and as the largest wetland in Africa it contains one of the highest concentrations of biodiversity on the planet. It is home to some 20 million people that base their livelihoods on the abundant flora and fauna that the Delta sustains. However when oil was discovered in the Delta in the 1960’s the area quickly became a major source of revenue for the Nigerian economy. Since 1975 oil mined in the Delta alone has contributed to 79.5% of Nigeria’s export revenue, with approximately 2 million barrels of oil extracted per day.¹³⁹ The environmental consequences of this practice have been profound, causing devastation throughout the Delta.

¹³⁹ ‘Petroleum, Pollution and Poverty in the Niger Delta’ by Amnesty International (online).

Much of this degradation can be attributed to the lack of adequate legislation in terms of environmental standards, as well as insufficient enforcement of the minimal standards that do exist. In such a climate oil and natural gas companies are able to cut costs by practicing the lowest environmental standards possible in order to generate profit. For example, the method of natural gas flaring is used to burn off associated gas in the oil extraction process. It has been illegalised virtually across the globe due to it being extremely harmful to the planet, animals and people, yet the Nigerian government repeatedly fails to meet “its own deadlines for the cessation of flaring.”¹⁴⁰ With oil companies based in Nigeria still flaring an average of 70 million m³/day as of 2009,¹⁴¹ there is clear evidence of scant regard for the environmental consequences of this practice shown both by the oil companies themselves and the Nigerian government. Both stand to benefit financially from this as it is by far the cheapest method of burning off associated gases. However, natural gas flaring releases a plethora of harmful chemicals into the environment, including methane, carbon dioxide, nitrogen dioxide and sulphur dioxide, all major sources of climate change. In fact some reports suggest that natural gas flaring forms one of the largest sources of greenhouse gas emissions on the planet.¹⁴² As well as the consequences of flaring on the planet as a whole, the soot produced coats the surrounding land, damaging vegetation and preventing further plant life and crops from growing. It also causes acid rain which destroys plants and corrodes homes. On the whole natural gas flaring damages entire ecosystems and has a negative impact on biodiversity.

Natural gas flaring is not the Niger Delta’s only environmental concern however. Due to the lack of regulation the area has faced the consequences of massive and widespread oil spills.¹⁴³ Again the main cause of these spills is a lack of regulation that mandates compulsory maintenance of pipes. Old pipes that are above ground corrode easily, spilling their contents into the delicately balanced ecosystems of the Delta. The oil companies however, blame most of the spills on sabotage: a result of local people either intending to steal oil so as to gain some financial benefit from the industry, or the more intentional form of sabotage whereby locals deliberately tamper with the pipes in order to spite the oil companies

¹⁴⁰ *Ibid.*

¹⁴¹ *Ibid.*

¹⁴² See for example, ‘Global Greenhouse Gas Emissions Data’ by the United States Environmental Protection Agency (online) or Kahn, B., ‘Gas Flaring: Major Cause of Climate Change, BP Oil Spill Solution’ (online).

¹⁴³ It has been estimated, unofficially (as many minor spills are not even reported), that the equivalent of approximately 1.9 million barrels of oil was spilled in the Delta alone between 1976 and 1996. (O’Neill, T., ‘Curse of Nigerian Oil’, *National Geographic*, February 2007, p.112.) More recent data shows that far from abating, these statistics are actually getting worse, for example between 1996 and 2001 alone the equivalent of 1.2 million barrels of oil was spilled. However, many analysts suspect that in fact the unofficial amount of oil spilled might in fact be “ten times higher” (*Ibid*, p.112).

that have destroyed their livelihoods.¹⁴⁴ The Delta people are no longer able to support themselves and their families as not only do oil spills contaminate and destroy their crops (like natural gas flaring does), they also kill fish. Hence, like the plight of the micro-scale coffee farmers discussed above, the people from the Delta are actually worse off as a result of the growth of industry and revenue in their area. It is therefore understandable that many bear a grudge against the oil companies and hence are involved in subterfuges against them. The oil companies are seen as a massive threat to their livelihood and standard of living. So although it might be true that in at least some cases the oil companies themselves are not directly to blame for oil spills in the Niger Delta, it is certainly the case that they remain the root cause of the problem.

The environmental consequences of oil extraction in the Niger Delta have been profound.¹⁴⁵ The situation in Nigeria is also a particularly delicate one because while it is all too easy to point fingers at the oil corporations and blame everything on their bottom line considerations, the Nigerian government is in fact the major shareholder of all Nigerian-based oil companies. For example, they own approximately 55% of Shell Nigeria, 60% of Agip in Nigeria, 60% of Exxon-Mobil Nigeria and also 60% of Chevron Nigeria.¹⁴⁶ The financial concerns of the Nigerian government and their interest on economic returns are therefore paramount in understanding the level of environmental degradation in the Niger Delta. It explains, for example, why effective measures have not been taken to prevent further spills and why little has been done to address the impact of existing spills. It explains why dates for the cessation of natural gas flaring are constantly deferred and why there is sparse regulation of the oil and natural gas industries as a whole. In essence if the government were to operate an effective regulatory board they would essentially be curtailing their own profits, as they would be filling the dual roles of investor and regulator, whose interests are typically not in sync. This situation points to the problem of not having an *independent* regulatory authority.

¹⁴⁴ This is so because fish populations have been hugely depleted due to the oil spills contaminating the rivers as the oil flows into it. The oil forms an impermeable layer on the water, starving all organisms below from oxygen.

¹⁴⁵ Between 1986 and 2003, for example, more than 50 000 acres of mangrove forest have disappeared, both as a result of land clearing to lay pipes and also of oil spills that demolish life wherever they occur. (O'Neill, T., 'Curse of Nigerian Oil', *National Geographic*, February 2007, p.111.) A further 7400km² of rainforest has also been destroyed in the Delta region. (Manby, B., 'The Price of Oil', *Human Rights Watch*, 1999 [online].) Local animal life, for example, the rare pygmy and manatee hippopotamuses, as well as 20 species of endemic fish, are greatly threatened by this destruction of their habitat.

¹⁴⁶ 'Report of the Technical Committee on the Niger Delta', Nigerian Government, 2008. (online). These statistics remained roughly the same as of November 2012.

The bottom-line argument for business reduces all concerns other than profit-making to an instrumental status. This is not a good thing for the environment because if there is no financial reason to adopt environmentally sustainable practices and if governments simultaneously do not enforce adequate environmental regulations, then the planet will continue to be destroyed. This is assuming of course that businesses will continue to be short-sighted regarding their environmental practices. Indeed the bottom-line approach does not discount a more long-term view of profit-making which would involve environmental protection. However the problem is that as long as the environment continues to be viewed in only an instrumental way then destruction and devastation will inevitably recur, even if sometimes, in some places, there might be instrumental reasons to protect it.

As above, in a deregulated economy there is no independent incentive to protect the environment, rather there is a bottom-line incentive to make others pay the true costs of production and manufacture. Insofar as a business can write off their environmental costs by exploiting the lack of regulation enforcing appropriate environmental standards then, by bottom-line logic, this business is socially responsible. Surely we are not prepared to be committed to such an assertion, but the problem is that, in a bottom-line world, there is ultimately no escaping such claims. The problem of externalities causes Friedman's arguments to lose their hegemonic force. In an interview for Joel Bakan's documentary film *The Corporation* Friedman openly admits that, "there are real problems in that area [i.e. with externalities] there's no doubt about it."¹⁴⁷ It is thus extremely odd if we continue to follow an economic system that one of its major proponents finds to be problematic in itself.

As discussed in the previous chapter, the problems with the bottom-line argument are systemic, and so the harms witnessed in the Niger Delta are merely an indication of greater structural problems. Governmental regulation of business typically exists in order to ensure that our major moral concerns are not violated. So, in a deregulated climate, as we have seen so far, amorality is the norm and immorality is not unusual. There are no structural safeguards in place to ensure that businesses behave morally, and as exploitation tends to be profitable, businesses behave immorally. They can 'legitimately' externalise many, if not most, of their greatest costs. Yet the writing off of negative externalities is illegitimate: it does not result in a just holdings of capital, as others are paying the true price of business operations. It is thus incorrect to argue that the social responsibility of business is to increase its profits. Increasing profits is seldom socially, or indeed environmentally, responsible.

¹⁴⁷ Friedman, M., as quoted in an interview for *The Corporation* (Documentary film) written by Bakan, J.

III. Economic Failures:

A. The Free-market in Practice: the Deregulation of Electricity in California

The final failure of the neoliberal system that I shall discuss is the economic failure. I shall argue, following John Kenneth Galbraith, that the invisible hand market mechanism, described by Smith, does not necessarily work in the manner theorised. Freeing up the market does not always bring with it either increased competition or the intended consumer benefits that such competition is professed to secure, i.e. at the very least, reduced prices and increased quality. I shall argue that this system does not guarantee national economic flourishing or broad social well-being. In the case of Iceland (discussed in the next section) a staunch commitment to neoliberal market principles caused the economy to almost entirely collapse, and indeed we are witnessing evermore such failures. For example, in Europe in the last 18 months alone Italy, Spain, Greece and Cyprus have all suffered similar fates. Indeed since 2008 almost the entire globe has been affected by economic recession. So, aside from the external harms that a commitment to neoliberal principles can inflict on ‘third parties’¹⁴⁸ (people and the planet), continuing to support a free-market model does not even appear to work on its own economic and financial turf.

Successful bottom-line businesses and hence national economic growth – which is theorised to be the harbinger of social justice – is not assured in a free-market system. In other words, a free-market does not necessarily create the conditions that are ‘best’ required for companies to ‘best’ fulfil their social commitments by making money. Friedman’s and Hayek’s approaches to profit-making in business do permit a long-term, ‘sustainable’, attitude towards the bottom-line. However, the problem is that this long-term approach is, for various reasons (which I shall describe below), more often than not precluded by the conditions of a free-market. Hence, even if Friedman and Hayek are correct in their assumptions concerning the invisible hand and the extended order, (which, as I have so far argued, they are not) a deregulated, free-market, is not the ideal economic situation to ensure a long-term approach anyway. In fact, regulation is required to ensure that harms, such as described in the next two studies, do not recur.

So, firstly, in the case of Enron, while a neoliberal might attempt to argue that Enron was badly run from a neoliberal point of view because they took wild, almost suicidal risks, the real question is how, in a free-market, a company is supposed to behave otherwise. Adopting a long-term approach in a free-market would in fact be the suicidal risk. This is because neoliberal structures are designed to place emphasis almost exclusively on short-term

¹⁴⁸ I am not entirely convinced that people and the planet would be third parties however.

growth. Success is defined in quarterly financial terms and that is all. So while Enron and the banks of Iceland (which I shall discuss in the next section) might be considered to be unideal neoliberal businesses, there are serious systemic issues with neoliberalism that, in essence, necessitate the kinds of behaviour described below. In order to ensure that businesses can fulfil even their most basic social mandate which, if Friedman and Hayek are correct, is to make money, we need to create the market conditions necessary for sustainable profit-making. A free-market is not the answer.

In the previous chapter I described Smith's theorisations of the market mechanisms. Basically Smith argues that a deregulated climate increases competition, which (by assuring allocative efficiency) reduces prices and increases quality. It also provides greater consumer choice and ensures that supply, and hence prices, are an accurate reflection of societal demand. State-sanctioned monopolies over certain industries, such as electricity and rail transport, are therefore subversive to social ends as they introduce artificial market conditions and thus consumer demand is unable to determine prices. Instead prices are determined by the government and, because of the lack of competition, remain relatively fixed. Opening up the market by privatising industry, Smith argues, safeguards consumer sovereignty by allowing people to participate actively in the market; 'to vote with their dollars,' as Friedman describes. Finally, by the argument from enlightened self-interest, private businesses ought to focus on their own bottom-line ends because financially successful businesses ensure a successful society.

As described in the previous chapter, Smith does argue that people should cultivate a 'fellow-feeling' so as to ensure that the pursuit of self-interest does not conflict with the ends of other people. He also argues that no business should be allowed to get too powerful within such a system. He realises then, as mentioned, that the system which he proposes is not fool-proof. In a free-market some businesses are bound to become very powerful and some self-interests are bound to dominate. Friedman also argues that powerful business interests could be subversive to the ends of the free-market. However, because both he and Smith are anti-regulation, it is unclear how we are supposed to safeguard against such an eventuality. It is exactly a deregulated climate that enables some businesses to become so powerful as to dominate a market, as the following case details.

In 1996, under pressure from powerful corporate lobby groups, the Governor of California at the time, Pete Wilson, and the California legislature passed a bill allowing for the privatisation and deregulation of electricity. Before the deregulation bill was passed electricity had been controlled by a strictly regulated monopoly that was responsible for both

the generators and the wires over which electricity was transmitted. A number of stringent standards existed in order to protect the public good function that such a service provides. However, it was argued, along Friedman's lines, that opening up the market would result in a better, more efficient service delivery for consumers. Jeffrey Skilling, CEO of Enron – a major trading company, particularly of energy, in the United States at the time – argued in a television interview that, “Reducing electricity costs is only one benefit from choice and competition.”¹⁴⁹ Enron and a few other trading corporations, including Dynegy and Reliant, were very quick to take advantage of the newly deregulated climate. They used the lack of controlling legislation in a way that Friedman's model would laud: they focused entirely on increasing profits.

Enron traders quickly began to realise that there were a number of loopholes in the deregulation bill that could be exploited. They realised that they could legally reroute electricity out of the cities and into the Nevada desert, creating artificial shortages in the cities. As basic classical economics teaches, when demand increases prices increase, and so the traders would wait until the central switchboards became desperate, and were prepared to pay more, before they brought the electricity back. This became a favourite ‘game’ for the traders and they gave such operations names such as ‘Wheel Out’, ‘Ricochet’ and even ‘Death Star’.¹⁵⁰ Their actions did not go unnoticed by Enron management: the traders were handsomely rewarded for their ability to pump up the electricity price and therefore Enron's bottom line. The individuals involved were ‘successful’ because they were making money and Enron itself was ‘successful’ because its quarterly profits were burgeoning. I shall elaborate below.

In addition to rerouting electricity there were a number of other tactics that the traders used to make money. Phoney reasons, such as forced outages and maintenance, were provided so that power plants could be shut down, causing prices to rise ever higher.¹⁵¹ At a special investigation committee set up by the United States government after Enron's bankruptcy in December 2001 (the biggest case of bankruptcy in the history of corporate America) evidence was put forward revealing the testimony of two (anonymous) Enron traders:

¹⁴⁹ Skilling, J., as documented in *Enron: The Smartest Guys in the Room* (Documentary film) written by Gibney, A.

¹⁵⁰ Gibney, A., *Enron: The Smartest Guys in the Room* (Documentary film).

¹⁵¹ *Ibid.*

What we did was overbook the transmission line we had the rights on and said to California utilities, 'If you want to use the line, pay us'. By the time they agreed to meet our price rolling blackouts had already hit California and the price for electricity went through the roof¹⁵²

Enron was dramatically increasing its profits: from June 2000 to June 2001 they netted approximately US\$2 billion from their operations in California alone.¹⁵³ A recorded telephone conversation between two traders sheds light on how much money the traders were making for themselves as well. The conversation ends with one trader stating, "We'll definitely retire by the time we're 30."¹⁵⁴ However, increasing profits did not prove to be socially responsible. There was no positive correlation at all between acting from self-interest and acting in the public interest, in fact insofar as there was a correlation it was entirely negative. From April 1998 to April 2000 the average cost of electricity in California was US\$30/megawatt hour, but by June 2000 – just two months after deregulation had been implemented – it had quadrupled to around US\$120/megawatt hour. By early 2001 the price had increased eightfold, with the average price between January and June 2001 at US\$234/megawatt hour.¹⁵⁵ At times the price even went as high as a US\$1000/megawatt hour.¹⁵⁶ This led to dramatic blackouts across California in places that could not afford the extremely high price of electricity. Joseph Stiglitz comments, "for the first time, there were supply interruptions of a kind that one expected in poor developing countries, but not in the hi-tech centre of the world."¹⁵⁷ As a direct result of deregulation there was, in this case, a vast reduction in quality and an almost absurd increase in prices. David Freeman, former advisor to Governor Davis of California, had first-hand experience of the debacle that had become California's electricity market. He concludes that, "You can't just turn these people loose and let them have a, quote, 'free-market', because a free-market is god-damn expensive to the customers."¹⁵⁸

The real irony of the situation is that these actions were not illegal. The deregulation bill was extremely complicated, ambiguous and hard to follow.¹⁵⁹ As regards the bill, Skilling's response to questioning at the public hearings set up after Enron's bankruptcy was,

¹⁵² *Ibid.*

¹⁵³ *Ibid.*

¹⁵⁴ Freeman, D., as quoted in an interview for *Enron: The Smartest Guys in the Room* (Documentary film) written by Gibney, A.

¹⁵⁵ Stiglitz, J., *The Roaring Nineties: Seeds of Destruction*, p.250.

¹⁵⁶ Gibney, A., *Enron: The Smartest Guys in the Room* (Documentary film).

¹⁵⁷ Stiglitz, J., *The Roaring Nineties: Seeds of Destruction*, p.250.

¹⁵⁸ Gibney, A., *Enron: The Smartest Guys in the Room* (Documentary film).

¹⁵⁹ *Ibid.*

“The only thing that I’m aware of ... is that there was a difference of opinion on the rules of the independent system operator ... The rules weren’t quite clear.”¹⁶⁰ This, Stiglitz argues, is the problem with deregulation. The free market represents an idealised version of market principles which do not translate well in practice. In reality it is not possible, Stiglitz argues, to create the kind of free market which Friedman advocates, particularly from a long-term perspective. He therefore concludes that it is better to have an imperfect regulated economy (with federal/national price caps on the cost of basic services, for example) than attempt to create an impossibly idealised deregulated economy.¹⁶¹ The inevitable end point of such a system is market manipulation by powerful corporate interests in order to book profit after profit, as the case of electricity deregulation in California demonstrates. If the public good is the ultimate goal of economics then the public good ought to be explicitly protected: this requires regulation.

Although Friedman’s economic model does not preclude the possibility of a long-term approach to profit-making, the system is so designed as to encourage a short-term view. One reason for this is the narrow way in which business success is currently defined. A company’s value at the stock market, for example, is entirely determined by quarterly financial performance. CEO’s are typically hired and fired according to their ability to book profits and they are largely scrutinised by the media on these grounds. In the United States the primary legal responsibility of a corporation is to fulfil its fiduciary duties. Very basically a fiduciary duty involves not being careless with a person’s financial investment. The public hearings after Enron’s bankruptcy were almost entirely dedicated to lambasting Enron for ‘playing fast and loose’ with stockholders’ money. Oddly this is what the courts seemed to find to be the most appalling. Marjorie Kelly comments that in the United States, “The courts continue to insist that maximising returns to shareholders is the sole aim of the corporation. And directors who fail to do so can be [personally] sued.”¹⁶² This is even more true after the passing of the Sarbanes-Oxley Act in the United States, spurred by Enron’s collapse. It requires company executives to personally sign off on financial statements and causes them to be held personally liable for these. In South Africa although steps have been taken to expand the notion of fiduciary duty to include more than stockholder interests, it is still true that the primary responsibility of a public-listed corporation is to its investors.¹⁶³ It is

¹⁶⁰ *Ibid.*

¹⁶¹ Stiglitz, J., *The Roaring Nineties: Seeds of Destruction*, p.252.

¹⁶² Kelly, M., *The Divine Right of Capital: Dethroning the Corporate Aristocracy*, p.54.

¹⁶³ I shall deal more with this point in Chapter Four where I discuss South Africa’s King Reports on corporate governance, as well as the Johannesburg Stock Exchange’s Social Responsibility Index (SRI).

therefore very difficult in practice to adopt a long-term view to profit-making, because the allure of astronomical profits in the present often proves to be too great. The real issue is systemic. Given the structural organisation of neoliberal principles, success is very narrowly defined to be focused on short-term profits, and so taking a more long-term approach is extremely difficult. This is certainly true of Enron.

The traders in particular were so caught up with making huge amounts of money that they never bothered to stop and ask whether their strategies were sustainable in the long-term. Their actions were legal and the logic appears to have stopped there. The further question of whether their actions would be sustainable was not one with which they were at all concerned: they would retire wealthy and soon and whatever mess was left behind would not be their problem. Aside from asking whether their actions were moral, the individuals at Enron were not even particularly concerned with whether their actions and operations were sustainable. This is because apart from having an incentive to do so, they had a powerful incentive *not* to do so. They were, in essence greedy because they were encouraged to be, both by the system itself and by the pervasive culture at Enron. Yet, indulging greedy self-interest, in this case at least, did not quite turn out in the way that Friedman theorises. It is because people were extraordinarily selfish – to the point of ignoring the damage they were causing – that Enron ultimately collapsed. This is one of the problems with creating a system that gratifies and encourages greed. Enron *ought* to have adopted a more long-term, sustainable view, but given the economic climate, it was all too easy not to.

The social experiments conducted by Stanley Milgram in the 1960's¹⁶⁴ could be enlightening in terms of the moral psychology behind the preparedness to ignore both a sustainable strategy and moral values at Enron. Milgram wanted to ascertain whether or not evil was a genetic trait or if ordinary people could perform heinous tasks. He asked test subjects to inflict electric shocks on actors (which they did not know to be actors) when they failed to memorise a series of random words. Milgram's findings were quite astounding: an overwhelming majority of people were prepared to 'shock' another person to the point of (apparent) agony. Milgram concluded that if people believed their instructions to be coming from a seemingly legitimate source they were very quick to lose all sense of morality. This is probably what happened with the traders at Enron. Once they had accepted the idea that behaving inhumanely was acceptable they were prepared to do just about anything to make money. A recorded telephone conversation between two traders reveals this attitude: "It's

¹⁶⁴ Milgram, S., *Obedience to Authority: an Experimental View*.

kinda hard to say we shouldn't do this even though it's allowed because ... you know, I mean, that's what we do."¹⁶⁵ A multitude of recordings revealing the most bizarre responses to the plight of the people of California can be explained by the fact that Enron employees had developed a sense of contempt for all values except one: making money. Their personal moral convictions were almost entirely severed from their business activities and their ability to 'see the bigger picture' was stunted by the egoistic climate within which they operated.

A long-term approach to profit-making must be ensured by regulation. In fact what is required is a radical departure from neoliberal thought. Sustainable profit-making, while ideal for a neoliberal, is in practice elusive because of the structures of a free-market and the assumptions behind it. Increasing profits in such a climate is far from socially responsible. Friedman argues that, "There is nothing that could do more in a brief period to destroy a market system ... than effective governmental control of prices,"¹⁶⁶ but rather it seems that, in this case, there was nothing that could do more to destroy a market system than deregulatory measures that *removed* governmental control of prices.

B. The Free-market in Practice: Financial Deregulation in Iceland

The final case that I shall discuss in this chapter reveals that neoliberalism in practice does not necessarily lead to broad social prosperity, in fact this case demonstrates quite the opposite. A commitment to free-market principles can sometimes result in national economic recession and thereby in a decrease of living standards. The case of financial deregulation in Iceland is particularly enlightening as it gives insight into the causes of the almost global economic recession that began in 2008. In this study I shall conclude that given the failure of the neoliberal system to deliver on its primary aim of greater social justice it is not appropriate to continue bailing out a system that is so obviously volatile and problematic. We ought to re-examine our basic economic assumptions and in so doing develop an economic system that in actual fact stays true to the ultimate ends of capitalism, and indeed economic theory in general.

In 2000 Iceland's government under Prime Minister David Oddsson began a broad policy of deregulation, particularly of the financial sector. These measures allowed the three main commercial banks of Iceland (Glitnir, Landsbanki and Kaupthing) to expand their capital bases by speculating, both locally and internationally, with depositors' money.

¹⁶⁵ Gibney, A., *Enron: The Smartest Guys in the Room* (Documentary Film).

¹⁶⁶ Friedman, M., 'The Social Responsibility of Business is to Increase its Profits', *New York Times*, 13 September 1970.

Basically financial deregulation allowed the commercial banks to behave much more like their riskier counterparts: investment banks.

These measures allowed the banks to increase their leverage ratios to a much higher level. Leverage ratio is basically the amount of money a bank can borrow proportionate to its asset base. If a bank can only borrow as much as its asset base then its maximum leverage ratio would be 1:1. However, deregulation on leverage ratios allows banks to borrow more than their asset base up to ratios as high as, for example, 16:1. Deregulation also meant that banks could give much riskier loans than before, known as sub-prime loans. Such loans are given to people and businesses that cannot necessarily provide an appropriate level of collateral and who have fairly ambiguous guarantees of future income with which to pay the loan back. The incentive for the bank/lender to provide such loans is based on the fact that, because of risk that bank or lender takes on, they typically have very high interest rates. When deregulation allows for the giving of more sub-prime loans then a lender (bank) has a bottom-line incentive to sell as many sub-prime loans as possible, as the more are sold the greater the bank's profits. Simultaneously, because leverage ratios could be increased the banks themselves could take more loans, so that they, in turn, could provide more loans (and also speculate on other markets, for example).

Yet when a bank or financial institution sells a sub-prime loan they take on a great deal of risk, namely that the borrower will default on their payments and not be able to pay the bank back. So, to ameliorate this risk the commercial bank (that can now operate like an investment bank) combines thousands of sub-prime loans and sells them to investors as equity in the form of 'collateralised debt obligations' (CDO's). Investors can insure their CDO's with financial insurance companies by purchasing 'credit default swaps' (CDS's) so that if their CDO 'goes bad', in other words if the majority of debtors in a CDO default on their payments, then the insurance company will reimburse them according to the insured value of the CDO. The risk of one person defaulting might be quite high when considered in isolation, but the risk of thousands defaulting will not be as great, so a CDO is not (theoretically) a bad investment. The insurance companies are also willing to insure them because of this. They make money from the premiums paid to ensure CDO's (by selling CDS's) as it is (or at least was) assumed that the risk of the majority of debtors in a CDO defaulting was very small. Hence they had a bottom-line reason to ensure CDO's by selling CDS's. In this way risk was spread across a much wider area in the sense that no single firm or investor took on too much risk. If the CDO matured, in other words, if the majority of debtors paid off their loans, then the holder of the CDO would enjoy a capital gain – at a very

high interest rate. This is at least how the system was, very basically, supposed to work in theory.

The Icelandic banks encouraged foreign investment as purchasers of CDO's (futures contracts)¹⁶⁷ by providing a slightly higher interest rate than other countries.¹⁶⁸ So, for example, a pension fund in the UK that would only be paid an interest rate of say, 13% on their deposit, preferred to invest in the Icelandic bank by buying a CDO that was offering a, say 13.8% return on the investment. Hence, Iceland had, as a result of deregulation, very quickly internationalised their banking system. The Icelandic economy boomed as more and more Icelandic people could take loans, say to buy a house, or even a second house. Basic economics teaches that the more demand there is for something, the higher the price, and so, in Iceland property prices, for example, exploded. Similarly, by 2007 the Icelandic stock market had grown to more than 9 times its size and value in 2001, a world record growth rate.¹⁶⁹ Indeed, by all outward appearances Iceland was thriving and as Robert Wade comments, "Neoliberals around the world hailed Iceland as a vindication of free market principles."¹⁷⁰

However, such rapid growth had created a 'bubble', for example in housing and stock prices. Essentially this entailed that the actual value of the assets (e.g. house or stock) had been over-inflated and hence were unrealistic representations of value. Also, the rapid internationalisation of the Icelandic financial sector, which had been "hastily deregulated ... [left the] inexperienced [financial] managers free to play in the big leagues, with little regulatory restraint."¹⁷¹ By the end of the second quarter 2008 Glitnir, Landsbanki and Kaupthing alone had amassed external debts amounting to about €50 billion.¹⁷² The amount of debt taken is all the more staggering when compared to the fact that Iceland's GDP in 2007 was only €8.5 billion.¹⁷³ Suddenly, and not surprisingly, more and more private sub-prime loan takers began to default on their repayments and so masses of CDO's 'went bad'. The insurance firms found themselves unable to honour the CDS's that they had sold to holders of CDO's, and so masses of investors simply lost their money. The banks now found themselves 'holding the bag' for huge amounts of foreign debt which they in turn did not now

¹⁶⁷ CDO's are also known as 'futures contracts' because their value is in the future, i.e. when the CDO matures.

¹⁶⁸ Wade, R., 'The Crisis: Iceland as Icarus', *Challenge*, vol.52, no.3, May-June 2009, p.10.

¹⁶⁹ *Ibid*, p.6.

¹⁷⁰ *Ibid*, p.6.

¹⁷¹ *Ibid*, p.16.

¹⁷² Dimitrios, D., 'Explaining the Case of Icelandic Currency Crisis', *International Journal of Economics, Finance and Management Vol. 2, No. 1*, March 2013 (online).

¹⁷³ *Ibid*.

have the money to repay. The banks scrambled to refinance their debts by taking more and more loans, further deepening their debt status. This of course increased the banks' creditor lists and as more and more creditors started to demand payment, and as other international banks became less willing to provide fresh loans, the banks found themselves with insufficient credit to make repayments. Finally in October 2008 the banks admitted that they were in trouble.

However, as the banks had borrowed so far beyond Iceland's capital base the Icelandic Central Bank was in no position to take on the roll of 'lender-of-last-resort'.¹⁷⁴ In other words the Icelandic government could by no means afford to bail out the banks and take on a portion of their debt. The government had to act fast. The Financial Supervisory Authority (FSA) of Iceland immediately took control of the domestic operations of Glitnir, Landsbanki and Kaupthing and their foreign branches were frozen and put into receivership (liquidation).¹⁷⁵ All stock trading in Iceland was also frozen for two days on the 9th of October 2008. By the 17th of October the OMX Iceland 15 (the Icelandic stock exchange) was down by 96% from its historic high in July 2007.¹⁷⁶ The value of the krona fell sharply and all foreign exchange transactions were suspended for weeks to mitigate the effects of an absolute collapse of the world value of the krona. The IMF took temporary control of the operations of the Central Bank to help manage the crisis and assisted the government in coming up with a plan of action.¹⁷⁷ On the 19th of November 2008 a loan package had been drawn up and agreed upon to aid Iceland's economic recovery.¹⁷⁸ Essentially Iceland's sovereign (national) debt rose from 28% of their GDP in 2007 to the equivalent of 130% of GDP in 2011.¹⁷⁹ Furthermore, as a result of the economic collapse brought on by the unregulated banks, Iceland's GDP had declined by 5.5% in the first six months of 2010.¹⁸⁰ *The Economist* magazine commented at the end of 2008 that, "Relative to the size of its economy, Iceland's banking collapse [was] the largest suffered by any country in economic history."¹⁸¹

¹⁷⁴ Wade, R., 'The Crisis: Iceland as Icarus', *Challenge*, vol.52, no.3, May-June 2009, p.13.

¹⁷⁵ Haarde, G.H., 'Gud velsigne Island!' *E24*, Prime Minister's address: 6 October 2008 (translation online).

¹⁷⁶ From 9016 points to 643.1 points.

¹⁷⁷ Wade, R., 'The Crisis: Iceland as Icarus', *Challenge*, vol.52, no.3, May-June 2009, p.12.

¹⁷⁸ The package included a US\$2.1 billion loan from the IMF, a US\$2.5 billion loan from the Nordic region (Norway, Sweden, Finland and Denmark), a joint loan of US\$6.3 billion (€ billion) from Germany, the Netherlands and the UK, US\$300 million from Russia, US\$200 million from Poland and a US\$50 million loan from the Faroe Islands, an amount which comprised 3% of the Islands' GDP (*Ibid.*).

¹⁷⁹ Dimitrios, D., 'Explaining the Case of Icelandic Currency Crisis', *International Journal of Economics, Finance and Management Vol. 2, No. 1*, March 2013 (online).

¹⁸⁰ *Ibid.*

¹⁸¹ 'Premium Content', *The Economist*, 11 December 2008 (Staff reporter).

As a result of financial deregulation the banks greatly expanded their (short-term) profit margins, and Iceland was heralded as the poster-child for the success of free-market economics. Many prominent economists reviewed the situation in Iceland before the crisis and few saw any cause for concern. For example, Dr Richard Portes, a British economist and Professor at the London Business School, commented that, “Overall, the internationalisation of the Icelandic financial sector is a remarkable success story that the markets should better acknowledge.”¹⁸² Neoliberal economics teaches that “fast economic growth with a large trade deficit¹⁸³ and ballooning foreign debt [is] a sign of success,”¹⁸⁴ and so perhaps this is why too few economists were willing to criticise Iceland’s banking operations. This fact also suggests that there is serious cause to question whether or not sustainable profit-making is in reality possible within Friedman’s proposed economic model. If prominent economists could not see a problem then how could those actually making money be expected to see a problem? By Friedman’s logic the banks were successful, and by the argument from enlightened self-interest, socially responsible because deregulation had allowed them to drastically increase their profits.

This suggests that economic actors need to have (as part of their motivational set) an explicit, and not an implicit, commitment to social justice. This means that greed ought to be tempered and not encouraged. As in the case of Enron, although the banks’ operations were, in *retrospect*, unsustainable the allure of astronomical profit-making proved far too great for the individuals working in the banks: in essence they were allowed to operate from greedy self-interest and so they did. Similarly, as a result of deregulation, “most of the activity that generated the financial fragility was within the letter of the (not very specific) law.”¹⁸⁵

Robert Wade argues that in order to avoid similar circumstances in the future commercial banks and investment banks should remain separate. He argues that as stable commercial banking “has a large public good element”¹⁸⁶ such a move is necessary for economic stability and public welfare. Commercial banks ought not to primarily focus on increasing their profits, Wade argues, but rather on fulfilling a critical public good function in a stable and sustainable manner. It is not, in other words, the social responsibility of

¹⁸² Portes, R. and Baldursson, F.M., ‘The Internationalisation of Iceland’s Financial Sector’, Iceland Chamber of Commerce, November 2007 (online).

¹⁸³ A trade deficit is basically when the overall national value of imports exceeds the value of exports. This is (traditionally) thought to be a good thing because it demonstrates that a country has the required capital to import.

¹⁸⁴ Wade, R., ‘The Crisis: Iceland as Icarus’, *Challenge*, vol.52, no.3, May-June 2009, p.6.

¹⁸⁵ *Ibid*, p.20.

¹⁸⁶ *Ibid*, p.32.

commercial banks to increase their profits. By extension it is not the social responsibility of business to increase its profits.¹⁸⁷

These failures are not isolated incidents, they are examples of larger systemic trends towards amorality and immorality. They discredit the neoliberal assumption that there is a correlation between acting in one's own interests and acting in the interests of society in general. There is seldom an 'invisible hand' that imparts social benefits as a 'happy by-product' of the pursuit of personal financial gain. Similarly the extended order which Hayek describes appears rather to be particularly disordered. In conclusion, greater freedom and social flourishing are certainly not obvious results of a free-market system. Instead, people are exploited, the environment is abused and greed is allowed to flourish. All values other than profit-making are in practice written off in a bottom-line world because the system is designed to reward and encourage – especially short-term – profits and not virtue. From an ethical perspective we cannot condone a system that treats as instrumental those things that we recognise to be non-instrumental. Simply put, if we can find a way to meet the ends of economics and in particular capitalism – which no one can dispute to be greater social flourishing – without causing harm and restricting freedom, then such a system ought to be preferred.¹⁸⁸

¹⁸⁷ In the next chapter I shall present Solomon and Martin's argument in this regard. In short they argue that business has a primary and pressing responsibility to the public good.

¹⁸⁸ In Chapter Four I shall suggest that such a system is certainly not implausible.

CHAPTER 3: SOCIAL JUSTICE: THE ULTIMATE SOCIAL RESPONSIBILITY OF BUSINESS

What distinguishes the capitalist economy from the simple exchange economy is the separation of capital and labour, that is, the existence of a labour force without its own sufficient capital and therefore without a choice as to whether to put its labour into the market or not. Professor Friedman would agree that where there is no choice there is coercion¹⁸⁹

I have so far argued that the bottom-line approach enables a business to be amoral and that at times this amorality can lead to immorality. The former is true because moral concerns can only ever be instrumentally valuable in a bottom-line business climate. They are only worth acting upon, or indeed even considering, if doing so will either have no impact on the bottom-line or if it will increase it. This leaves businesses morally neutral. The latter is sometimes also true because if there are good bottom-line reasons to ignore or violate moral norms and standards then this can become justifiable, as we saw in the previous chapter. If it pays to be immoral then a business ought to be. As the end of business is constructed as ‘to increase profits’, moral concerns are all too often trumped by this purpose, further, they *ought* to be trumped. However, increasing profits is simply not a justifiable end. It can only ever be a means. Profit-making may or may not be necessary to social flourishing, but this necessity does not make it an end-in-itself.

Rather, as even Milton Friedman implicitly, and inconsistently, realises, there is a ‘greater purpose’, if you will, to profit-making. Friedman thinks that businesses should be bottom-line focused because this is what is best for society at large: for example, it creates jobs, ensures realistic and fair prices and addresses inequality, thus generally ensuring a kind of distributive justice. It is for him, *because* people act self-interestedly that social justice will come about. Friedman and Friedrich Hayek assume, incorrectly, that our self-interest is primarily greedy and materialistic in nature: that we desire above all else to make money. This is misguided to say the least. Essentially Friedman and Hayek do not rightly understand self-interest: our will is certainly not typically aimed at profit-maximising. We are motivated by far more than money and so to assume that material gain is for us important above all else is disingenuous. Even the greediest person makes some sacrifices for others. That, for instance, is a condition of love, one of our greatest values.

Aside from this narrow conception of human motivation, it must be remembered that neoliberal prescriptions for business are motivated by a desire for social justice in the first

¹⁸⁹ Macpherson, C.B., ‘Elegant Tombstones: A Note on Friedman’s Freedom’, *Canadian Journal of Political Science*, Vol. 1, No. 1, March 1968, p.106.

place. Yet, the aim of social justice is obscured behind the explicit demand to act from greedy self-interest: for Friedman and Hayek, to acquire wealth, where ‘wealth’ is largely defined in monetary terms. Because of this the systems that have been created to advance the neoliberal agenda encourage a deficient approach to individual pursuits. People become greedy in a system openly designed to encourage greed. In the next chapter I shall briefly argue that this has become an institutionalised social pathology that needs to be treated. Basically we need to recognise that people are motivated by more than greedy materialism and this fact ought to be reflected in our economic systems and business structures.

It is not enough to rely on people to nurture a ‘fellow-feeling’ individually, as Adam Smith suggests, when the system that prevails rewards financial gain and only financial gain. So although social justice might theoretically be the point, this fact is not at all clear in a system wholly geared at profit-making. As we have seen, social ends can be trumped and so it makes sense that personal ends do not accord with social ends in such a system. As Thomas Nagel writes, “There is no substitute for a direct concern for other people as the basis of morality.”¹⁹⁰ It seems to be the case that concerns of a moral nature, in this case for social justice, at times require us to *sacrifice* and not to indulge our self-interest. There is, more often than not, a tension between acting from self-interest and acting morally. Hence to suggest that it is moral, ‘responsible’, a social good, to act selfishly is to misunderstand what morality, and particularly social justice, requires of us. We ought also to expand the parameters of self-interest to be about more than increasing profits. To this end success needs to be redefined, both on a personal and on a business level. In the next chapter I shall suggest how this might be done.

It is partly because of this ‘fudging’ of the relationship between self-interest and social justice that externalities are such a big problem for the bottom-liner.¹⁹¹ There will always be relevant moral interests that will have to be simply written off if self-interest is the effective end of business operations. This problem is particularly worrisome when we consider that those things written off as externalities are sometimes harms against human dignity, fair compensation for one’s labour, environmental sustainability: in essence harms against exactly what constitutes social justice. To return to John Maynard Keynes:

It is not a correct deduction from the Principles of Economics that *enlightened self-interest* always operates in the public interest. Nor is it true that self-interest generally is enlightened; more often

¹⁹⁰ Nagel, T., *What Does It All Mean? A Very Short Introduction to Philosophy*, p.63.

¹⁹¹ The instrumental treatment of morality (a conceptual error) is another part of the reason.

individuals acting separately to promote their ends are too ignorant or too weak to attain even these¹⁹²
(Keynes's italics)

Self-interest is not, in other words, a particular safeguard of social justice, in fact it is often in conflict with social justice. Friedman and his acolytes thus provide an inadequate conception of social justice and an inaccurate account of what is needed to achieve it. In essence, given that they are concerned with social justice, their positions are internally inconsistent or contradictory. To genuinely serve the end of social justice, social justice, and not 'increasing profits', ought to be the end of business. Businesses are not, in other words, ultimately successful by mere virtue of a magnanimous bottom-line.

The purpose of this chapter is to briefly state what social justice does demand of us and from there to argue that even businesses (i.e. not just people) have a positive duty to be primarily and directly committed to achieving it. They do not simply have a negative duty to do no harm. This commitment requires more than a background, theoretical presence of social justice, it requires that social justice be *explicitly* instated as the end of business. Achieving this will not be easy, but it is not impossible, and it is certainly necessary. In the next chapter I shall suggest some ways in which social justice might come to replace profit-making as the (legitimate) end of business operations.

The moral sceptic might be tempted to ask why moral concerns should even be a concern in the first place but I shall just assume as John Rawls, and many others, do that it is simply rational to want to be moral. As far as social justice goes I shall make the same assumption: it is in wanting to be moral that we desire social justice. Given that Smith, Friedman, Hayek, and to some extent Robert Nozick, are all primarily interested in detailing the economic conditions necessary to achieve social justice, assuming that my reader has a primary concern for social justice intact is not unreasonable. However what social justice requires or entails is a matter that must be addressed. As argued in Chapter One our responses to the arguments from enlightened self-interest and freedom are determined by what the requirements for a just society actually are.

I. What is Social Justice? Fairness and Equality of Opportunity

Hayek argues that social justice is a "weasel word"¹⁹³ that is "irreconcilable with growth or even maintenance of population and wealth."¹⁹⁴ In so doing he makes a performative

¹⁹² Keynes, J.M., as quoted in Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.346.

contradiction: he rejects social justice on the grounds that promoting it diminishes it. In other words, he is essentially telling his readers to reject social justice for the sake of social justice. To be fair, in the context of this quote Hayek is responding to the kind of social justice advocated by socialists, which is fundamentally *redistributive* in nature. Nozick's entitlement theory of justice (discussed in Chapter One) is similarly a response to a conception of social justice as redistributive, as a kind of 'Robin Hood' justice which involves, in essence, taking from the rich to give to the poor. In its most basic sense this (the socialist) conception of social justice is about creating economic equality among persons in the sense that all people are similarly situated economically. Emphasis is placed on equality, whereas for Hayek, Nozick and Friedman the fundamental safeguard of social justice is freedom. Friedman writes:

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 decades¹⁹⁵

For Friedman - and for Hayek and Nozick as well - equality will not drive a market (and hence national development or social flourishing), instead we must first and foremost protect the freedom of people to pursue their own interests. But this presupposes inequality. Inequality is what drives the market because it provides the incentive for lesser-off persons to want to do better. For Hayek, Nozick and Friedman, social justice is hence constructed in response to the demand – which they wrongly think of as an essential feature of socialism alone – for equality. For them social justice is about creating the conditions necessary for people to pursue their own self-interest: to be free. However, free-market capitalism, as we have seen, can lead to gross injustice and the limitation of freedom (something that, despite the bravado, Friedman and Nozick reject) indicating that social justice has to be about more than simply ensuring freedom.

Rawls argues that social justice requires fairness. His stated aim in *A Theory of Justice* is to “discover the most appropriate moral conception of justice for a democratic

¹⁹³ Hayek, F., *The Fatal Conceit: The Errors of Socialism*, p.118.

¹⁹⁴ *Ibid*, p.118.

¹⁹⁵ Friedman, M., 'The Social Responsibility of Business is to Increase its Profits', *New York Times*, 13 September 1970.

society wherein persons regard themselves as *free and equal* citizens” (my italics).¹⁹⁶ To do this Rawls asks his readers to engage in a thought experiment wherein they imagine that they do not know any particulars of their person. This entails imagining that they do not know their:

place in society, [their] class position or social status, nor does anyone know [their] fortune in the distribution of natural assets and abilities, [their] intelligence, strength and the like”¹⁹⁷

He even assumes that “the parties do not know their conceptions of the good or their special psychological propensities.”¹⁹⁸ People are hence placed in the “original position”¹⁹⁹ behind a “veil of ignorance”²⁰⁰ about themselves and their particularities. The only facts that one is aware of in the original position concern the tendencies of human behaviour and an understanding of “the primary social goods needed to live life.”²⁰¹

Once in the original position people are then asked a series of questions regarding the type of society they would rationally want to live in, such as what political system they would choose to live under, what economic circumstances ought to prevail and what justice system would best enable cooperation among social beings. Rawls asserts that rational persons in the original position would follow a ‘maximin strategy’, wherein they attempt to minimise loss and maximise gain, in order to answer these questions. Such a strategy would direct rational persons to “play it as safe as possible by choosing the alternative whose worst outcome leaves [them] better off than the worst outcome of all other alternatives.”²⁰² That is, they would choose their political systems, economic systems, justice systems and so on so that no matter where they ended up being placed, and with what advantages or disadvantages, they would be able to pursue a good life, no matter what their conception of ‘the good life’ turned out to be. So, even if they ended up being placed on the lowest rung of the socio-economic ladder they would still be in a position to “maintain [their] conscientious convictions and sincerest affections and pursue a wide range of permissible ends.”²⁰³ Given that rational persons in the original position are identically situated, Rawls conceives that the conditions

¹⁹⁶ Rawls, J., *A Theory of Justice*, p.viii.

¹⁹⁷ *Ibid.*, p.11.

¹⁹⁸ *Ibid.*, p.12.

¹⁹⁹ *Ibid.*, p.16.

²⁰⁰ *Ibid.*, p.16.

²⁰¹ Freeman, S.R (ed)., *The Cambridge Companion to Rawls*, p.65.

²⁰² *Ibid.*

²⁰³ *Ibid.*

deemed to be the best ones possible, whatever eventuality arises, will be the result of unanimous agreement: everybody will come at last to the same point.

Rawls concludes that “if the parties to the social contract are fairly situated [as they are in the original position] and all relevant information is taken into account, then the principles that would be agreed to [would also be] fair.”²⁰⁴ We would essentially devise a conception of justice that is not solely about either equality or freedom, but rather about having good reasons for whatever inequalities or freedom restrictions that may have to exist. If restricting freedom in some senses is fair, no matter who you turn out to be, then this would be just. It is rational to assume that the freedom to pursue one’s own ends must be restricted in such a way that these pursuits do not infringe on the well-being and freedom of others: this is fair, and Nozick would agree. Similarly, some inequalities could be just if everybody in the original position agreed that these were arranged fairly and that they were to the benefit of all members of society. Essentially inequalities are necessary, Rawls assumes, as long as they do not violate the first principle of fairness. He calls this second principle ‘the difference principle’.²⁰⁵ Inequalities might exist because it is fair to reward merit. Further, inequality does indeed provide the incentive for people to want to do better, as Smith, Friedman, Hayek and Nozick argue in response to socialism. However, whatever inequalities do exist must be backed up by good reasons for their existence, in the sense that they would be deemed fair.

Nozick’s account of justice is too narrow in this regard. His arguments against taxation (discussed in Chapter One) would perpetuate and entrench a system of inequality that is unfair. Those born poor – i.e. those who do not have the financial resources to meet their ends – would have to work very hard indeed to overcome their circumstances because they would have no assistance from the taxation system. But this does not seem fair, as it is skewed to favour a particular group (the affluent) and so is very limited in its scope. Rather, we have, according to Rawls, to determine what is fair in terms of freedom restrictions and inequalities, in order to ensure the conditions necessary for *all* members of society to pursue a good life. Rawls’s final aim is to suggest that we have a normative duty to rearrange our social, political and economic structures if we find that what is fair in the original position does not prevail in reality.

The free-market economic system attempts to protect liberty, but (a) it protects a very narrow conception of liberty and; (b) this limited-focus freedom results in inequalities that

²⁰⁴ *Ibid.*

²⁰⁵ Rawls, J., *A Theory of Justice*, p.38.

are, at times, extreme. If Nozick is correct and people are entitled to the whole of their earnings and inheritance, and if at the same time economic structures are organised so as to enable people to pursue only their own greedy interests, then those who are financially better off will be better placed to advance their own ends. The free-market is not, in other words, as 'free' as it might initially seem. It results in an unfair balance of power because those with more money will have more clout in such a market: they will be better placed to pursue their own interests. By freeing up the market to avoid bureaucratic power influences, the free-market simply gives way to a new kind of power: the power of the moneyed (be it an individual or a business). Hence this system is skewed to favour a particular group in a way that those who are not financially well-off have less power, less force, less opportunity. This situation is just not one that rational persons in the original position would agree to accept: it is unfair and hence unjust. Therefore, according to Rawls, we have a normative duty to abandon this system.

Robert Solomon and Clancy Martin provide a similar account of social justice as fairness and they argue that the best way to effect this in practice is by ensuring the conditions necessary for 'equality of opportunity'.²⁰⁶ They also agree that social justice and self-interest do not always go together. They write:

Justice is first of all, a concern for the well-being of others, and justice is served, if imperfectly, by our sense that there are others in society less fortunate than we are, whom it is our responsibility, if not our obligation, to help²⁰⁷

For them the problem of justice comes down to "defining what counts as a fair share"²⁰⁸ in a society where inequality is inescapable. This is, they correctly point out, a particular point that those opposing the market ideals of neoliberalism cannot but address. The solution, they argue, is to delineate what socio-economic parameters ought to exist in order to ensure equality of opportunity.²⁰⁹ They argue that our primary duty as human societies is to protect the 'positive rights' that "pertain to certain goods that society can provide; the right to a decent job, to adequate health care, and to education are among these."²¹⁰ In other words if someone is born into poverty this is not simply a matter of 'bad luck' as Nozick would have it, but rather an escapable situation by virtue of equal access to that which affords the

²⁰⁶ Solomon, R.C. and Martin C., *Above the Bottom Line*, p.335.

²⁰⁷ *Ibid*, p.343.

²⁰⁸ *Ibid*, p.323.

²⁰⁹ *Ibid*, p.338.

²¹⁰ *Ibid*, p.373.

opportunities to do better. If we can create a society in which these rights are guaranteed for all, then although there will still be inequality, people will be equal in the sense that they will have equal access to the opportunities needed to live a good life. The notion of equal opportunity hence, “provides a middle concept in which equality of opportunity fulfils our sense of equality, while the actual use of that opportunity fulfils our sense that rewards should be based on merit.”²¹¹

In order to affect this kind of society Solomon and Martin describe what they call “the ascending circle of responsibilities.”²¹² They argue that “it is the responsibility of those who have more to contribute more for the good of society,”²¹³ and the more they have the more they ought to contribute. This positive duty argument does not apply to businesses alone but to all those who have the resources available to help those who do not. They write, “Indeed, we all do have such responsibilities now, proportional to our abilities to pay. But, as things are, business has the money, so business has the responsibility.”²¹⁴ All businesses, regardless of their resources, have responsibilities that apply to jobs, wages and products, they argue. For example, a business has the responsibility to ensure that their product is safe and responsible: a point that seems all too often to be forgotten in the business world, because the focus is on profits and not on social justice. Paying a fair wage is a similar responsibility that applies to all businesses regardless of their resources, they argue.²¹⁵ From there the ‘circle of responsibilities’ expands according to the business’s ability to fulfil them. Commitments to stockholders are a secondary responsibility as are things such as, basic science research, customer satisfaction, community welfare, education and social harmony. The third and final level of responsibility is comprised of a commitment to world poverty and world peace, and those institutions (including business) and individuals that are suitably situated to address these problems have a positive duty to society, according to Solomon and Martin, to address them.²¹⁶

Solomon and Martin’s point is that, given the necessity of ensuring equality of opportunity for a just society, those who are well-placed to ensure the conditions necessary for this are responsible for doing so. Given that many businesses are today well-situated to address these problems they hence share the responsibility to be committed to them. So for them duty to society is not to be considered in static terms as simply the duty not to harm,

²¹¹ *Ibid*, p.342.

²¹² *Ibid*, p.298.

²¹³ *Ibid*, p.297.

²¹⁴ *Ibid*, p.297.

²¹⁵ *Ibid*, p.298.

²¹⁶ *Ibid*, p.298.

rather it is a positive duty that must be conceived of as the duty to actively advance the ends of social justice. Hence, like Robert Wade argues in reference to the responsibility of commercial banks (see the case of Iceland in the previous chapter), a commitment to the public good must be first and foremost among the responsibilities of business. Solomon and Martin's conclusion on this point is worth quoting at length:

Equal opportunity is the heart of our economic-ethical system. The world of business depends on it, for in a world where fortunes can be staggering, justice requires that everyone have accessibility to success. Otherwise, our market system is no longer 'free' but rather just an aristocratic playground in which the lucky few – by virtue of birth or circumstances – can play an extravagant game. Equal opportunity is the precondition of the business world, insofar as there can be no justifying 'free enterprise' without it²¹⁷

The argument that we have a positive duty to society in terms of guaranteeing the minimum conditions necessary for everyone to live a good life is not a new one. Furthermore, the emphasis on ensuring fairness is as good as unanimous among these. Aristotle's notion of justice is similar to the idea of 'equality of opportunity' forwarded by Solomon and Martin. For Aristotle justice requires equity.²¹⁸ This is not exact equality, but rather justice is to be found in the middle-ground between the conflicting values of charity and selfishness.²¹⁹ To be just, for Aristotle, requires the fair consideration of both one's own interests and the interests of others. Aristotle argues that justice consists in ensuring that all members of society have their fair share of social benefits.²²⁰ Ensuring justice is thus, according to him, a positive duty that we all possess. This kind of duty "goes beyond the written law"²²¹ in the sense that assuring "justice is not mere conformity to law but a value and a moral requirement."²²² Aristotle adds that justice is "the greatest of the virtues, and that 'neither evening star nor morning star is such a wonder' ... 'In justice is all virtue combined'."²²³

Behind Amartya Sen's demands for the assurance of 'capability equality' in society is the same proclivity for 'equality of opportunity' and 'equity'.²²⁴ His ideas are later developed

²¹⁷ *Ibid*, p.338.

²¹⁸ Aristotle, *Nicomachean Ethics*, V.10 (1137a-1138a).

²¹⁹ *Ibid*, V.4 (1131b-1132b).

²²⁰ *Ibid*, V.4-5 (1131b-1134a).

²²¹ Aristotle as quoted in Comte-Sponville, A., *A Short Treatise on the Great Virtues*, p.84.

²²² *Ibid*, p.84.

²²³ Aristotle, *Nicomachean Ethics*, V.1 (1129b).

²²⁴ See for example, Sen, A., *Development as Freedom*, 1999 and Wells, T., 'Sen's Capability Approach' Internet Encyclopedia of Philosophy, 2012 (online).

by Martha Nussbaum.²²⁵ Similarly, for Spinoza, justice “consists in the habitual rendering to every man his lawful due.”²²⁶ There might still be some lingering doubt harboured by the obdurate sceptic who refuses to accept that we have positive responsibilities to society, but I am not, as stated above, concerned with addressing this uncompromising position. My undertaking here is simply to state that social justice is an obvious moral responsibility and from there to flesh out what social justice requires, particularly of business.

Marjorie Kelly also argues that businesses have a responsibility to the public good, and she concurs with Solomon and Martin’s views that the neoliberal economic system resembles ‘an aristocratic playground’. She argues that neoliberal ideals, which have largely been bought into, are so outdated with modern democratic thought (with its emphasis on human rights, liberty and equality before the law), that neoliberalism is in essence “archaic”²²⁷ and “feudal.”²²⁸ She rightly points out that the free market system is grossly skewed to favour the rights and financial interests of the already wealthy, propertied ‘economic aristocracy’: shareholders in public-listed corporations. As previously pointed out, American corporate law requires corporations to put their fiduciary duties to shareholders before all other interests, thereby making it *illegal* for corporations to have any more important interests than maximising their bottom line.²²⁹ The United States law states that: “A business corporation is organised and carried on primarily for the profit of the stockholders [and so] the powers of the directors are to be employed for that end.”²³⁰ Shareholder return is thus the feature that American corporations have to focus on, on penalty of the law if they do otherwise. This system, Kelly argues, harks back to a dark period in human history when the wealthy were ‘more equal than others’, to use an Orwellian turn of phrase.

In the feudal era those that created wealth, the serfs, were not able to enjoy the fruits of their labour as their landlords were the exclusive beneficiaries of any created wealth. The rights of the privileged reigned supreme while those of the workers were barely existent. It restricted the liberty of the serfs to pursue a decent living and advance their own ends through hard work and merit. It also did not recognise the inherent equality and dignity of each human life, and so there was a socio-political revolution – in thought and in reality – aimed at

²²⁵ See for example, Nussbaum, M., *Creating Capabilities: The Human Development Approach*, 2011 and Nussbaum, M., ‘Capabilities as Fundamental Entitlements: Sen and Social Justice’ *Feminist Economics* 9 (online).

²²⁶ Spinoza, B. as quoted in Comte-Sponville, A., *A Short Treatise on the Great Virtues*, p.74.

²²⁷ Kelly, M., *The Divine Right of Capital: Dethroning the Corporate Aristocracy*, p.8.

²²⁸ *Ibid*, p.8.

²²⁹ *Ibid*, p.xv.

²³⁰ *Ibid*, p.52-53.

correcting these harms.²³¹ What did not accompany this critical change in human thought and history was an economic revolution based on similar principles; a fact, Kelly argues, that is oddly ignored. Kelly envisions a new system of ‘economic democracy’ which does not solely favour a propertied elite but rather openly respects and protects the rights of all persons involved in the creation of goods and services for trade,²³² as well as the rights of the society as a whole. She writes:

We can embrace a new democratic vision of capitalism, not as a system *for* capital, but a system *of* capital – a system in which all people are allowed to accumulate capital according to their productivity, and in which the natural capital of the community and the environment is preserved²³³ (Kelly’s emphases)

Kelly’s economic model does not ignore the importance of investing shareholders in business, but it recognises that there are other relevant parties, such as employees and the communities affected by corporate activity, who ought to be equally considered.

The neoliberal system of ‘economic aristocracy’ is, for Kelly, a “myopic,”²³⁴ “one-dimensional economy”²³⁵ because it is skewed to favour an elite: the wealthy. “The design of the system itself”²³⁶ creates systemic pressures that inform the mistaken belief that a business’s primary responsibility is to its shareholders. Economic authors like Friedman and Hayek provide the credibility for this system by arguing as they do that ‘the social responsibility of business to increase its profits’. Hence the solution that Kelly proposes is to overturn this entrenched principle by encouraging new ideas in economic thought. Such a “(r)evolution,”²³⁷ as Kelly calls it, is necessary because, she argues, corporations in particular have a primary responsibility to the public good.²³⁸ So, like Solomon and Martin she argues that businesses have a positive duty or responsibility to address social issues and to create the conditions in which all members of society have the opportunity to flourish. The current

²³¹ For example in America, France and Russia, and more recently in South Africa. The greater point is that the recognition of the primacy of human rights constitutes a global enlightenment.

²³² Kelly, M., *The Divine Right of Capital: Dethroning the Corporate Aristocracy*, p.78. For Karl Marx one of the great tragedies of capitalism was the alienation of labour. He writes, “External labour, labour in which man alienates himself, is a labour of self-sacrifice, of mortification ... the external character of work for the worker is shown by the fact that it is not his own work but work for someone else, that in work he does not belong to himself but to another person.” (Marx, K., from his manuscript of 1844, as quoted by Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.46.)

²³³ Kelly, M., *The Divine Right of Capital: Dethroning the Corporate Aristocracy*, p.4.

²³⁴ *Ibid*, p.139.

²³⁵ *Ibid*, p.191.

²³⁶ *Ibid*, p.57.

²³⁷ *Ibid*, p.15.

²³⁸ *Ibid*, p.184. Kelly limits her discussion on business and business ethics to corporations.

system as it is skewed to favour shareholder interests is outmoded and wholly unjustifiable among a democratic polity. Kelly quotes Thomas Paine in order to attempt to explain why we have lived so unquestioningly with ‘economic aristocracy’ for so long: “a long habit of not thinking a thing wrong, gives it a superficial appearance of being right.”²³⁹ In conclusion she urges her readers (particularly the American public) to recognise that corporations hold a ‘contract’ with them and that as such they have “the sovereign power to require public services from corporations.”²⁴⁰ Kelly concludes that:

The real way for everyone to win is to redefine business success to encompass genuine long-term enduring gains for real people – through measures like a living wage, corporate investment in communities and protection of our clean air and water²⁴¹

Kelly does not however detail the actual means by which economic democracy can be brought about. She does mention certain structural changes that would be necessary, such as “new variations on financial statements ... new property rights ... new groups represented in corporate governance ... [and] an enlarged corporate purpose.”²⁴² Her treatise is thus more a call to arms than an actual battle plan, but she nevertheless urges her readers to recognise that the current purpose of (American) corporations is outdated and unjustifiable in a democratic context.

By drawing on the work of Karl Polanyi²⁴³ and Eric Hobsbawn²⁴⁴ Kelly argues that, in particular, the deregulatory measures of free-market capitalism are not in keeping with the principles of economic democracy. Polanyi’s ‘two nations effect’ describes “the tendency of capitalism to uplift some even as it degrades others.”²⁴⁵ The one period in history, Hobsbawn argues, when the two nations effect was not in evidence was the 25 years following World War II, when “a rising tide did actually lift all boats, bringing luxuries like the refrigerator, the private washing machine, and the telephone to the masses.”²⁴⁶ Yet, the striking feature which made this era so successful in terms of social flourishing was the fact that businesses were very highly regulated, Hobsbawn concludes. They were able to pursue bottom-line ends

²³⁹ Paine, T., as quoted in Kelly, M., *The Divine Right of Capital: Dethroning the Corporate Aristocracy*, p.107.

²⁴⁰ Kelly, M., *The Divine Right of Capital: Dethroning the Corporate Aristocracy*, p.141.

²⁴¹ *Ibid*, p.199.

²⁴² *Ibid*, p.182.

²⁴³ Polanyi, K., *The Great Transformation: The Political and Economic Origins of our Time*, 1960.

²⁴⁴ Hobsbawn, E., *The Age of Extremes: A History of the World, 1914-1991*, 1994.

²⁴⁵ Polanyi, K., as quoted in Kelly, M., *The Divine Right of Capital: Dethroning the Corporate Aristocracy*, p.74.

²⁴⁶ Hobsbawn, E., as quoted in Kelly, M., *The Divine Right of Capital: Dethroning the Corporate Aristocracy*, p.74.

but not in a manner that conflicted with the interests of other relevantly affected parties, such as employees and communities at large. “The free market was remarkably successful in that era when it was notably not free,”²⁴⁷ Kelly writes. Regulation in this period did not stunt economic growth but in fact was far more effective in meeting the initial aim of genuine social development and flourishing than deregulation because wealth was not created at the *expense* of employees or communities. In fact, more than this, because of regulation they were unable to ‘sweep’ their commitments to the public good ‘under the carpet’ and so in many ways some businesses operated primarily from this perspective and not solely from the desire to increase profits.²⁴⁸

This same conclusion (the need for regulation) is reached by Solomon and Martin. They argue that because of the responsibilities that businesses have “by virtue of their power, wealth and influence,”²⁴⁹ the regulation of business operations is all the more important.²⁵⁰ As long as business operations do not coincide with the demands of justice (equality of opportunity) they ought to be regulated to ensure that business actually succeeds in what it sets out to do, that is, to be an important instrument of distributive justice. They agree with Keynes on this point as well. They write that for Keynes, “when the [free] market fails to satisfy even the minimal needs of so many millions of people, then government intervention is both ethically and economically necessary.”²⁵¹ The free-market argument that deregulation will best ensure social justice is for Kelly, Keynes and Solomon and Martin misguided. Smith argues for the necessity of individual restraint to offset the systemic risks of deregulation, but in a system designed to encourage greedy self-interest far more solid safeguards are required. To encourage deregulation is to ultimately ignore the demands of justice: demands that businesses are not exempt from, for reasons that I shall discuss below.

As above, for Friedman, Hayek and Nozick defending freedom is paramount, and the existence of inequality is a necessary by-product of this. In a free economy some will earn more based on merit than others and some have to be worse off to provide the incentives that drive market innovation. Yet, despite this, there will be a greater protection of freedom across the board. However, as Kelly demonstrates, it is seldom true that a broad conception of freedom is protected in a free-market. She argues that “In reality, if the invisible hand does not always function very well [see Chapter Two] the free market does not always extend its

²⁴⁷ Kelly, M., *The Divine Right of Capital: Dethroning the Corporate Aristocracy*, p.74.

²⁴⁸ *Ibid*, p.79.

²⁴⁹ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.288.

²⁵⁰ *Ibid*, p.322.

²⁵¹ Keynes, J.M., as quoted in Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.351.

freedom very far.”²⁵² Freedom is largely reserved for shareholders whose interests are placed above all others. We are told that the free market is the champion of liberty but in fact the only freedoms that are genuinely protected are the freedoms of the already wealthy to obtain more wealth. As we have seen, Friedman’s model, which has at times been taken as sacrosanct, necessitates the paying of employees as little as possible, the writing off of externalities as the community’s problem and often also the unsustainable use of natural environmental resources which can be exploited elsewhere when they run out. The conception of liberty defended by neoliberals is very limited indeed.

As mentioned in Chapter One, John Kenneth Galbraith also denounces “the institutionalised power of wealth”²⁵³ and the limited, unfair, sense of freedom that is created by neoliberalism. In *The Economics of Innocent Fraud: Truth for Our Time* he writes that, “while employees and the community are left to the protection of the invisible hand, wealth is protected by the *visible hand* of government and corporation” (Galbraith’s emphasis).²⁵⁴ In this system some are indeed ‘more equal than others’. Nozick may well be correct to argue that, “It cannot merely be assumed that equality must be built into any theory of justice,”²⁵⁵ however ‘equality’ does not necessarily imply redistribution, as he seems to assume. Instead under a conception of justice as fairness, equality would require – by methods such as ensuring equality of opportunity - the *equal* protection of the liberty of all affected parties. The onus is on us to recognise that an economic system that protects the liberty of one party to the detriment of another is unjust, and hence ought to be revised.

II. Business and Social Justice

In the next and final chapter I shall describe how business operations can be remodelled to align more closely with these rational common sense considerations of social justice. There is another argument to address however and this is the argument that as businesses are not persons they are not endowed with the same responsibilities as humans. They are not moral beings and so demanding that they conform to our moral assumptions is inappropriate. Friedman makes what has come to be known as his ‘third argument’²⁵⁶ in this regard. He suggests that while we might indeed say that individuals have a direct responsibility to the

²⁵² Kelly, M., *The Divine Right of Capital: Dethroning the Corporate Aristocracy*, p.253.

²⁵³ Galbraith, J.K., *The Economics of Innocent Fraud: Truth for Our Time*, p.77.

²⁵⁴ *Ibid*, p.77.

²⁵⁵ Nozick, R., *Anarchy, State, Utopia*. p.233.

²⁵⁶ See for example Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.318. For a brief formulation of this argument see for example Friedman, M., ‘The Social Responsibility of Business is to Increase its Profits’, *New York Times*, 13 September 1970.

public good, we cannot say the same of social constructs like businesses which are not persons. Businesses are artificial entities and it is thus not correct to assume that they ought to behave morally. Albert Carr makes a similar argument in his notorious paper, “Is Business Bluffing Ethical?” He argues that “the ethical standards of the business game ... are a far cry from those of private life.”²⁵⁷ As such he likens business to poker, arguing that those not prepared to bluff in their dealings are foolish. Like poker, business is an impersonal game, “a game that demands both special strategy and an understanding of its special ethics.”²⁵⁸ Hence those business ‘players’ that abide by the morality of persons, and not of ‘the game’ are almost certainly destined for failure. Business executives should do whatever they possibly can, Carr argues, to make money, but without breaking the law. Concern for ethical custom is for him entirely irrelevant in a business context. Thus, he concludes, a company has “the legal right to shape its strategy without reference to anything but its profits.”²⁵⁹

However Carr’s argument is fundamentally flawed on the basis that, unlike poker, business actions can have a profound, morally relevant effect on society. Business is indeed “a part of society rather than apart from society”²⁶⁰ and is a key social player. As Colin Fisher and Alan Lovell write, “The argument to leave business alone ignores the profound influence of corporate decisions and their impact upon, potentially millions of lives.”²⁶¹ They suggest that artificial entities can develop “to such an extent that society deems it necessary to place constraints, or responsibilities, upon corporations.”²⁶² Such developments would not be philosophically objectionable or flawed because insofar as businesses have morally relevant effects they ought also to have the attendant moral responsibilities. Without a doubt business is a key social player – many corporations are wealthier than some countries – and so the argument that businesses do not have a direct responsibility to the public good because they are artificial constructs is seriously misguided. Friedman himself seems to contradict ‘the third argument’ when he writes that businesses ought to conform to “the basic rules of society, both those embodied in law *and those embodied in ethical custom*” (my italics).²⁶³ The idea that there is in some way a disjuncture between personal and business values has

²⁵⁷ Carr, A., ‘Is Business Bluffing Ethical?’ *Harvard Business Review* 46, Jan-Feb, 1968, p.143.

²⁵⁸ *Ibid*, p.149.

²⁵⁹ *Ibid*, p.152.

²⁶⁰ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.308.

²⁶¹ *Ibid*, p.317.

²⁶² *Ibid*, p.318.

²⁶³ Friedman, M., ‘The Social Responsibility of Business is to Increase its Profits’, *New York Times*, 13 September 1970.

become effectively ubiquitous and as discussed with reference to Enron, this is deeply problematic. As Robert Jackall writes in *Moral Mazes*:

What is right in the corporation is not what is right in a man's home or in his church. What is right in the corporation is what the guy above you wants from you. That's what morality is in the corporation²⁶⁴

There is no legitimate reason for this separation, in fact there are good reasons to suggest that this convention is entirely inappropriate. Businesses are indeed endowed with specific responsibilities to the public good that go beyond increasing profits.

Solomon and Martin's 'ascending circle of responsibilities' and the broad assumption that business has a primary responsibility to social flourishing is, on the other hand, altogether justifiable. They argue that:

Even if business is out to make a profit, social responsibility, which is not intrinsic to business life as such, may be more important; indeed, it may even be the reason for the existence of business and business life in the first place²⁶⁵

Their claim here is an important one. They are in essence arguing that while profit-making might be a *necessary* feature of business, it is not the *end* of business. Profit-making can only ever be a means to achieving a greater aim and that greater aim is something that is not only instrumentally valuable: social justice. Just as we might say that a functioning digestive system is necessary for a good life but not an end of life, so we might say that profit-making might be necessary for a business to fulfil its social aims, but not that it is the end of business. Aesop's fable, 'The Miser', teaches in very simplistic, but very effective terms that money is not in and of itself valuable; it is only valuable insofar as it used for another purpose. It is a short story and so I shall quote it in entirety:

A Miser sold everything he had and bought a lump of gold, which he buried in a hole in the ground by the side of an old wall and went to look at every day. One of the Miser's workers observed his frequent visits to the spot and decided to keep an eye on the Miser. The worker soon discovered the hidden treasure, and digging down, came to the lump of gold, and sold it. The next time the Miser visited his gold, he found the hole empty and began to tear his hair and sob loudly. A neighbour, seeing him, overcome with grief and learning the cause, said, 'Pray do not grieve so. Go and take a stone, place it in the hole, and pretend that the gold is still lying there. It will have the same effect; for when the gold was there, you didn't really have it, as you did not make the slightest use of it'²⁶⁶

²⁶⁴ Jackall, R., *Moral Mazes*, p.191.

²⁶⁵ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.289.

²⁶⁶ Aesop, 'The Miser' (online).

The Miser might just as well gloat over a stone as a piece of gold, as money has no intrinsic worth. If I take your R100 note and replace it with another R100 note, you have lost nothing. Yet, if I take your child and replace it with another child you lose much. The value of gold lies only in the value we attach to it as a means to achieving other ends. The point is that it is not correct to argue that the end of business is to make money, because making money is not a legitimate end. The point of business in the first place is rather, as Solomon and Martin point out, to be actively committed to ensuring the conditions necessary for social justice. This end cannot be implicitly assumed behind the guise of self-interest as Friedman, Hayek and even Smith attempt to do.

Rather, in order for a business to remain genuinely committed to its real end this end cannot be obscured in any way. It is not correct for people to be kept ignorant of the ultimate aim of business as they are via the argument from enlightened self-interest. We therefore have a positive duty to restructure economic and business principles so business will indeed succeed in what it sets out to do, that is, to be an instrument of social justice. This is because social justice is not, as we have seen, a ‘happy by-product’ of self-interested profit-making. It becomes instrumental and can be trumped by profit-making and this is just not the right way to treat the ultimate end of business and society. To suggest that there is a correlation between acting in one’s own interests and acting in the interests of society in general is (as shown in the beginning of this chapter) to misunderstand what morality, and in particular social justice, requires. The end of business is social justice and this must be instated as the end of business, from everyday operations to performance measurements. Profits should only be valued insofar as they are instrumental to achieving social ends. This means (as shown above) that we have a duty to regulate business operations so that the demands of justice are not forgotten or ignored. Denying that ‘increasing profits’ is the ‘social responsibility of business’ does not imply that businesses should not make profits. Rather, the point is that profit-making is not what ultimately makes them successful.

In conclusion both of the arguments for the primacy of profits discussed in Chapter One – the argument from enlightened self-interest and the argument from freedom – are inappropriate because they do not conform to our rational assumptions about what is required to achieve social justice. A fair or just society would be one that protects the freedom of *all* individuals by ensuring the conditions necessary for equality of opportunity. The free-market economic system results in inequalities and freedom restrictions that are unfair and hence unjust. The notion of freedom that is defended by neoliberals is very limited indeed, in that it

favours the liberty of a capital-owning elite. This is to the detriment of employees, communities and the environment, whose roles in the chain of production are of equal import and value to the role played by shareholding investors, as Kelly argues. So, as Solomon and Martin propose “A corporation [therefore] has obligations not only to its stockholders but also to its *stakeholders*, all of those people who have a vested interest in or are affected by the activities of the company” (their italics).²⁶⁷ But more than this, given the critical position that businesses hold in society, they are a part of those who are thereby endowed with the positive responsibility to ensure that our society is a just one. That is, that it is one in which all persons are assured of the conditions necessary for them to pursue a good life.

Given their necessary grounding in the fabric of society businesses cannot be legitimately exempt from conforming to our most basic moral commitments. As it stands however, business purpose is still very largely assumed to be profit-making, but this is not a legitimate end. Instead the end of business is social justice and this is not achieved by indulging greedy self-interest. Social justice ought therefore to be made explicit in business motivations and operations. By the same token, profit-making should be valued only as a means to this ultimate goal. We thus have a moral responsibility to restructure our economic and business systems so that they are indeed fair to *all* concerned and so that they actively and knowingly advance equality of opportunity. Doing this will better achieve the initial aim of economic philosophy: to describe the conditions necessary for genuine social development and flourishing, that is, social justice.

²⁶⁷ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.307.

CHAPTER 4: EFFECTING CHANGE: A NEW PARADIGM FOR SUCCESS

Restoration calls, however, not for changes in ethics alone. The nation asks for action, and action now²⁶⁸

We believe that in the long run the special contribution to the world by Africa will be in the field of human relationship. The great powers of the world may have done wonders in giving the world an industrial and military look, but the great gift still has to come from Africa – giving the world a more human face²⁶⁹

Given that social justice is the end of business operations, and profit-making simply a means to this end, we have to restructure our business and economic systems to better reflect this relationship. It is inappropriate to measure the success of a business in financial terms because this is simply not the ultimate aim of business. Therefore we ought to redefine success in terms of that which is ultimately aimed at, that is, in terms of social justice. Success in business terms ought to be determined according to the business's ability to fulfil its ultimate social and environmental aims. Financial measurements only reflect a company's *instrumental* capacity to address social and environmental concerns and not its actual fulfilment of these ultimate ends. What counts as 'successful' in business terms needs to be redefined.

In this chapter I shall suggest some ways in which we can begin to redefine success in business by restructuring business operations so that the ultimate aim of social justice is neither obscured nor ignored. I shall argue that effective change will require a combination of both individual effort and systemic changes to both the internal and external climates of business. It is simply not true that business and ethics are in tension with each other. As demonstrated in Chapter One, most neoliberals argue that the incorporation of explicit ethical concerns into business practice has the potential to seriously disrupt the functioning of market mechanisms. This, the argument goes, will have extremely detrimental effects on the economic health of businesses and so too on society. However, such concerns are misplaced. It is quite possible to fulfil financial aims but at the same time to do so in a manner that advances the public good. We can indeed restructure business operations in such a way that they will not contradict our fundamental moral assumptions. Morality, at the very least, demands that we do no harm. However, as Robert Solomon and Clancy Martin (for example)

²⁶⁸ Roosevelt, F.D., from his Inaugural address of March 4, 1933, as quoted in Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.351. Note that this quote was made in reference to the debilitating conditions of the 1929 stock-market crash and the ensuing economic depression.

²⁶⁹ Biko, S., as quoted in Lundin, S.C. and Nelson, B., *Ubuntu! An Inspiring Story About an African Tradition of Teamwork and Collaboration*, p.2.

argue, businesses have a further positive duty to ensure that the social conditions necessary for equality of opportunity prevail. For them the more money a business makes, the greater their responsibility to society. Whether we take a business's moral responsibility to society as being 'to do no harm' or as the more onerous 'to do some good', there is no doubt that, in modern businesses moral concerns are consistently overlooked. Given the significant social position that business holds, the instrumental treatment of moral concerns is unacceptable, particularly when such concerns are trumped by the bottom line.

As neoliberalism implies that we ought to act from self-interest in the market, economic structures have been arranged to ensure the conditions necessary for people to act from that interest: narrowly defined, as described, in monetary terms. Yet, as previously introduced, the construal of self-interest as being almost entirely about making as much money as possible portrays a very narrow conception of what motivates us as human beings. Insofar as Milton Friedman and Friedrich Hayek suggest that we ought to act from self-interest, their conception of what qualifies as self-interest is, as argued, distinctly materialistic in nature. In contrast, Adam Smith's argument for 'fellow-feeling' suggests that part of what motivates us is the desire to treat other people with due dignity and respect. Yet, as mentioned in Chapter Three, these kinds of considerations are not intrinsic to the dominant global economic paradigm. Instead, the system, through mass-advertising, encourages rampant consumerism and greed by attaching worth and success only to material, or financial, gains. As Henry David Thoreau observes:

If a man walks in the woods for love of them half a day, he is in danger of being regarded as a loafer; but if he spends his whole day as a speculator, shearing off those woods and making earth bald before her time, he is esteemed an industrious and enterprising citizen²⁷⁰

Robert and Edward Skidelsky's aim in *How Much is Enough: Money and the Good Life* is to highlight the absurdity of considering money as an ultimate end and hence as the motivator for human action. They argue that money is only an instrument to achieving what we really value – they list seven goods: health, respect, security [especially of one's job], personality, harmony with nature, friendships and leisure – and that these things, not money, are what ultimately motivate us. For them *capitalisme sauvage* informs an exceptionally

²⁷⁰ Thoreau, H.D., 'Life Without Principle', 1863 (online).

narrow view of the good life. Hence both our economic assumptions and our personal standards of ‘success’ ought to be revised.

The mistaken presumption that we are all fundamentally miserly and materialistic has created what one could almost call a social pathology. John Kenneth Galbraith argues that as a result of free-market capitalism we have lost our sovereignty and independence. He claims that the classical idea of “consumer sovereignty”²⁷¹ has been replaced by the “monolithic corporation”²⁷² that creates consumer demand by mass market advertising. Friedman is hence rash to argue that:

In fact, the people responsible for pollution are consumers, not producers. They create, as it were, demand for pollution. People who use electricity are responsible for the smoke that comes out of the stacks of generating plants²⁷³

It is much more complicated than this, Galbraith argues. Structural conditions create the social pathologies – greed and consumerism – that inform reckless business operations. Hence, the possibility for genuine choice does not exist in the ‘free’ market, Galbraith concludes. Overturning these ‘pathologies’ will have to involve both systemic and individual changes.

Anthony Giddens argues that a combination of individual moral agency and systemic changes will be sufficient, if not to completely eradicate amorality (or even immorality) in business, at least to significantly reduce it. He calls this combination of the self and the system working to alter conditions ‘structuration’.²⁷⁴ Giddens argues that agency can effect change but that in order for such changes to be meaningful institutional and organisational measures need to be implemented so that it becomes less easy for individuals to evade their moral obligations.²⁷⁵ Hence, “Structuration is the idea that there is a duality to human action”²⁷⁶ in the sense that while our actions are guided by social structures, or in this case business systems, individual actions “can both define and change those structures.”²⁷⁷ Therefore, he argues, we ought not to be intimidated by the magnitude of the task before us: it is indeed achievable.

²⁷¹ Galbraith, J.K., *The Economics of Innocent Fraud: Truth for Our Time*, p.383.

²⁷² *Ibid*, p.383.

²⁷³ Friedman, M., as quoted in Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.260.

²⁷⁴ Giddens, A., *The Constitution of Society*, p.502.

²⁷⁵ *Ibid*, p.527.

²⁷⁶ *Ibid*, p.503.

²⁷⁷ *Ibid*, p.503.

Structures both internal and external to business need to better reflect the ultimate end of business, *viz* social justice. These changes will have to be coupled with individual efforts in order to ensure that the real goal of business is achieved. With regard to internal changes I shall discuss business management and corporate governance changes; as well as how business cultures might be changed so that the expression of individual moral agency within business becomes possible. In this latter section I shall argue that the African philosophy of *Ubuntu* – the recognition of our implicit connectedness to other people, of all generations, and to the planet – could be useful in terms of creating more ethical business cultures. With regard to external changes I shall discuss the need for greater regulation; the restructuring of stock markets so that success is considered in terms of the ultimate ends of business and not the instrumental means; the onus on consumers in terms of awareness and responsible investment, and related to this, the onus on academic institutions, especially business schools, to adapt their curricula; and finally the onus on regional and global economic institutions and associations and the need for a global commitment among different individual national governments. I shall conclude with two brief case studies (The Grameen Bank and Interface) intended to show that the vision for more ethical business practice is not in fact unachievable.

I. Internal Changes:

A. Corporate Governance and Stakeholder Management

Changes within business will have, probably necessarily, to begin with those who run them. The management team of a business, or the governors of a corporation, are after all the one's who will ultimately make the decisions and determine the path that a business will take. It is therefore appropriate to begin the discussion of change here. There have been numerous efforts worldwide to redesign corporate governance policies, but for the sake of brevity I shall focus on South Africa's King Reports and Codes for Corporate Governance.²⁷⁸ The most recent King Report, King III, is certainly a step towards ensuring fewer negative externalities, greater environmental and economic sustainability and a greater representation of interests. However, it is not free from criticism, as I shall argue below.

I shall not describe King III in too much detail, as it is a very detailed and thorough document. There are nine key governance elements that serve as a guide for management

²⁷⁸ King I (Institute of Directors, South Africa, 1994); King II (Institute of Directors, South Africa, 2002); King III (Institute of Directors, South Africa, 2008).

teams to implement sustainable strategies.²⁷⁹ There are three core principles to the document: *leadership*, which recognises that sustainable businesses need engaged and dedicated leaders; *sustainability*, which speaks, primarily, to the fact that a long-term approach to profit-making will have to involve stakeholder engagement and sound environmental policies; and *corporate citizenship*, which recognises that businesses do not operate in a vacuum and that, in fact, they are embedded in their social and environmental contexts. It also recognises, in contrast to Friedman's third argument, that businesses are 'moral agents' and that they are endowed with the responsibilities of citizenship. These values contribute to an overall vision for corporate governance: 'leadership for sustainability leads to responsible corporate citizenship'. King III urges the governors of all entities – that is, not just businesses – to engage with the document and apply the principles as applicable. It is not therefore meant to be taken as simply a list of boxes to check, but rather as platform for an honest engagement with the issues surrounding sustainability.

In the eighth governance element, 'Governing Stakeholder Relationships', King III urges the leaders of an entity to engage with all of their relevant stakeholders to ensure that the sustainability of their operations will not be compromised. Stakeholders include all those parties that are affected by the operations of a business. The term has arisen in opposition to the belief that managers are only answerable to stockholders, or shareholders. Shareholders are stakeholders in a business, but they are not the only ones that hold a 'stake', as it were, in the business. Customers, employees, suppliers, the government, and the communities within which business operations occur, for example, are all relevant stakeholders in a business. The environment is also considered to be a stakeholder, often referred to as 'the silent stakeholder', and in the case of large corporations, is ideally represented by environmental impact assessors. King III recognises that stakeholder interests may often vary and that deciding which values, or whose interests, are more important is no easy task. However after engaging with a variety of concerns, leaders are encouraged to make the decision that they deem to be in the best long-term interests of the company, or entity.

The vision of King III is best understood with reference to the historical context that gave rise to King I in 1994. The political leaders of the time recognised that societal change from the divisive and authoritarian conditions of apartheid, would have to include a change in business practices. Just as previously alienated peoples would have to recognise their

²⁷⁹ These are: Ethical Leadership and Corporate Citizenship; Boards and Directors; Audit Committees; Governance of Risk; Governance of Information Technology; Compliance with Laws, Rules, Codes and Standards; Internal Audit; Governing Stakeholder Relationships; and Integrated Reporting.

“universal brotherhood”²⁸⁰ and “spiritual collectiveness,”²⁸¹ so businesses must recognise their connectivity to a broader society. King I (and also King II and III) thus describes the economic imperative of a company to create wealth within its broader context, and not at the expense of it. Leaders have to personally recognise the interconnectedness of business, society and nature. Thus we see how systemic changes can inform individual changes, and visa versa. King II says of King I that:

Unlike its counterparts in other countries at the time, the King Report, 1994, went beyond the financial and regulatory aspects of corporate governance in advocating an integrated approach to good governance in the interests of a wide range of stakeholders having regard to the fundamental principles of good financial, social, ethical and environmental practice²⁸²

This holistic approach to business is an attempt to widen the parameters of business purpose to include more than simply profit-making.

However, the justificatory status of all the King reports is that this is what is in the best long-term, sustainable interests of the company, where those interests are defined in financial terms. For King III essentially ‘ethical business is good business’ implying that profit-making is still ultimately the point of good governance policy. Thus, despite its ‘universal brotherhood’ rhetoric, King III still reaffirms the paradigm that business is only about making money. Even if it is true that business practices are more ethical because of governance codes like King III, this is still not enough to ensure that businesses are primarily committed to their ultimate aim (social justice) and not simply to the instrumental means to this aim (profit).

The real ends of business are obscured and masked behind the professed commitment to economic sustainability. So while high-minded theorists might see the bigger picture, not all those involved in business necessarily will. Neoliberalism, despite its theoretical claims to be just, is responsible for creating a world in which profit is generally seen to be the ultimate end of business. Legitimate moral concerns are therefore all too easily disregarded. The point is that if we really want our economic systems and business practices to achieve their social aims then we need to make these aims the *explicit* end of business, and not hide them behind profit-making, or even ‘sustainability’. The choices made by a governance team must be informed by a proper sense of what the ultimate point of corporate activity is. Perhaps a

²⁸⁰ Institute of Directors, South Africa, ‘King (I) Report on Corporate Governance’, paragraph 38.6 (online).

²⁸¹ *Ibid*, paragraph 38.1.

²⁸² Institute of Directors, South Africa, ‘King (II) Report on Corporate Governance’, p.6 (online).

future King IV could be instrumental in beginning to change the paradigm within which business operations currently occur. This could be done by stressing the fact that the reason for profit-making in the first place is social development and well-being, that is, social justice. Its rhetoric could change from being about sustainability to being about sustainability *for* social justice. Substantial shifts in other areas of business (both internal and external), as well as in individual mindsets, would have to accompany such progress however, in order for this approach to be truly understood. A new economic paradigm will not solely be achieved by changes in management and governance but changes in management and in the principles and assumptions behind it are nonetheless central to achieving such an aim.

B. Business Cultures and Moral Agency

The second change internal to business that could also contribute to creating a more ethical economic climate is in the sphere of business cultures. This suggestion involves more individual effort than actual structural changes, as it relates to how individual moral agency can be exerted in the workplace. The ability of individuals to act as moral agents within organisations has certainly not been something that has reigned supreme in the modern corporation. Instead, as in the case of Enron, the dominant business culture was one of make money, at whatever cost. The traders were all too easily able to ignore their personal values because they were part of a culture (system) in which the only relevant value was profit-making. As argued in the previous chapter, the disjunction between personal values and business values is one of the main problems with neoliberal economics. Instead what we truly value ultimately in our lives ought to be explicitly valued, regardless of the context. Solomon and Martin hence argue that, of the key developments that will be necessary for more ethical business practice, one of the most important is for there to be a much closer integration between our personal, and particularly our ultimate, values and the values of business.²⁸³ If the ethos of a business is not moral then we can hardly expect its operations and practices to be so. The question then is how to foster organisational cultures that are “conducive to well-intentioned expressions of concern and the fostering of ethical behaviour”?²⁸⁴

Colin Fisher and Alan Lovell offer a plan for enabling the expression of moral agency in the workplace as a means of resolving internal ethical issues. The nature of their suggestions are such that they would also be useful in terms of balancing stakeholder interests and deciding on a plan of action. Fisher and Lovell ultimately argue that dialogue and debate,

²⁸³ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.239.

²⁸⁴ *Ibid*, p.522.

on many levels, would be critical. They suggest that there are two important elements that individuals within business will have to address when faced with a complex ethical issue. The first is deciding what to do and the second is summoning up the will to actually do it. Fisher and Lovell suggest a three-tiered approach to making a principled judgement regarding the resolution of problematic ethical issues. Firstly, we need to exercise our moral imagination by not simply following previous solutions to past problems. Then we need to discern the ethical nuances of the particular issue with which we are concerned, adopting a case-by-case basis to our judgements. They suggest that moral imagination “requires pictures and passion, not maps alone.”²⁸⁵ Once the ethical concerns have been identified we then follow a process of what Albert Jonsen and Stephen Toulmin call ‘casuistry’.²⁸⁶ The “particularities and peculiarities”²⁸⁷ of each case are examined and internalised. Jonsen and Toulmin argue that this kind of approach is necessary because:

A morality built from general rules and universal principles alone too easily becomes a tyrannical disproportioned thing, and ... only those who have learned to make ‘equitable allowances’ for the subtle individual differences among otherwise similar circumstances have developed a true feeling for the deepest demands of ethics²⁸⁸

Once ‘the subtle individual differences’ have been both identified and understood we are able, Jonsen and Toulmin suggest, to engage in ‘moral double-loop learning’. Moral double-loop learning involves discerning not only the moral issues and circumstances of a particular case but also the identification of the rules and assumptions that led to the problem in the first place.²⁸⁹ This enables us to improve the business culture itself by making ourselves, and others, aware of the failings that are contributing to the creation of ethical problems, both in the workplace and in how the business operates. Finally, in order to ensure that we can come up with the best possible solution to the problem at hand Fisher and Lovell suggest that we engage in dialogue and debate with our colleagues (and/or with stakeholders if relevant) who will thereby also assert their own moral agency. This process will lead us, Fisher and Lovell argue, to make a principled judgement as to what ought to be done to rectify the perceived problem.

²⁸⁵ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.520.

²⁸⁶ Jonsen, A. and Toulmin, S., *The Abuse of Casuistry*, p.341.

²⁸⁷ *Ibid*, p.342.

²⁸⁸ *Ibid*, p.341.

²⁸⁹ *Ibid*, p.344.

Now that it has been decided what to do, we then have to summon up the will to do it, Fisher and Lovell argue.²⁹⁰ They suggest that leaders ought to foster a climate or culture in which concerned individuals are able to express their moral agency. The culture should be such that there are no punitive conditions for expressing ethical concerns, rather there should be structures in place that encourage concerned individuals to express their concerns. To this end they argue that ignorance of harm and wrong-doing should not serve as a legitimate excuse in courts of law when company executives are brought to bear for a business's actions. The 'Aw Shucks' excuse, as Fisher and Lovell call it, cannot be acceptable, which is why it is necessary to create a business culture in which moral agency can flourish.²⁹¹ They conclude that, "At both an institutional and an organisational level we should be setting up structures and establishing norms that make it less easy for managers to evade their moral obligations."²⁹² If such structures could be established, Fisher and Lovell argue, then summoning up the will to actually do something about the problem will become much easier.

However, whether Fisher and Lovell's model could actually be applied is quite another question. Their proposals appear to be somewhat cumbersome and time-consuming and we have to ask, as they do, whether "the prospects for such open, balanced and informed debates are ... propitious."²⁹³ Is it possible for companies to be run in the manner of an ongoing ethical debate, in such a way that personal values could in fact be integrated with business values? Perhaps the prospects might not be all that propitious, but the real question is whether or not such dialectical debates within business are in fact necessary. Do we genuinely desire to create more ethical business climates in which negative externalities are not simply written off, and which do not treat as instrumental those values which we logically know to be non-instrumental? One of the most pressing concerns with the bottom-line approach to business is, as I have argued, the issue of externalities. Friedman was indeed correct when he commented that, "there *are* real problems in that area, there's no doubt about it" (my emphasis).²⁹⁴ The coffee corporations of Brazil do not seem to particularly 'mind' that they are driving small-scale, local producers to bankruptcy. The oil and natural gas companies operating in the Niger Delta are not concerned with their social and environmental impacts for the simple reason that they do not *have* to be concerned with them. However, if

²⁹⁰ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.525.

²⁹¹ This was the excuse used by Jeffrey Skilling after the collapse of Enron.

²⁹² Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.527.

²⁹³ *Ibid*, p.506.

²⁹⁴ Friedman, M., as quoted in an interview for *The Corporation* (Documentary film) written by Bakan, J.

we were to create business cultures that support and encourage dialogue and debate, not only among the people working at, for example, Shell but also between Shell and its stakeholders, then it seems to be possible that we could in fact create a more ethical business culture. Hence, as time-consuming as such debates might be, they might well be necessary for the fostering of ethical business.

Perhaps the great gift that Steve Biko talks about (see epigraph) to come from Africa might be *Ubuntu*. If individuals can internalise, or even attempt to, the idea of their connectivity to a greater cosmos of being, then fostering a business culture of dialogue and debate in which moral agency can be exerted might be easier to implement. Richard Welford suggests that the key to transformation in the business world lies in shifting our perceptions from seeing people and the environment as objects to rather seeing our *relationship* to them.²⁹⁵ Margaret Mead expresses a similar inclination when she writes that all persons, but especially business persons, need to:

develop a greater sense of relationship to the whole. Relationship to the planet, in terms of resources and production, a relationship to the community in which they exist, a relationship between all the different echelons within an industry. Less segmentation, less fractionation, less narrowness of approach²⁹⁶

Accepting that we are connected would be an individual endeavour but if business cultures and structures are set up so as to allow people to engage with each other, as well as with stakeholders, then, although this might be time-consuming, it will be a better eco-ethical climate than the neo-liberal one that currently reigns supreme.

Of course such an integration of the self to the cosmos is very difficult to actually adopt, we will always be self-interested to a point. What might be useful then in a business context is not to merge ourselves and our opinions into an “indistinguishable oneness”²⁹⁷ but rather, as Rogene Buchholz and Sandra Rosenthal suggest, to engage in an “accommodating participation.”²⁹⁸ In this way compromises can be creatively sought through an “active engagement”²⁹⁹ with each other and each others’ concerns. This kind of approach to *Ubuntu* within business would urge us to see the other’s concerns as legitimate and worthy of

²⁹⁵ Welford, R., *Environmental Strategy and Sustainable Development: The Corporate Challenge for the Twenty-first Century*, p.360.

²⁹⁶ Mead, M., as quoted in Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.492.

²⁹⁷ Buchholz, R.A. and Rosenthal, S.B., *Business Ethics: The Pragmatic Path Beyond Principles to Process*, p.403.

²⁹⁸ *Ibid*, p.418.

²⁹⁹ *Ibid*, p.518.

attention and accommodation. If businesses are to develop a ‘greater sense of relationship to the whole’, then dialogue and debate with the whole will be necessary, however unpropitious. If the expression of moral agency in the workplace and in stakeholder management can be habituated then it will become a part of business in such a way that it will no longer seem so laborious to perform, but will in fact be seen as a key element in developing a business strategy and agenda. In other words, eventually we will reach a tipping point where such behaviours will become the norm. In this sense individual changes drive structural changes, which will then, in turn, drive more individuals to change their approach to management procedures. Yet, changes to individual mindsets and the internal structures of business will still not be sufficient to ensure that *capitalisme sauvage* is overturned. They will have to be bolstered and supported by a number of external changes.

II. External Changes:

A. Regulation

In his article ‘Corporate Citizenship: Rethinking Business Beyond Corporate Social Responsibility’ David Birch argues that:

The tensions between capitalism and democracy as currently defined are irreconcilable without serious change ... Business needs therefore, significant policy directions to enable this change to occur, not just within business practices but within society overall³⁰⁰

In order to protect individual sovereignty, Galbraith argues that we need to create what he calls “countervailing powers”³⁰¹ against too powerful business interests. For him regulation is key to protecting liberty. It is in a deregulated climate that businesses are able to transfer many of their costs to society and the environment (as externalities) thereby making others pay the true costs of their activities. Given that businesses have a primary responsibility to the public good, regulation is all the more crucial. Regulation could be implemented and enforced by governments, but perhaps also by publicly-funded independent boards. Either way, what is important is for regulators to be independent (both of political and corporate agendas), as pointed out in the case of the Niger Delta.

In 1997, frustrated with the myopia and impotence of governments to adequately respond to corporate wrongdoing, the United Nations set up the ‘Global Compact’. Its

³⁰⁰ Birch, D., ‘Corporate Citizenship: Rethinking Business Beyond Corporate Social Responsibility’ in Andriof, J. and McIntosh, M. (eds), *Perspectives on Corporate Citizenship*, p.59.

³⁰¹ Galbraith, J.K., *The Economics of Innocent Fraud: Truth for Our Time*, p.384. Also see Galbraith, J.K., *American Capitalism: The Concept of Countervailing Power* (1957).

intention was to bypass governments as the enforcers of responsible standards and instead to get multinational and transnational corporations to comply with the set-out standards via their own accord. However, for the obvious reason that there were no punitive measures to punish non-compliance, the Global Compact proved to be ‘pie-in-the-sky’. Even among those companies that did sign on there were, according to the ‘Gearing Up Report’ of 2004, few monitoring powers and verification resources to ensure that the companies were actually committed to better practices. The Gearing Up Report thence concluded that the only real way to ameliorate business harms was to ensure stricter national regulations, with real penalties for poor practice.³⁰² Fisher and Lovell suggest a reward/penalty approach to regulation. Rewards for policy compliance and good practice could include grants and tax concessions, while punitive measures for non-compliance could include such measures as penalties and fines.³⁰³ But, the incentive here would be not the public good but rather a financial one. We need to find a way of ensuring that the ethical occurs in the right register, that is, that people do the good with a proper understanding of the responsibilities of business, if we truly desire businesses to act for the public good.

Deregulation has clearly failed to achieve what it was set out to do: ensure a fair distribution of goods and opportunities and enrich lives across the board. John Maynard Keynes argues in *Essays in Persuasion* that “when the market so dramatically fails to satisfy even the minimal needs of so many millions of people, then government intervention is both *ethically* and *economically* necessary” (my italics).³⁰⁴ Similarly Solomon and Martin write:

Are we not, at least sometimes, wholly justified in imposing on business the strictest regulations and the highest penalties without waiting for the world of business to correct itself, perhaps after the damage is done?³⁰⁵

Solomon and Martin argue that given the magnitude of the task that free-market economics sets out for itself – namely to be a major instrument of social justice – this makes “governmental regulation and control even more important.”³⁰⁶ For them, governments have a responsibility to set adequate policies in place, monitor businesses and punish them when standards are violated.

³⁰² Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.309.

³⁰³ *Ibid*, p.515-516.

³⁰⁴ Keynes, J.M., as quoted in Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.350.

³⁰⁵ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.242.

³⁰⁶ *Ibid*, p.322.

As an aside, another crucial reason to impose regulations from above is that the systemic nature of the problems places restrictions on what businesses can do (for the public good) in a ‘dog-eat-dog’ environment. Salary regulation is a case in point. It would be very difficult for one business to remain competitive if it increased its salaries in the face of extremely low salaries paid by competitors. Regulation in this case would help ensure a level playing field, and potentially help target systemic issues that are very difficult to target at the level of companies in the first instance.

Aside from punitive measures for non-compliance, perhaps a ‘licence to operate’ strategy would also be effective in ensuring high ethical standards in business. Businesses would have to earn and maintain their licence to operate. If a corporation is seen to be engaging in gross misconducts their licence could be temporarily suspended and all operations would have to come to a halt. The licence would only be reinstated after the harm has been righted and internal systems have been put in place to ensure that it does not happen again. Repeat offenders would eventually have their licence to operate completely revoked and the company would, for example be put into liquidation or taken over by another company that better fulfils its ultimate aims. This measure might also go a long way in ensuring that moral agency is exercised within an organisation. Employees would be ever the more vigilant for wrongdoing as they would have a personal incentive to protect the organisation within which they work to ensure their own security of income, and more broadly, to pursue their conception of the good life.

Another issue that could be addressed by governments so that they can act as external impetuses for change is corporate lobbying. The vast financial resources of large corporations enable them to successfully influence legislative matters by making discernable contributions to, for example, presidential campaigns. As Fisher and Lovell comment, “Corporate influence remains strong in political corridors and politicians remain highly receptive to corporate needs.”³⁰⁷ This state of affairs cannot continue if we are to create ‘countervailing powers’ to corporate bottom-line interests. Indeed it is arguable that the entire idea of corporate lobbying

³⁰⁷ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.506. For example within the first *three months* of his inauguration in 2001 President George W. Bush of the United States made the following changes to national policy after receiving the following donations to his campaign: the tobacco industry donated US\$7 million, Bush removed federal lawsuits against cigarette manufacturers; the oil and gas industry donated US\$25.4 million, Bush removed restrictions on CO₂ emissions, abandoned the Kyoto Protocol and moved to allow drilling in the Arctic; the banks and credit card companies donated US\$25.6 million, Bush introduced the bankruptcy bill, making it easier for credit card companies to collect debts from bankrupt customers. In the first three months of his Presidency Bush also made such deregulatory changes to the timber, mining, pharmaceuticals and airline industries. (Source: *Guardian* G2 [27 April 2001:2] as quoted in Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.299.)

is unacceptable and ought to be abandoned, as should all corporate financial ‘donations’ to political organisations and parties. But, this is not to suggest that lobbying is in itself a bad idea. Many good reforms have been passed as a result of concerned individuals lobbying governments for action. What could be done then is for governments to allow lobbying only from independent persons, groups or professionals. For example, the moratorium passed by the South African government in April 2011 on natural gas exploration in the Karoo was the result of lobbying by Karoo landowners and environmental professionals. However, whether the lifting of the moratorium on the 7th of September 2012 has been the result of independent environmental and economic analysis or corporate (in this case Shell) lobbying is decidedly more dubious. This is why corporate lobbying should be eradicated: it is simply far too easy for rich and powerful corporations to get their own (bottom-line) way while other legitimate values are left by the wayside.

If society and the environment are not responsible for paying the costs of negative externalities, which indeed they are not, then more tightly regulated business operations are not negotiable. On this point, at least, most economic philosophers and national governments are starting to concur. The free-market is a highly abstract ideal, as Galbraith and Joseph Stiglitz (see Chapter Two) argue, and so when businesses fail “to meet the demands of justice that we share as a society”³⁰⁸ – which they routinely do given the structural issues with neoliberalism – then regulation *must* be established.

B. Stock Market Changes: A New Paradigm for Measuring the Success of Business

As illustrated in the previous chapter, Aesop’s ‘The Miser’ shows us that a lump of gold has no value independent of the use that it is put to. Yet, the structures of neoliberalism are arranged so that profits hold an ultimate value status in business. Stock markets are one of the most pervasive structures that affirm this mistaken assumption. Success at the stock-exchange is, in every respect, defined in terms of financial earnings per share. Value judgements amount to nothing more than determining who made, or who will make, the most money. Stock exchanges are in essence what cause corporate investors and board members to be, as Fisher and Lovell comment, “unrelenting in terms of the enormous pressures placed upon company executives to deliver improved financials year upon year, half-year upon half-year,

³⁰⁸ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.322.

quarter upon quarter.”³⁰⁹ There have been developments recently in terms of the creation of adjacent indices that attempt to measure not just how much money was made, but *how* the money was made. The Johannesburg Stock Exchange (JSE), for example, has the Social Responsibility Index (SRI), the Dow Jones in the United States has the Dow Jones Sustainability Index and the FTSE (Financial Times Stock Exchange) in London, the FTSE4Good Index. The idea is that companies are given a second score on the adjacent index that reflects the company’s commitment to social and environmental responsibility. This score can be used by investors who prefer to make a so-called, responsible investment. However, like with the advances made in corporate governance policy, this step is insufficient to offset the intrinsic problems with the bottom-line approach to business, and indeed neoliberalism in general.

The inclusion of triple-bottom line accounting (people, planet, profit), or integrated reports, into corporate reporting is an attempt to compel corporations to be more wary of their social and environmental impacts. But, insofar as profit remains one of the triple bottom lines, this movement is still fundamentally misleading. Profit is not the end of business, social justice is, and as such, the financial bottom-line should only be valued instrumentally. Making money is a means by which businesses are able to contribute to the public good, but it is not the end of business. It would not be appropriate to completely ignore the financial imperatives of a business, but these should be, as Fisher and Lovell argue, “a minimum constraint”³¹⁰ and not “a maximising objective.”³¹¹ Financial returns on an investment are important insofar as they ensure a steady flow of capital into the business, but given that a business’s primary responsibility is to the public good, the financial interests of investors ought not to be the ‘be-all and end-all’ of business operations. Instead, Fisher and Lovell argue, if returns are set a minimum level, say 10%, then financial considerations will not be a maximising criteria. Focusing on maximising the bottom-line for the sake of shareholders makes financial aims parasitical upon ultimate aims, and so in the end, the stock market system is fundamentally subversive to the real ends of business.

In order for a company to list publicly, that is to be on a stock exchange, that company must be worth a certain amount, where that amount is rather substantial. So, if Solomon and Martin are correct in arguing that the more moneyed a business is the greater

³⁰⁹ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.302.

³¹⁰ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.517.

³¹¹ *Ibid*, p.517.

their responsibilities, then public-listed corporations are all the more endowed with the responsibility to ensure that the conditions necessary for equality of opportunity are realised. The role of business in the social compact is to be an instrument of social justice, yet stock markets, as they are currently structured, incongruously do not measure a corporation's commitment to this ultimate end. They need therefore to be reorganised.

One suggestion in this regard is for stock exchanges to be rearranged so that the criteria of responsibility indices apply across the board. There should not, in other words, be two separate indices. If a company fulfils certain social and environmental criteria, and if their net financial worth warrants a public-listing, then and only then can they list on a stock exchange. As it currently stands, the onus to be responsible lies solely with investors. Those companies that do not see a need to list on both indices can still very well ignore their social and environmental responsibilities and choose to list only on the all-share index. Only those investors who are committed to a broader sense of business value will choose to put their investment in a corporation based on its high, for example, SRI score. This is obviously problematic. If we are to ensure that the end of business is made more explicit and that companies cannot evade their ultimate commitments, then the criteria for a public-listing need to be made far more stringent. Corporations will have to fulfil certain social and environmental obligations before they can list and so in this way any investment made will necessarily be a responsible one.

A particular problem with this suggestion is raised by Wayne Norman and Chris Macdonald who argue that social and environmental impacts can only ever be measured qualitatively. They therefore criticise triple bottom line initiatives for involving "subjective value judgements, about which reasonable people can and will legitimately disagree."³¹² Financial measures are quantitative, and so business success is far more easily measured in these terms, they argue. However, firstly, success cannot be defined in financial terms. A company might make a lot of money, but yet be very unsuccessful in ensuring social justice. Hence, however qualitative social and environmental measures might be, at least they are measuring the right thing. If the idea is rather that financial measures can be used to determine a company's fulfilment of social justice ends, then this is still not correct. There is simply not enough of a correlation between financial wealth and social justice, and so the suggestion that a company's bottom-line gives a good indication of their commitment to

³¹² Norman, W. and Macdonald, C., 'Getting to the Bottom of Triple Bottom Line', *Business Ethics Quarterly*, March 2003, p.10.

social justice is inappropriate. Secondly, social and environmental assessments need not necessarily involve unreliable qualitative measures.

The JSE's SRI, for example, approaches assessment in a 'yes/no' style, applied under nine broad criteria. There are three categories of assessment: 'Environment'; 'Social'; and 'Governance and Related Sustainability Concerns'. Under each of these three categories, 'Policy and Strategy'; 'Management and Performance'; and 'Reporting' are assessed, thereby making nine broad criteria groups. Instead of attempting to make qualitative assessments, the SRI looks for certain predetermined indicators, to which the only response given is yes or no. For example, one criteria under 'Environment' and 'Policy and Strategy' is: Is there evidence of responsibility for the policy, e.g. have company executives and/or directors signed off on the reports?³¹³ Assessing this does not have to involve a qualitative judgement. The answer is either yes or no. In order to list on the SRI a company must have fulfilled the majority of indicators (which are vast) in all nine groups. There are core indicators and desirable indicators, and at least one third of the core indicators must be met. Under the category 'Environment', corporations are classed into three levels: high impact (e.g. mining), medium impact (e.g. banks) and low impact (e.g. IT firms), depending on the type of industry which the business is involved in. The criteria are more stringent according to the environmental impact of the business's core operations. A company is given a score based on how many criteria it meets. This system is a step towards resolving the problem of having to make qualitative assessments, but more needs to be done. We need, as Norman and Macdonald rightly argue, to develop a global methodology that would be useful in terms of ranking a company's social and environmental achievements.³¹⁴

An interesting question is whether a company that does not make money, but which makes a big contribution to ensuring social justice, would be considered successful. Say, for example a company develops a malaria vaccine and they do so in a manner that empowers its employees and the surrounding community. At the same time, their operations have a zero-impact on the environment, but this company only breaks even. Are we to consider it a successful enterprise? Yes. If success is measured in terms of the ultimate ends of business, then this company would certainly be successful. One could perhaps argue that some profits ought to have been made in order to, for example, fund future projects or ensure a steady stream of investment, and perhaps this is fair. Making money is, in many ways, what makes it possible for a business to fulfil its social and environmental goals. But when all is said and

³¹³ Johannesburg Stock Exchange Social Responsibility Index (online).

³¹⁴ This could be an interesting project for the future.

done, this company has been an instrument for social justice. The value that we attach to profits must only amount to how far they are useful for a company to fulfil its ultimate aims.

This suggestion is perhaps rather radical, however, given the entrenched problems with neoliberalism, radical change is required. In many ways neoliberalism affirms, if not creates, the belief that success is to be measured in financial terms. As Galbraith writes:

Good performance is measured by the production of material objects and services. Not education or literature or the arts but the production of automobiles, including SUVs: Here is the modern measure of economic and therewith social achievement³¹⁵

Redefining success in business terms demands that individuals change their own assumptions about success as well. As the Skidelskys argue (above) success is not about material wealth, it is about respect, personality, harmony with nature and friendships, for example. We should make enough money to be able to pursue our ultimate ends, but we should recognise that money is only instrumental to these.³¹⁶ Their argument is informed by Aristotle, who argues that: “The good thing is that at which all things aim ... and men are agreed that this is called happiness.”³¹⁷ Ultimately it will be individuals that have to decide what kind of world they wish to live in and what kind of values they wish to underpin their economic systems. Solomon and Martin conclude their *Above the Bottom Line: An Introduction to Business Ethics* by arguing that:

In business life, one ingredient in the good life stands out before all of the others: *success*. It is not to be conceived simply in terms of money, although making money is obviously an important part of it. *Respect* of colleagues and neighbours is far more important ... Making money, like having money, is a means, not an end. Appreciating and aspiring to the good life in business means looking beyond ‘the bottom line’ to the real values that rule our lives³¹⁸ (their italics)

³¹⁵ Galbraith, J.K., *The Economics of Innocent Fraud: Truth for Our Time*, p.15-16.

³¹⁶ They also argue that national success needs to be redefined. Instead of measuring it in terms of Gross Domestic Product (GDP) – the amount of goods and services that enter into and are exchanged in a market in a given year – we should rather measure national success in the kind of way that Bhutan does, as Gross National Happiness (GNH). This is because they recognise that GDP gives no real indication of a country’s ability to meet its ultimate goals. See for example, Kelly, A., ‘Gross National Happiness in Bhutan: the big idea from a tiny state that could change the world’, *The Observer*, 1 Dec. 2012 (online).

³¹⁷ Aristotle, as quoted in Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.12.

³¹⁸ Solomon, R.C. and Martin, C., *Above the Bottom Line*, p.513.

C. Consumer Awareness, Investor Responsibility and Education

“It is all too easy to pass all the responsibility for curing the ills of the world on to corporate executives, with consumers accepting no responsibility,” Fisher and Lovell maintain. Even if Galbraith is correct that consumer sovereignty is largely an elusive concept, we should not allow this to imply consumer apathy. If we are to be sovereign over business, and not the other way around, then we have the responsibility to ensure this. If enough people begin to demand higher standards in business and also that businesses have an explicit commitment to social justice before anything else, then eventually a tipping point will be reached and businesses will begin to change. I shall argue in this section that the exertion of individual moral agency can indeed effect structural change.

Patience Kabamba explores the relationship between sovereignty, power and individuals.³¹⁹ He argues that power as *potentia*, as Spinoza calls it, should be seen as “ontologically prior” or “anterior” to state power. Individuals are able, Kabamba argues, to be creative and productive, even to the point of governing their own social relations and development, through their exertion of power as *potentia*; as the creative ability that is the primary endowment of the human species. Kabamba uses this assessment to support free-market neoliberalism in particularly African contexts where the nation state (Spinoza’s concept of power as *potestas*) has failed to provide good governance. To this end, Kabamba argues that governance can come from individual efforts that are separate from government. For him, having a free market removes the need for onerous regulations and impositions from the state because in post-colonial Africa, he argues, the state has largely failed to deliver on the promises of good governance. Therefore, involving the state in business is not always a good idea. In response to the lack of good governance, some communities have begun to exert their power as *potentia*. For example, the Nande people in the Beni and Lubero territories of north-western DRC have organised social governance through traders who maintain the roads and have helped to build a university and have stocked it with books.³²⁰ Individuals have taken on the responsibilities that they feel governments ought to perform, and have thus had a positive impact on society.

This situation is dependent on the good will of traders insofar as they are individual community members and speaks to the fact that individuals are capable of exerting a powerful force for change. In the context of the war-torn DRC a free-market might not

³¹⁹ Kabamba, P., ‘In and Out of the State: Working the Boundaries of Power in the Democratic Republic of the Congo’, Working Paper Series #15, 2012.

³²⁰ *Ibid.*

necessarily be a bad thing, that is, as long as the traders continue to see a higher purpose to their own wealth creation and business pursuits. Regulation is only appropriate if those enforcing it are properly informed and committed to the belief that business cannot ignore its moral imperative to be committed to the public good. Kabamba's ultimate point is not that free-market capitalism is necessarily a good thing, it is that individuals need not feel impotent in the face of daunting tasks.

Naomi Klein argues that individual consumer pressure can indeed be powerful enough to effect meaningful change in business. She describes the success of a student boycott movement against Pepsi that began at Carleton University in Ottawa in 1993 and spread throughout the United States by 1996. Students at Carleton became outraged after their university signed a deal with Pepsi, which gave Pepsi exclusive vending machine rights on the campus. Although "resentful at being forced into this tacit product endorsement,"³²¹ the primary cause for the students' anger was based on the fact that Pepsi was producing and selling their products in the then dictatorship of Burma (now Myanmar). Thanks to the internet and email a group of concerned students were able to rapidly spread their message to boycott Pepsi throughout campuses in Canada and the United States. By April 1996 the movement had taken such strong hold among students that Harvard University rejected a US\$1 million vending deal with Pepsi, citing the company's Burmese holdings.³²² Eventually, after a series of such failed campus deals, Pepsi announced its "total disengagement"³²³ from Burma in January 1997, thereby refusing to collaborate with the dictatorial regime. Zar Ni, coordinator of the American student movement against Pepsi's Burmese operations, commented that, "We now *know* we have the grassroots power to yank one of the most powerful corporations in the world" (Ni's emphasis).³²⁴ We should not, therefore, underestimate the ability of the exertion of individual moral agency to affect structural change. This effort had humble beginnings among a few concerned students at a relatively small Canadian university.

Owens Saro-Wiwa, brother of Ken Saro-Wiwa, argues that, "It is important not to make people feel powerless. After all, they need to fill their cars with something. If we tell them that all companies are guilty, they will feel they can do nothing."³²⁵ So even if some consumers do care enough to want to do something, the task of overhauling such an

³²¹ Klein, N., *No Logo*, p.402.

³²² *Ibid*, p.402.

³²³ *Ibid*, p.403.

³²⁴ Ni, Z., as quoted in Klein, N., *No Logo*, p.403.

³²⁵ Saro-Wiwa, O., as quoted in Klein, N., *No Logo*, p.423.

embedded system of business might be enough to put them off the whole idea. What Saro-Wiwa thence goes on to suggest as a solution is for consumers to take the task one company at a time. By breaking the task into smaller, more manageable chunks, such feelings of impotence in the face of such powerful systems might be overcome. So, Saro-Wiwa concludes, “What we are trying to really do, now that we have this evidence against this one company [Shell], is to let people have the feeling that they can at least have the moral force to make one company change.”³²⁶ By focusing consumer awareness and boycott efforts on one company, in this case Shell – which accounts for more than half of the oil operations in Nigeria – it is hoped that other companies will also be pressured into changing. As with the case of Pepsi above, if enough people are brought on board then once a critical mass is reached, structural changes will become inevitable. The route to collective change does not lie in instantaneous overhaul, but in tackling the system one step at a time. The important thing is for us to begin discussing the necessity of systemic changes, and a very good place to begin this discussion is at academic institutions that are responsible for educating, particularly the youth, about the efficacy and ethicality of our socio-economic assumptions.

We have, particularly in business, lost sight of our ultimate values, and have replaced them with the pursuit of things that are not ultimately valuable: money and profits. This paradigm creates the unrelenting consumerism which spurs the system on. Bringing these problems to light is the first step to altering the current systemic paradigm and quite simply the more people that are enlightened, the more the paradigm, and hence the systems, will change. Therefore, at both a school and a university level it is necessary for business education to be adapted in such a way that the ‘frauds’ – as Galbraith calls them³²⁷ - of neo-classical, free-market economics are made apparent. This would be beneficial in getting students to realise the instrumentality of profit-making and the ultimately valuable status of social justice. Attached to this it would be important to stress the relevance of, for example, stakeholder management, ethical business cultures and what success in business terms actually means. If it can be taught that bottom-line principles all too easily lead to harm, amorality and even immorality, and that profits should be valued only for their instrumental contribution to greater social ends, then we could (theoretically in one or two generations) begin to see significant systemic changes. It is therefore an important responsibility of academic institutions to adapt their curricula accordingly so as to reflect the importance and necessity of both ethical business and ethical consumption.

³²⁶ *Ibid*, p.423.

³²⁷ Galbraith, J.K., *The Economics of Innocent Fraud: Truth for Our Time*.

Aside from boycott campaigns, another way that consumers could make a real contribution to the creation of more ethical business is by responsible investment. Solomon and Martin place particular emphasis on the responsibility of stockholders to effect meaningful change. They argue that, “To be a stockholder is to have certain privileges and opportunities and, with them, certain responsibilities.”³²⁸ “Investors are people, first and foremost,” they write:

and as stockholders – ‘owners of a publicly held company’ – are responsible for evaluating their investments not only in terms of financial security and expected return but also the quality of the company, the way it treats its employees, its impact on the surrounding community, and its attitude towards the world³²⁹

It is crucially important that individuals, as investors, realise the critical role they play in creating more ethical business practices, and the more that do so, the more business practices will amend. Responsible investment is one area in which real effects could be felt simply as a result of heightened personal awareness and responsibility.

Individual moral efforts can indeed create and inform systemic change. Hence education, at an institutional level as well as on a personal level, is necessary for consumers to both adopt a more enlightened approach to their own consumerism and to ensure that businesses do not ignore, but rather advance – to the best of their ability – the demands for justice that we share as a society.

D. Global Commitment

Klein writes that:

The conduct of the individual multinational corporations is simply a by-product of a broader global economic system that has steadily been removing almost all barriers and conditions to trade, investment and outsourcing. If companies make deals with brutal dictators, sell off their factories and pay wages too low to live on, it’s because there is nothing in our international trading rules to prevent them³³⁰

A global problem requires a global solution. National efforts to ethicise business could be decidedly undermined by the lack of a global commitment to oppose irresponsible and unsustainable business practices. The need for a global effort is enhanced by the fact of

³²⁸ Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.262.

³²⁹ *Ibid*, p.261-262.

³³⁰ Klein, N., *No Logo*, p.421.

multinational and transnational corporations. As we saw in Chapter Two, corporations can all too easily relocate their resourcing and labour operations to countries with laxer standards than the one in which the company is managed or listed. Out of bottom-line motivations, some large corporations choose to operate in areas where land and labour are cheap and where what regulations do exist are seldom enforced. Aside from the obvious problems with such instances (eg. human rights violations and environmental degradation), one of the biggest problems is that it is extremely difficult to hold these companies accountable for their actions. It is very hard to legally punish a company in America for what they have performed in Indonesia, for example. For this reason Fisher and Lovell argue that one of the biggest tasks facing the shift to responsible business is “to find the institutions and mechanisms by which large corporations can be brought to account for their global impacts.”³³¹

Perhaps the best solution is to model such a global governance initiative after the International Criminal Court at the Hague. It could be overseen by an international body, akin to, if not, the United Nations and any and all businesses found to be violating a set of globally agreed upon standards would be publicly tried and punished. Again, perhaps their licence to operate, at least in certain areas, could be revoked. If we cannot find a way to bring businesses to account for their global impacts (eg. take Shell’s operations in Nigeria), and if global governments and organisations cannot agree upon an international code for business conduct then any individual, national, or perhaps even regional, efforts may turn out to be of little worth. For example, if South Africa were to restructure its stock exchange - in such a way that any company that did not meet the SRI criteria could not list – it would be very tempting for a listed corporation to shift its listing to a country with laxer standards. Hence in order for stock market restructuring to be successful there would have to be a global commitment to redefining business success in ultimate value terms. It might well be enough however if the economic superpowers of the world committed to such a move.³³² Large corporations would probably choose to remain listed in those countries as their scope for investment – needed to achieve their ends – would probably be greater the wealthier the country is. Nonetheless it remains imperative that the nations of the world collaborate to ensure that the kind of harms caused by the bottom-line approach to business are significantly reduced, or ideally, entirely eradicated.

³³¹ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.496.

³³² For example, the United States, the United Kingdom, Germany, Japan, France, Canada, Russia, Australia, China, the United Arab Emirates and so on.

Another important facet of global change would be in the international organisations that oversee the world's trade and economic development, particularly the International Monetary Fund (IMF), the World Bank and the World Trade Organisation (WTO). These institutions have been major players in the spreading of neoliberal economic principles around the globe. For example, as mentioned in Chapter Two, loans are given to countries typically on the condition that they adopt the neoliberal practices of deregulation and privatisation. Worldwide public debate and pressure, particularly from those nations, regions or continents currently underrepresented in such organisations, is necessary to challenge the ideological assumptions and preferences that are built into them. Just as *Ubuntu* and dialogue could be brought into the internal functioning of a business, so could they be brought into our global economic institutions. A one-size-fits-all economic model has been found to be seriously wanting.

Take for example the case of Malawi. In 2002 Malawi suffered its worst famine since 1949 for two reasons. Firstly the crop failed but secondly, and more importantly, the central grain stock that had been maintained by the previously state-owned Malawi Agricultural Development and Marketing Corporation (to protect the public good) had been abandoned as a result of the deregulation and privatisation of the corporation. After Malawi applied for a loan from the IMF, in 1996 the IMF and World Bank began overseeing the implementation of a programme of “austerity, deregulation and privatisation”³³³ in the Malawian grain industry. The regulations that had existed before the IMF-instituted programme led to the absence of a central grain stock (because there was no bottom-line incentive to maintain it) and therefore no contingency plan for if the grain crop failed. Hence, when it did there were no reserves to prevent a famine. Speaking at a G7 meeting in Cancun in 2003 the then Malawian Minister of Commerce and Industry, Samuel Mpasu, commented, “We have opened up our economy. That’s why we are flat on our backs.”³³⁴

Our international economic institutions have typically placed neoliberal principles above all other considerations, imposing on the developing world economic policies that are often grossly inappropriate. What should replace this approach is a spirit of cooperation and “constructive dialogue”³³⁵ in which unique solutions are found to unique problems. The core of meaningful business and economic change lies in the realisation of our “*universal*

³³³ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.513.

³³⁴ Mpasu, S., as quoted in Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.514.

³³⁵ Fisher, C. and Lovell, A., *Business Ethics and Values: Individual, Corporate and International Perspectives*, p.389.

brotherhood,”³³⁶ (my emphasis) to quote King I, and a direct commitment to deliver that which economics promises to do: enrich lives. The free-market, bottom-line model has failed to deliver and there is indeed an alternative eco-ethical system that is worthy of our attention.³³⁷ The following two case studies aim very briefly to show that the vision for more ethical business practice is not in fact unachievable; it is already a reality.

Case Studies:
A. The Grameen Bank

The Grameen Bank in Bangladesh founded by Muhammad Yunus in 1983 demonstrates that it is indeed possible for business to fulfil their social mandate of advancing societal well-being. In this case profits are created in partnership with society and not at the expense of it. Profits are seen as being merely instrumental to the implementation of a greater vision: establishing social justice by ensuring the conditions necessary for equality of opportunity. The Grameen Bank provides micro-finance, ‘Grameen credit’, to people, particularly the poor, without requiring collateral that the poor typically do not have or cannot afford. A condition of the loan is that the money be used to either start or expand a business. The lending is based on a principle of ‘solidarity lending’. This essentially involves grouping debtors into groups of five or six. If one member of the group defaults on a loan, the other debtors are *not* liable to pay it, but rather are simply no longer eligible for further Grameen credit until the defaulting member has caught up with her repayments.³³⁸ So, it is in the best interests of the individual group members to keep a watchful eye on every other member of their group to ensure that they are spending their money wisely and making their repayments timeously. Before being eligible for Grameen credit every debtor commits to the ‘16 Decisions’. An example of one of these is that all children of school-going age must be in school. So an adult with children that wishes to take a loan must have their children in school. If it is found that a debtor has violated any one of the 16 decisions they are either not awarded credit, or their loan is revoked.³³⁹

³³⁶ Institute of Directors, South Africa, ‘King (I) Report on Corporate Governance’, paragraph 38.6 (online).

³³⁷ This responds to Solomon and Martin’s question of whether or not there is an “alternative eco-ethical system that is worthy of our attention.” (Solomon, R.C. and Martin, C., *Above the Bottom Line: An Introduction to Business Ethics*, p.242.)

³³⁸ The use of the word ‘her’ is deliberate here as women comprise more than 90% of the borrowers.

³³⁹ Grameen Bank website (online).

The Grameen Bank claims on its website that it has been responsible for lifting more than 20 million Bangladeshis out of poverty since 1983.³⁴⁰ This is measured according to the World Bank poverty standards of children being in school, every member of the household eating three meals per day, access to clean drinking water and sanitary toilets and living in a rainproof home. Added to this is the ability to make an approximately US\$4 loan repayment per week. Another interesting aspect of the Grameen Bank is that the board of directors is not appointed but rather directors are elected from the pool of borrowers and are voted onto the board by the millions of credit holders. In this way, “the same people who rely on it for credit also have a direct role in managing its operations.”³⁴¹

In 2006 the Grameen Bank and Yunus were co-awarded the Nobel Peace Prize. Representing the Grameen investors and borrowers was Mosammat Taslima Begum who used her first micro-loan to buy a goat and became a successful entrepreneur, as well as one of the elected board members of the bank. It was, and still is, the only time that a business has won this prize, demonstrating that businesses need not only be profit-making machines, they can also be powerful and positive forces for change. If business is approached not with profits, but with the ultimate goals in mind, then success, in the true meaning of the word, can be achieved.

B. Interface

The carpet manufacturing company Interface founded by Ray Anderson, an environmental visionary, aims to be 100% environmentally sustainable by 2020, a plan that has been dubbed ‘Mission Zero’. The company’s aspiration is to be “the model for the sustainable enterprise of the next industrial revolution – ‘The Prototypical Company of the 21st Century’.”³⁴² Interface has made great leaps in researching and developing ways to reduce energy usage, reliance on non-renewable energy sources, their carbon footprint and the production of waste. For example, since 1996, these efforts have resulted in “an 81% decrease in total waste to landfills”³⁴³ from their carpet factories, as well as a 32% decrease in carbon emissions.³⁴⁴ In 1996 Interface was completely dependent on non-renewable energy, but by 2011, 31.2% of their total energy usage was renewable, with this percentage climbing steadily every year.³⁴⁵

³⁴⁰ *Ibid.* See also Shahjahan, S., ‘Grameen Voices: Documentary on Grameen Bank’ for a critical review (online: Youtube).

³⁴¹ Shultz, G. and Albright, M., ‘A Nobel Prize Winner Under Siege’, *Wall Street Journal*, September 5, 2012.

³⁴² ‘The Interface Model – The Prototypical Company of the 21st Century’ on the Interface website (online).

³⁴³ ‘Waste Elimination’ on the Interface website (online).

³⁴⁴ ‘Emissions Reductions’ on the Interface website (online).

³⁴⁵ ‘Renewable Energy Use’ on the Interface website (online).

Interface aims to entirely source their raw materials from recycled fibres by 2020. Interface hopes to prove to other businesses as well as to society in general that products need not be made at a cost to the environment and they hope that the techniques they develop will be utilised by others. Even though they are still seven years away from achieving their 100% sustainability goal, the company seems set to be successful in this aim. With the recent death of Anderson, the leaders and stakeholders of Interface must remain committed to this goal to prove that business for justice is not an elusive concept.

The ultimate end of business operations at Interface is not profits but rather to initiate a new model for doing business that recognises and respects the absolute necessity of environmental protection. By achieving this goal Interface hopes to impact global business by being “restorative through the power of influence.”³⁴⁶ There is a recognition at Interface that business success is to be defined much more broadly and that profits ought to be made, not for their own sake, but for the purposes of “leaving the world a better place.”³⁴⁷ Anderson argues that, “Unless we can make carpets sustainably perhaps we [Interface] don’t have a place in a sustainable world but then neither does anybody else.”³⁴⁸

To achieve their aim of climbing what Anderson calls ‘Mount Sustainability’ - a difficult mission, but with a careful and attentive plan, not an impossible one - Interface has come up with a number of unique operating initiatives.³⁴⁹ A first example is in the culture at Interface. To keep employees connected to Mission Zero, Interface encourages an engaged culture by stimulating organisational learning and creating forums for idea-sharing.³⁵⁰ Employees are encouraged to debate with one another, as well as with management and executives on new ideas for achieving Mission Zero. In this way all those at Interface can feel that they are a part of a greater plan and so are empowered to effect change. The ‘QUEST’ programme (Quality Utilising Employee Suggestions and Teamwork) is an employee-led system in which dialogue is encouraged in order to consider a variety of perspectives and generate new ideas. “Inviting new thinking and allowing permission to fail creates an abundance of positive takers.”³⁵¹ This programme has been extremely successful. For example, an employee team led by Billy Ingram in Georgia, USA developed a new technique

³⁴⁶ ‘Interface’s Values – Our Guiding Principles’ on the Interface website (online).

³⁴⁷ *Ibid.*

³⁴⁸ Anderson, R., as quoted in an interview for *The Corporation* (Documentary film) written by Bakan, J.

³⁴⁹ ‘The Interface Framework – Mount Sustainability and the Seven Fronts’ on the Interface website (online).

³⁵⁰ ‘Sustaining an Engaged Culture’ on the Interface website (online).

³⁵¹ ‘Getting Employees Involved – QUEST Program’ on the Interface website (online).

for feeding yarn into the carpet manufacturing process. This development has reduced the amount of scrap yarn (waste) produced in the process by an estimated 54%.³⁵²

Interface has also developed two systems for measuring their environmental and social performance in real terms. ‘EcoMetrics’ measures the material and energy flows in and out of the company.³⁵³ The amount of materials and energy that flow into the company are measured in terms of their environmental impact, as are those that flow out: the products and the waste. Interface is thus able to assess their progress in comparative terms and identify areas that need more attention and development. ‘SocioMetrics’ measures the company’s impact on people, from their associates to their employees to their community. Data in several key areas is collected that can be used to (quantitatively) measure the company’s social investment. Categories that are taken into account include employee training and development, community education and philanthropy. By using these two measures Interface is able to assess their performance in terms of what ultimately matters: social and environmental justice. The implementation of these techniques also suggests that it is not altogether impossible to make quantitative judgements of a company’s social and environmental performance. Interface has made huge leaps in changing both the manner of business and the purpose of business and as such is well suited to be a “model for the sustainable enterprise of the next industrial revolution,”³⁵⁴ which is fast becoming inevitable.

³⁵² *Ibid.*

³⁵³ ‘Measuring Progress – EcoMetrics and SocioMetrics’ on the Interface website (online).

³⁵⁴ ‘The Interface Model – The Prototypical Company of the 21st Century’ on the Interface website (online).

CONCLUSION

The seemingly impossible is possible³⁵⁵

The suggestions for a new paradigm of success in business, and in society more broadly, made in the final chapter are not intended to be taken as sacrosanct. Instead, their purpose is to stimulate, and contribute to, what I think is one of the most important global conversations of our time. It simply cannot be disputed that important changes are required in the global community and that one of the most critical changes required is in the world of business. Business is, as Milton Friedman rightly claims, one of the major instruments of distributive justice in modern society.³⁵⁶ Yet, for business to truly achieve this goal we cannot continue to condone and support a bottom-line system that treats all values other than profit-making as instrumental. Social justice is ultimately valuable and businesses have a direct positive responsibility to protect and advance the public good.

Insofar as the argument from enlightened self-interest fails, social justice ought to be the explicit goal towards which business operations are focused. This is not to say that profit-making should be disregarded, rather it should be recognised only as an instrument to the achievement of greater aims. Ultimate success in business should be measured by a company's ability to meet its social and environmental ends because profits are not what make a business successful. As Robert Solomon and Clancy Martin suggest, we indeed have to look "beyond 'the bottom line' to the real values that rule our lives".³⁵⁷

In this thesis I have argued that the instrumental treatment of moral concerns – which is inevitable in the kind of system that Friedman, Friedrich Hayek and even Adam Smith, to a certain extent, condone – is entirely inappropriate. This is because social justice is not protected or valued in a system that positions profit-making as the end of business. We cannot treat as instrumental that which we are ultimately aiming at. Hence neoliberal business theory is internally inconsistent and essentially contradictory. My goal has been to resolve this contradiction by taking the idea that social justice *is* the end of business and arguing that a genuine commitment to this involves rejecting the claim that the aim of business is to maximise profits.

I have also argued that committing to social justice in a business context requires a proper understanding of the ultimate ends of business that is born of the right sort of commitments. These must, in the first place, be commitments to social justice and not to the

³⁵⁵ Rosling, H., 'New Insights on Poverty', March 2007. Recorded lecture (online).

³⁵⁶ Friedman, M., *Capitalism and Freedom*, p.133.

³⁵⁷ Solomon, R.C. and Martin, C., *Above the Bottom Line*, p.513.

bottom line. It cannot rightly be assumed that we are primarily motivated by material greed and so it is incorrect to structure our business and economic systems in accordance with this mistaken assumption.

In the current tumultuous economic climate, and with alarming global poverty statistics and our increasing recognition of the fragility of the natural world, we have never been better placed to open a platform for dialogue and debate on the role and responsibility of business to these issues. To end ironically, with the words of my adversary, Friedman writes that:

Only a crisis – actual or perceived – produces real change. When that crisis occurs, the actions that are taken depend on the ideas that are lying around. That, I believe, is our basic function: to develop alternatives to existing policies, to keep them alive and available until the politically impossible becomes politically inevitable³⁵⁸

It is our responsibility to ensure that the ideas that are ‘lying around’ at this critical time are in actual fact, and not just on face value, about ensuring the realisation of our most greatest value: social justice.

³⁵⁸ Friedman, M., *Capitalism and Freedom*, p.ix.

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