CHAPTER 13

The Responsible Office: Corporations and Social Responsibility

CHAPTER OVERVIEW

Chapter 13 defines different legal structures for businesses and explores ways that individual companies may be understood not only as pursuing economic goals but also as possessing broad ethical responsibilities in society.

1. WHAT KIND OF BUSINESS ORGANIZATIONS ARE THERE?

LEARNING OBJECTIVES

1. **Distinguish and define the principal ways of organizing a business.**
2. **Consider liability and ethical responsibility as they relate to different forms of businesses.**
3. **Sketch the organizational structure of a corporation.**

1.1 Paramount Pictures

Movies from Paramount Pictures begin with an image of a mountain flashed onto the screen. That mountain, reputedly, was quick-sketched on a notepad by the company's founder W. W. Hodkinson. Hodkinson got started in the movie business in the early 1900s when he opened a theater in Ogden, Utah. He shuffled films faster than his competitors (the town's two other movie houses), and so came to dominate the local market. Soon he expanded to the big city of Salt Lake, then Los Angeles, and onward.

Looking to keep his enterprise growing, Hodkinson founded a company called Paramount to provide up-front money to cash-strapped movie producers. In exchange, he got exclusive rights to screen their work in theaters. Grateful for the help, for the trust, and above all for the cash, struggling moviemakers including Adolph Zukor, Samuel Goldfish (later Goldwyn), and Cecil B. DeMille signed on to the project in five-year deals. By 1915, they were all wealthier.

Now that they no longer needed his up-front money, Zukor and the rest started trying to squirm out of their deal. Having initially taken the risk to launch their careers, Hodkinson refused to let them go. So Zukor and friends hatched a plan. Pretending to have been faced down by Hodkinson, they not only embraced the deal they'd already inked, but they also extended it for twenty-five more years in exchange for a lump sum. They took that money, opened a line of credit, and began secretly buying Paramount stock. When they accumulated enough, they took it over, and in what would be a good premise for a revenge movie, they kicked Hodkinson out of his own company.

1.2 Types of Businesses

One lesson of Hodkinson's story is that the way a business is organized is critically important. He left Paramount open to a financial sneak attack by not keeping the whole company in his name as a sole proprietorship. When he let shares go out—when he allowed others to buy part ownership in his enterprise—he was setting himself up for what happened. Of course it's also true that he probably wouldn't have had the money needed to get the enterprise going in the first place had he not gotten a capital injection from selling off pieces of ownership.

Every form of business organization comes with advantages and disadvantages, and the specific *kinds* of organization that may be formed are numerous and change from state to state. There are, however, a number of basic types:

- Sole proprietorship
- Partnership
- Limited liability company
- S corporation
- Nonprofit organization
- Corporation

sole proprietorship

A business owned by a single individual.

A **sole proprietorship** is the easiest kind of business to start. All you need to do is go down to the county courthouse and fill out a DBA, which is a form officially registering that you're opening a business with the name you choose. DBA means *doing business as*, so Jan Jones can go register her company as JJ's Midnight Movie House, and she doesn't need to do anything more: her tax ID number for the business is just her Social Security number, and when she's filling out her IRS forms, she counts her profits as income, just like a paycheck. Benefits of a sole proprietorship include the speed and ease of getting it going. Further, sole proprietors can take advantage of tax accounting fitted to business reality. If you're Jan Jones and you sign contracts to pay $2,500 to rent a vacant warehouse along with the rights to show Paramount's *Mommie Dearest*, and you receive $3,000 from ticket buyers, you don't pay income tax on the whole $3,000, only on the $500 profit. Finally, sole proprietorships have the advantage of belonging to their owner: she can do whatever she wants with her company without fear of being taken over by someone else.

unlimited liability

The owner's or owners' legal responsibility in the face of all claims made against a company.

The main disadvantage of a sole proprietorship is that the company really is an extension of you, and you're on the hook for whatever it does. So if you screen your movie and no one shows up, you can't just call the whole thing a bad idea, declare bankruptcy, and walk away. Your lenders can sue you personally for the $2,500 you agreed to pay as JJ's Midnight Movie House. Worse, if people *do* show up, but someone smokes in the theater, which starts a fire and causes injuries, those injured people can sue you personally, and maybe take everything you own. The fact that Jan Jones has to take full responsibility for what her company does is called **unlimited liability**. That liability, finally, is legal, but it's also clear that there's an ethical dimension to the responsibility. While few assert that it's morally wrong to fail in business, there is a reasonable objection to be made when those who fail try to avoid paying the cost.

partnership

A business owned by more than one person.

A **partnership** resembles a sole proprietorship. The main difference, obviously, is that there's more than one owner: maybe there are two partners with 50 percent each, or one with 50 percent and then a group of smaller shareholders each owning 10 percent of the enterprise. The bookkeeping is pretty straightforward since profits are allotted in accordance with how great a share each partner owns. All partnerships must have, finally, at least one general partner who faces unlimited liability for the company's actions. On the ethical front, responsibility starts getting murky as you move to multiple owners. If the theater burns down, and one individual partner had been assigned (and failed) the task of making sure there were a few fire extinguishers around, does that one partner bear the entire ethical burden of the injuries? Is it doled out in accordance with the percentage owned? What if one of the owners just kicked some money in as a favor to a friend, and wasn't involved in the actual operation, does *she* bear any responsibility for what happened?

Limited liability companies (LLC) and S corporations are very similar. They're both hybrids of partnerships and corporations. From the partnership side they take the tax structure. Called **pass-through taxation**, profits are divided among the partners or shareholders. Then those individuals pay taxes on the money like it's income, a normal paycheck. What these two take from the corporate side—and the main reason people form an LLC or an S corporation—is that the enterprise's legal status provides *some* protection against liability lawsuits. If you, Jan Jones, and a few others form an LLC and the theater burns and people get injured, you may get out without losing all you have. Creditors and lawyers for the injured will be able to sue the company and probably take any money left in the till, but they'll have a harder time trying to take your personal car or the house you live in. Specific rules, it's important to note, vary depending on the business and the location, but both options are typically limited to a certain number of participants.

On the responsibility front, this is the pressing ethical question: If the theater burns down for an LLC, the owners will likely enjoy some legal protection. Does that protection, however, extend to the ethics? Is there any difference in terms of *moral responsibility* between a partnership operating a burning theater and an LLC?

Nonprofit corporations exist in a class by themselves. Usually formed to serve a charitable or civic cause, they don't have to pay taxes since they don't make profits: they spend all their income promoting the cause they're set up to serve. The operators of nonprofits often enjoy complete protection from liability claims. What about the ethics? If a nonprofit screens *Mommie Dearest* to raise money for the cause of orphans, and the theater burns, does the fact that the entire endeavor was arranged for the public good provide moral protection from guilt when people get hurt?

Technically, what most of us mean when we use the term **corporation** is a C corporation (as opposed to an S corporation). One financial difference between the two is that a C corporation is taxed twice. First, the government takes a chunk of the corporation's profits before they're distributed to the company's owners, who are all those individuals holding shares. Then when the shareholders get their part, each must pay taxes on it again. Another difference is that C corporations are not limited in terms of number of shareholders. Finally, most of the corporations that people are familiar with are **public**, meaning that the company's shares are available for purchase by anyone with the money to spend. There are, it should be noted, **private corporations** (and the similar "closely held" corporations) where share allocation is limited to a group or single person, but again, most of the commonly referenced incorporated companies are listed for public sale in places including the New York Stock Exchange, and you or I may become partial owners. In fact, and as the story of W. W. Hodkinson teaches, if we get enough money, we can buy the shares to take over the business.

Corporations step away from easier-to-form partnerships by providing protection to owners against liability claims. In the case of C corporations, that protection is significant. In many cases, the protection is *total*: completely insulated from liability, shareholders can lose their investment if the company does something it shouldn't and gets sued, but their personal possessions are completely safe. This is the case, for example, with the mega movie chain Regal Cinemas. The price of one share of that company today was $13.77. If you buy that, then no matter what the company does tomorrow, the most you could possibly lose is a little under $15. No one likes to lose $15, but still, there's a very large freedom from responsibility here. If Regal tries to save some money (and therefore boost its share price and your profit) by intentionally not charging their fire extinguishers, and on the day a blockbuster gets released ten theaters in various states burn with accompanying human suffering and a major number of deaths, the company may go bankrupt under a flood of lawsuits and justifiable public outrage. But you, one of the owners, would be out three $5 bills.

Corporations play a very large role in business ethics for two reasons. First, their independence from their specific owners opens questions about who—if anyone—should take moral responsibility for what the corporation does. Second, because corporations today have grown so large and powerful, because they touch all our lives in so many ways so often, the ethical questions they raise become hard to avoid. Both these dimensions of the modern corporation, the ethical ambiguity and the potentially huge size, relate to the history of the institution.

limited liability company (LLC) and S corporation

Companies usually owned by a limited number of individuals that provide some legal protections to owners for claims made against the company.

pass-through taxation

A tax regime where the profits (or losses) of a company are passed through to the owners who are responsible for declaring and paying taxes—the company itself pays no taxes.

nonprofit corporations

Corporations formed to serve a charitable or civic cause that are exempt from taxes and channel income back into the cause they're formed to serve.

corporation

A legally independent business that protects its owners from all liability claims made against the company.

public corporation

A corporation with shares available for purchase by the general public.

private corporation

A corporation with share allocation limited to a group or single person.

1.3 A Very Brief History and Description of the Corporation

Exxon Mobil's market value is around $450 billion. Just to compare, the GDP of Portugal—the total value of all goods and services produced in the country each year—is about $250 billion (when converted to US dollars). Walmart's revenues are climbing above $375 billion, which is a full third of the total revenues (in the form of taxes) collected by the US federal government from individuals. If Walmart were a sovereign nation, it would be China's fourth largest export market. Less abstractly, the size and penetration of the Ford Motor Company can be felt just by going out on the street and watching their products pass by. And if you go to a movie from Paramount, or laugh for a while with the Comedy Channel, or check out music videos on MTV, you're patronizing the behemoth called Viacom.

All these businesses, along with the rest of the corporations on the *Fortune* 500 list and then the many that didn't make the top tier, change our lives most every day. If you outfitted your dorm room or apartment at Walmart, it was a decision made by an executive buyer that determined the choices you'd have. If you're thinking about voting this year, Jon Stewart at Comedy Central is doing all he can to guide the way you decide which lever to pull. If you go to see a concert next weekend, an MTV executive may have been the one who originally pulled that group out of obscurity. Publicly held corporations, all this means, aren't just places where we go to work, or manufacturers that supply our necessities: they set the parameters and directions of our lives.

The first corporations extended directly from governments. In 1600, the English monarchy designated the British East India Company to manage international trade between the homeland and the Indian subcontinent. Shareholders did extremely well. By the 1800s, private enterprise was breaking away from tight governmental association; the corporation as we know it today began taking shape when individuals started claiming a right to freely associate for their economic benefit without direct governmental oversight and license.

Modern corporations are formed by a group of people who fill out the papers and register the name. Once it's created, however, the business exists as a *legally distinct entity*. In the eyes of the law, it is

- perpetual—it can survive even after its founders have passed away;
- responsible—just like a person—in the narrow sense in that it holds specific legal obligations and rights.

In 1819, the US Supreme Court defined a corporation as "an artificial being, invisible, intangible and existing only in the contemplation of the law."[1] This legal independence clears the way for owners (shareholders) to escape liability claims made against the corporation. Because the business stands on its own, because it is a "being," all claims must be made against it, not the shareholders standing behind.

board of directors

Individuals elected by shareholders who oversee a business and select the enterprise's operating, day-to-day managers.

chief executive officer (CEO)

Selected by the board of directors, the CEO is responsible for managing a company's daily operations.

Corporations are structured in diverse ways, but the basic governing form starts with the shareholders electing a **board of directors**. Walmart, for example, is governed by a fifteen-member board, which is elected each year. The board holds two main responsibilities. One is oversight; it keeps track of what's going on and reports back to shareholders. The other responsibility is operational. The board selects individuals who'll run the company on a day-to-day basis. Frequently, a **chief executive officer (CEO)** leads this team and is ultimately responsible for making sure Walmart is buying from suppliers at the lowest possible price, getting goods into the stores before stock runs out, and convincing customers to return and do more buying.

If the CEO and management team is good, there's a decent chance the company will be successful and grow. Good leadership, however, can't alone explain the megadimensions of today's larger corporations. One critical element of the corporate structure that contributes to the size is the owner-as-shareholder model. The model allows businesses to collect large amounts of cash quickly. Simply by printing up and selling more shares, a corporation raises potentially huge sums. That capital can be reinvested in the business—maybe to build new Walmart stores in growing suburbs—and the corporation's value goes up. It's true that the original shareholders now own less of the company on a percentage basis (because there are more owners), but their shares are worth more because the company is worth more, so they're unlikely to complain. As long as that virtuous cycle continues, well-run corporations can grow very quickly.

While all that growth is going on, the actual owners—shareholders—can be at home sitting in front of the TV. Many shareholders, actually, have almost no idea of what's happening inside the company they partially own. With respect to business ethics, this adds another level of complexity to the question about who, if anyone, should be held *morally* responsible for what the corporation does. If you just go out in the street and ask a passerby, "Who do you think bears moral responsibility for what a company does?" the answer you'll probably get is the owners. But in the case of corporations, they're protected *legally* by a liability firewall, and now they're also protected *structurally* by the fact that they—along with the multitude of other owners scattered all over the country and even the globe—aren't necessarily involved in making the company's operational decisions. These two factors combined have thrust this question to the forefront of questions about ethics in the economic world: can these artificial beings called corporations themselves have moral responsibilities to go along with their legal responsibility to operate within the law?

KEY TAKEAWAYS

- Businesses can be organized in various ways.
- The way a business is organized affects economic questions about profits, legal questions about liability, and ethical questions about responsibility.
- In sole proprietorships and partnerships, owners take economic, legal, and moral responsibility for what the company does.
- In public corporations, owners are shielded from legal responsibility for the enterprise's actions; the question about moral responsibility remains open.
- The structure of corporations—the ability to sell shares publicly—is instrumental in their ability to grow economically.

REVIEW QUESTIONS

1. What are the main ways of organizing a business?
2. What kind of business organization might be suitable for a plumber? Explain.
3. Why might someone choose to organize as an LLC instead of a sole proprietorship?
4. In legal terms, what is the relation between a corporation and those individuals who found the corporation?
5. In what ways does the structure of a corporation protect its owners from absorbing ethical responsibility for the company's actions?
6. How can corporations raise money?

2. THREE THEORIES OF CORPORATE SOCIAL RESPONSIBILITY

LEARNING OBJECTIVE

1. **Define and discuss the three main theories of corporate social responsibility.**

2.1 Corporations as Responsible

A Civil Action was originally a novel, but more people have seen the movie, which was distributed by W. W. Hodkinson's old company, Paramount. One of the memorable scenes is John Travolta playing a hotshot lawyer speeding up a rural highway to Woburn, Massachusetts. He gets pulled over and ticketed. Then he continues on his way to investigate whether there's any money to be made launching a lawsuit against a company that allowed toxic industrial waste to escape into the town's aquifer. The polluted water, Travolta suspects, eventually surfaced as birth defects. After checking things out, he races his Porsche back to Boston at the same speed. Same result.[2]

One of the movie's messages is that many corporations are like greedy lawyers—they have little sense of right and wrong, and their behavior can only be modified by money. The lesson is that you can't make Travolta slow down and drive safely by appealing to the right of others to use the road without being threatened by speeding Porsches, or by pleading with him to respect general social well-being that is served when everyone travels at about the same speed. If you want him to slow down, there's only one effective strategy: raise the traffic ticket fine. Make the money hurt. Analogously for companies, if you want them to stop polluting, hit them with harder penalties when they're caught.

What if that's not the only way for corporations to exist in the world, though? What if people who directed businesses began understanding their enterprise not only in financial terms (as profits and losses) but also in ethical ones? What if companies became, in a certain moral sense, like people, members of society bound by the same kinds of duties and responsibilities that you and I wrestle with every day? When companies *are* seen that way, a conception of *corporate social responsibility* comes forward.

2.2 Three Approaches to Corporate Responsibility

According to the traditional view of the corporation, it exists primarily to make profits. From this money-centered perspective, insofar as business ethics are important, they apply to moral dilemmas arising as the struggle for profit proceeds. These dilemmas include: "What obligations do organizations have to ensure that individuals seeking employment or promotion are treated fairly?" "How should conflicts of interest be handled?" and "What kind of advertising strategy should be pursued?" Most of this textbook has been dedicated to these and similar questions.

While these dilemmas continue to be important throughout the economic world, when businesses are conceived as holding a wide range of economic *and* civic responsibilities as part of their daily operation, the field of business ethics expands correspondingly. Now there are large sets of issues that need to be confronted and managed outside of, and independent of the struggle for money. Broadly, there are three theoretical approaches to these new responsibilities:

1. Corporate social responsibility (CSR)
2. The triple bottom line
3. Stakeholder theory

2.3 Corporate Social Responsibility (CSR)

corporate social responsibility (CSR)

In general, the conviction that corporations are not only legal entities with responsibilities but also moral entities, and they hold ethical obligations comparable to those of citizens in a society.

corporate social responsibility (CSR)

As a specific theory of business ethics, a package of four obligations the corporation holds as an independent ethical actor in society; the responsibilities are economic, legal, ethical, and philanthropic.

The title **corporate social responsibility** has two meanings. First, it's a general name for any theory of the corporation that emphasizes both the reponsibility to make money and the responsibility to interact ethically with the surrounding community. Second, corporate social responsibility is also a specific conception of that responsibility to profit while playing a role in broader questions of community welfare.

As a specific theory of the way corporations interact with the surrounding community and larger world, **corporate social responsibility (CSR)** is composed of four obligations:

1. The **economic responsibility** to make money. Required by simple economics, this obligation is the business version of the human survival instinct. Companies that don't make profits are—in a modern market economy—doomed to perish. Of course there are special cases. Nonprofit organizations make money (from their own activities as well as through donations and grants), but pour it back into their work. Also, public/private hybrids can operate without turning a profit. In some cities, trash collection is handled by this kind of organization, one that keeps the streets clean without (at least theoretically) making anyone rich. For the vast majority of operations, however, there have to be profits. Without them, there's no business and no business ethics.
2. The **legal responsibility** to adhere to rules and regulations. Like the previous, this responsibility is not controversial. What proponents of CSR argue, however, is that this obligation must be understood as a proactive duty. That is, laws aren't boundaries that enterprises skirt and cross over if the penalty is low; instead, responsible organizations accept the rules as a social good and make good faith efforts to obey not just the letter but also the spirit of the limits. In concrete terms, this is the difference between the driver who stays under the speed limit because he can't afford a traffic ticket, and one who obeys because society as a whole is served when we all agree to respect the signs and stoplights and limits. Going back to John Travolta racing his Porsche up and down the rural highway, he sensed none of this respect. The same goes for the toxic company W. R. Grace Incorporated as it's portrayed in the movie: neither one obeys regulations and laws until the fines get so high they've got no choice. As against that model of behavior, a CSR vision of business affirms that society's limits will be scrupulously obeyed, even if the fine is only one dollar.
3. The **ethical responsibility** to do what's right even when not required by the letter or spirit of the law. This is the theory's keystone obligation, and it depends on a coherent corporate culture that views the business itself as a citizen in society, with the kind of obligations that citizenship normally entails. When someone is racing their Porsche along a country road on a freezing winter's night and encounters another driver stopped on the roadside with a flat, there's a social obligation to do something, though not a legal one. The same logic can work in the corporate world. Many industrial plants produce, as an unavoidable part of their fabricating process, poisonous waste. In Woburn, Massachusetts, W. R. Grace did that, as well as Beatrice Foods. The law governing toxic waste disposal was ambiguous, but even if the companies weren't legally required to enclose their poisons in double-encased, leak-proof barrels, isn't that the right thing to do so as to ensure that the contamination will be safely contained? True, it might not be the

right thing to do in terms of pure profits, but from a perspective that values *everyone's* welfare as being valuable, the measure could be recommendable.

4. The **philanthropic responsibility** to contribute to society's projects even when they're independent of the particular business. A lawyer driving home from work may spot the local children gathered around a makeshift lemonade stand and sense an obligation to buy a drink to contribute to the neighborhood project. Similarly, a law firm may volunteer access to their offices for an afternoon every year so some local schoolchildren may take a field trip to discover what lawyers do all day. An industrial chemical company may take the lead in rehabilitating an empty lot into a park. None of these acts arise as obligations extending from the day-to-day operations of the business involved. They're not like the responsibility a chemical firm has for safe disposal of its waste. Instead, these public acts of generosity represent a view that businesses, like everyone in the world, have some obligation to support the general welfare in ways determined by the needs of the surrounding community.

Taken in order from top to bottom, these four obligations are *decreasingly* pressing within the theory of corporate social responsibility. After satisfying the top responsibility, attention turns to the second and so on. At the extremes, the logic behind this ranking works easily. A law firm on the verge of going broke probably doesn't have the responsibility to open up for school visits, at least not if the tours interfere with the accumulation of billable hours and revenue. Obviously, if the firm *does* go broke and out of business, there won't be any school visits in any case, so faced with financial hardship, lawyers are clearly obligated to fulfill their economic obligations before philanthropic ones.

More difficult questions arise when the economic responsibility conflicts with the legal one. For example, to remain profitable, an industrial plant may need to dispose of waste and toxins in barrels that barely meet legally required strengths. Assuming those legal limits are insufficiently strict to guarantee the barrels' seal, the spirit of the law may seem violated. The positive economic aspect of the decision to cut corners is the ability to stay in business. That means local workers won't lose their jobs, the familial stresses of unemployment will be avoided, suppliers will maintain their contracts, and consumers will still be served. The negative, however, is the possibility—and the reality at Woburn—that those toxins will escape their containers and leave a generation of workers' children poisoned.

Knowing what we do now about those Woburn children, there's no real conflict; anything would have been better than letting the toxins escape. If necessary, the company should have accepted bankruptcy before causing the social damage it did. At the time of the decision, however, there may have been less certainty about exactly what the risks and benefits were. Even among individuals promoting a strong sense of corporate responsibility for the surrounding community, there may have been no clear answer to the question about the proper course of action. Regardless, corporate social responsibility means every business holds four kinds of obligations and should respond to them in order: first the economic, then the legal, next the ethical, and finally the philanthropic.

2.4 The Triple Bottom Line

The **triple bottom line** is a form of corporate social responsibility dictating that corporate leaders tabulate bottom-line results not only in economic terms (costs versus revenue) but also in terms of company effects in the social realm, and with respect to the environment. There are two keys to this idea. First, the three columns of reponsibility must be kept separate, with results reported independently for each. Second, in all three of these areas, the company should obtain sustainable results.

The notion of sustainability is very specific. At the intersection of ethics and economics, **sustainability** means the long-term maintenance of balance. As elaborated by theorists including John Elkington, here's how the balance is defined and achieved economically, socially, and environmentally:

- **Economic sustainability** values long-term financial solidity over more volatile, short-term profits, no matter how high. According to the triple-bottom-line model, large corporations have a responsibility to create business plans allowing stable and prolonged action. That bias in favor of duration should make companies hesitant about investing in things like dot-coms. While it's true that speculative ventures may lead to windfalls, they may also lead to collapse. Silicon Valley, California, for example, is full of small, start-up companies. A few will convert into the next Google, Apple, and Microsoft. What gets left out, however, of the newspaper reports hailing the accomplishments of a Steve Jobs or a Bill Gates are all those other people who never made it—all those who invested family savings in a project that ended up bankrupt. Sustainability as a virtue means valuing business plans that may not lead to quick riches but that also avoid calamitous losses.

  Moving this reasoning over to the case of W. R. Grace dumping toxins into the ground soil, there's a possible economic-sustainability argument against that kind of action. Corporations trying to get away with polluting the environment or other kinds of objectionable actions may, it's true, increase their bottom line in the short term. Money is saved on disposal costs. Looking

triple bottom line

A form of corporate social responsibility dictating that corporate leaders tabulate results not only in economic terms but also in terms of company effects in the social realm and with respect to the environment.

fair trade movement

Proponents ask businesses—especially large producers in the wealthiest countries—to guarantee that suppliers in impoverished nations receive reasonable payment for their goods and services even when the raw economic laws of supply and demand don't require it.

further out, however, there's a risk that a later discovery of the action could lead to catastrophic *economic* consequences (like personal injury lawyers filing huge lawsuits). This possibility leads immediately to the conclusion that concern for corporate sustainability in financial terms argues against the dumping.

- **Social sustainability** values balance in people's lives and the way we live. A world in which a few *Fortune* 500 executives are hauling down millions a year, while millions of people elsewhere in the world are living on pennies a day can't go on forever. As the imbalances grow, as the rich get richer and the poor get both poorer and more numerous, the chances that society itself will collapse in anger and revolution increase. The threat of governmental overthrow from below sounds remote—almost absurd—to Americans who are accustomed to a solid middle class and minimal resentment of the wealthy. In world history, however, such revolutions are quite common. That doesn't mean revolution is coming to our time's developed nations. It may indicate, however, that for a business to be stable over the long term, opportunities and subsequently wealth need to be spread out to cover as many people as possible.

  The **fair trade movement** fits this ethical imperative to shared opportunity and wealth. Developed and refined as an idea in Europe in the 1960s, organizations promoting fair trade ask businesses—especially large producers in the richest countries—to guarantee that suppliers in impoverished nations receive reasonable payment for their goods and services even when the raw economic laws of supply and demand don't require it. An array of ethical arguments may be arranged to support fair trade, but on the front of sustainability, the lead argument is that peace and order in the world depend on the world's resources being divided up in ways that limit envy, resentment, and anger.

  Social sustainability doesn't end with dollars; it also requires *human respect*. All work, the logic of stability dictates, contains dignity, and no workers deserve to be treated like machines or as expendable tools on a production line. In today's capitalism, many see—and the perception is especially strong in Europe—a world in which dignity has been stripped away from a large number of trades and professions. They see minimum wage workers who'll be fired as soon as the next economic downturn arrives. They see bosses hiring from temporary agencies, turning them over fast, not even bothering to learn their names. It's certainly possible that these kinds of attitudes, this contempt visible in so many workplaces where the McJob reigns, can't continue. Just as people won't stand for pennies in wages while their bosses get millions, so too they ultimately will refuse to accept being treated as less dignified than the boss.

  Finally, social sustainability requires that corporations as citizens in a specific community of people maintain a healthy relationship with those people. Fitting this obligation into the case of W. R. Grace in Woburn, it's immediately clear that any corporation spilling toxins that later appear as birth defects in area children isn't going to be able to sustain anything with those living nearby. Any hope for cooperation in the name of mutual benefit will be drowned by justified hatred.

- **Environmental sustainability** begins from the affirmation that natural resources—especially the oil fueling our engines, the clean air we breathe, and the water we drink—are limited. If those things deteriorate significantly, our children won't be able to enjoy the same quality of life most of us experience. Conservation of resources, therefore, becomes tremendously important, as does the development of new sources of energy that may substitute those we're currently using.

  Further, the case of an industrial chemical company pouring toxins into the ground that erupt years later with horrific consequences evidences this: not only are resources finite, but our earth is limited in its ability to naturally regenerate clean air and water from the smokestacks and runoff of our industries. There are, clearly, good faith debates that thoughtful people can have about *where* those limits are. For example, have we released greenhouse gases into the air so heavily that the earth's temperature is rising? No one knows for sure, but it's certain that *somewhere* there's a limit; at some point carbon-burning pollution will do to the planet what toxic runoff did in Woburn: make the place unlivable. Sustainability, finally, on this environmental front means actions must be taken to facilitate our natural world's renewal. Recycling or cleaning up contamination that already exists is important here, as is limiting the pollution emitted from factories, cars, and consumer products in the first place. All these are actions that corporations must support, not because they're legally required to do so, but because the preservation of a livable planet is a direct obligation within the triple-bottom-line model of business responsibility.

Together, these three notions of sustainability—economic, social, and environmental—guide businesses toward actions fitted to the conception of the corporation as a participating citizen in the community and not just as a money machine.

One deep difference between corporate social responsibility and the triple bottom line is cultural. The first is more American, the second European. Americans, accustomed to economic progress, tend to be more comfortable with, and optimistic about, change. Collectively, Americans want business to transform the world, and ethical thinking is there (hopefully) to help the transformations maximize improvement across society. Europeans, accustomed to general economic decline with respect to the United States, view change much less favorably. Their inclination is to slow development down, and to keep things the same as far as possible. This outlook is naturally suited to sustainability as a guiding value.

It's important to note that while sustainability as a business goal puts the breaks on the economic world, and is very conservative in the (nonpolitical) sense that it favors the current situation over a changed one, that doesn't mean recommending a pure freeze. Sustainability isn't the same as **Ludditism**, which is a flat resistance to all technological change.

Ludditism

Resistance to all technological development.

The Luddites were a band of textile workers in Britain in the 1800s who saw (correctly) that mechanized looms would soon rob them not only of their livelihood but also of their way of life. To stop the change, they invaded a few factories and broke everything in sight. Their brute strategy succeeded very briefly and then failed totally. Today, Ludditism is the general opposition to new technologies in any industry on the grounds that they tear the existing social fabric: they force people to change in the workplace and then everyplace, whether they like it or not. There's an element of (perhaps justifiable) fear of the future in both Ludditism and the business ethics of sustainability, but there are differences between the two also. For example, sustainability concerns don't always stand against technological advances. Actually, innovation is favored *as long as* advances are made in the name of maintaining the status quo. For example, advances in wind power generation may allow our society to continue using energy as we do, even as oil reserves dwindle, and with the further benefit of limiting air pollution.

2.5 Stakeholder Theory

Stakeholder theory, which has been described by Edward Freeman and others, is the mirror image of corporate social responsibility. Instead of starting with a business and looking out into the world to see what ethical obligations are there, stakeholder theory starts in the world. It lists and describes those individuals and groups who will be affected by (or affect) the company's actions and asks, "What are their legitimate claims on the business?" "What rights do they have with respect to the company's actions?" and "What kind of responsibilities and obligations can they justifiably impose on a particular business?" In a single sentence, stakeholder theory affirms that *those whose lives are touched by a corporation hold a right and obligation to participate in directing it*.

As a simple example, when a factory produces industrial waste, a CSR perspective attaches a responsibility directly to factory owners to dispose of the waste safely. By contrast, a stakeholder theorist begins with those living in the surrounding community who may find their environment poisoned, and begins to talk about business ethics by insisting that they have a right to clean air and water. Therefore, they're stakeholders in the company and their voices must contribute to corporate decisions. It's true that they may own no stock, but they have a moral claim to participate in the decision-making process. This is a very important point. At least in theoretical form, those affected by a company's actions actually become something like shareholders and owners. Because they're touched by a company's actions, they have a right to participate in managing it.

Who are the stakeholders surrounding companies? The answer depends on the particular business, but the list can be quite extensive. If the enterprise produces chemicals for industrial use and is located in a small Massachusetts town, the stakeholders include:

- Company owners, whether a private individual or shareholders
- Company workers
- Customers and potential customers of the company
- Suppliers and potential suppliers to the company
- Everyone living in the town who may be affected by contamination from workplace operations
- Creditors whose money or loaned goods are mixed into the company's actions
- Government entities involved in regulation and taxation
- Local businesses that cater to company employees (restaurants where workers have lunch, grocery stores where employee families shop, and similar)
- Other companies in the same line of work competing for market share
- Other companies that may find themselves subjected to new and potentially burdensome regulations because of contamination at that one Massachusetts plant

The first five on the list—shareholders, workers, customers, suppliers, and community—may be cited as the five cardinal stakeholders.

The outer limits of stakeholding are blurry. In an abstract sense, it's probably true that everyone in the world counts as a stakeholder of any serious factory insofar as we all breathe the same air and because the global economy is so tightly linked that decisions taken in a boardroom in a small town on the East Coast can end up costing someone in India her job and the effects keep rippling out from there.

In practical terms, however, a strict stakeholder theory—one insistently bestowing the power to make ethical claims on *anyone* affected by a company's action—would be inoperable. There'd be no end to simply figuring out whose rights needed to be accounted for. Realistically, the stakeholders surrounding a business should be defined as those tangibly affected by the company's action. There ought to be an unbroken line that you can follow from a corporate decision to an individual's life.

stakeholder ethics

Stakeholders are individuals and groups who are affected by a company's actions; the theory holds that a corporation's stakeholders have a right and obligation to participate in directing the business.

collective bottom line

Within stakeholder ethics, the summed effect of a company's actions on *all* stakeholders.

Once a discrete set of stakeholders surrounding an enterprise has been located, **stakeholder ethics** may begin. The purpose of the firm, underneath this theory, is to maximize profit on a collective bottom line, with profit defined not as money but as human welfare. The **collective bottom line** is the summed effect of a company's actions on *all* stakeholders. Company managers, that means, are primarily charged not with representing the interests of shareholders (the owners of the company) but with the more social task of coordinating the interests of *all* stakeholders, balancing them in the case of conflict and maximizing the sum of benefits over the medium and long term. Corporate directors, in other words, spend part of the day just as directors always have: explaining to board members and shareholders how it is that the current plans will boost profits. They spend other parts of the day, however, talking with other stakeholders about *their* interests: they ask for input from local environmentalists about how pollution could be limited, they seek advice from consumers about how product safety could be improved and so on. At every turn, stakeholders are treated (to some extent) like shareholders, as people whose interests need to be served and whose voices carry real force.

In many cases transparency is an important value for those promoting stakeholder ethics. The reasoning is simple: if you're going to let every stakeholder actively participate in a corporation's decision making, then those stakeholders need to have a good idea about what's going on. In the case of W. R. Grace, for example, it's important to see that a stakeholder theory would not necessarily and immediately have acted to prohibit the dumping of toxins into the soil. Instead, the theory demands that all those who may be affected know what's being dumped, what the risks are to people and the environment, and what the costs are of taking the steps necessary to dispose of the chemical runoff more permanently and safely.

As already noted, we know now what W. R. Grace should have done under most every ethical theory. At the time, however, stakeholders fully informed of the situation may have been less sure because it wasn't so clear that the runoff would cause so many problems (or any problems at all). Given that, owners may have favored dumping because that increases profits. Next, what about workers in town? It's important to keep in mind that the safe removal of the waste may have lowered company profits and potentially caused some layoffs or delayed wage hikes. As stakeholders, they may have been willing to agree to the dumping too. The same goes for community politicians who perhaps would see increased tax revenue as a positive effect of high corporate profits.

What's certain is that stakeholder theory obligates corporate directors to appeal to all sides and balance everyone's interests and welfare in the name of maximizing benefits across the spectrum of those whose lives are touched by the business.

2.6 Conclusion on the Three Forms of Corporate Social Responsibility

Traditionally, the directors of companies have had an extremely difficult but very narrowly defined responsibility: guide the enterprise toward money. The best companies have been those generating the highest sales, gaining the most customers, and clearing the largest profits. As for ethical questions, they've been arranged around the basic obligation to represent the owners' central interest, which presumably is to profit from their investment. Consequently, the field of business ethics has mainly concerned conflicts and dilemmas erupting inside the company as people try to work together to win in the very competitive economic world. The idea of corporate social responsibility—along with the related ideas of the triple bottom line and stakeholder theory—opens a different kind of business ethics. Morality in the economic world is now about corporate directors sensing and responding to a broad range of obligations, ones extending through the town where the business is located and then out into surrounding communities and through society generally.

In Woburn, Massachusetts, in the early 1980s, this conflict between two ways of running a business played out in the Hollywood depiction of the lawyer played by John Travolta. At the movie's beginning, right and wrong for a business got decided in dollars and without broader sensibility. Travolta's law firm existed to make money and operated by accepting only cases that promised big payouts. That's what brought Travolta to Woburn, the chance to sue deep-pocketed W. R. Grace for poisoning the land with toxic runoff and for destroying the lives of families living near the pools of contamination. Over the course of the movie, however, Travolta becomes attached to Woburn's cause and the social good of fighting for a clean environment. By the end, he's risking his firm's high profits—and, according to his law-firm partners, all common sense—to make sure that harmed people living in town get their good lives back, and to ensure that a Woburn-like toxic disaster won't happen again.

In terms of business ethics, it's not difficult to interpret Travolta's transformation from a businessman taking care of the bottom line, to one engaged by a broader vision of social responsibility. Each of the three discussed theories—corporate social responsibility, the triple bottom line, stakeholder theory—can be fit into the movie *A Civil Action*.

In terms of corporate social responsibility, Travolta came to believe that his job as the law firm's leader obligated him to satisfy his economic responsibility to make money for the firm by suing for financial damages while also acting legally. Further, his firm needed to satisfy the ethical responsibility to help others in Woburn get their good lives back. Here, there is a basic duty to help others in need when you have the capability. Finally, there was an element of philanthropy in Travolta's endeavor because his law firm pursued a case that served the greater good even though more profitable work opportunities were available.

In terms of the triple bottom line of economics, society, and the environment, Travolta came to believe that his job as the law firm's leader obligated him to take account of and do well in all three areas. It was no longer enough to win money; his business had a moral responsibility to win for society and to win for the environment also. The long-term goal was to ensure the economic sustainability of his firm, the sustainability of healthy family life in Woburn, and the sustainability of clean earth and air in that part of Massachusetts.

In terms of stakeholder ethics, Travolta came to believe that his job as the law firm's leader obligated him not only to work for the firm's owners (including himself) but also to take direction from those who would be affected by the firm's actions. That meant considering—trying to balance and to add up—the interests of his partners and all those who lived in Woburn.

Finally, because Travolta's story was also a Hollywood story, his transformation on the big screen was presented as the change from an aloof bad guy to a caring good guy. It's not clear, however, in the real world whether a corporate ethics based on social responsibility, the triple bottom line, or all stakeholders is actually recommendable. The debate between the two ways of thinking about business—the traditional, profit-centered view and the broader, socially responsible view—is hard-fought and intensified by good arguments on both sides.

KEY TAKEAWAYS

- Corporations may have obligations that go beyond generating profits and include the larger society.
- Corporate social responsibility as a specific theory affirms that corporations are entities with economic, legal, ethical, and philanthropic obligations.
- Corporations responsible for a triple bottom line seek sustainability in the economic, social, and environmental realms.
- Corporate ethics built on stakeholder theory seek to involve all those affected by the organization in its decision-making process.

REVIEW QUESTIONS

1. For corporate advocates of the specific CSR theory, what are the responsibilities the corporation holds, and how are conflicts between those responsibilities managed?
2. Create a hypothetical situation in which philanthropy would not be required of a corporation by CSR theory.
3. What does *sustainability* mean within each of the three columns of the theory of the triple bottom line?
4. How does the fair trade movement fit together with the triple-bottom-line theory of corporate responsibility?
5. Who are the stakeholders in stakeholder ethics?
6. What does it mean for a corporate director to "balance stakeholder interests"?
7. What basic elements do CSR, the triple bottom line, and stakeholder theory have in common?

3. SHOULD CORPORATIONS HAVE SOCIAL RESPONSIBILITIES? THE ARGUMENTS IN FAVOR

LEARNING OBJECTIVE

1. **Define and elaborate the major arguments in favor of corporations having social and environmental responsibilities.**

3.1 Why Should Corporations Have Social Responsibilities?

Broadly, there are three kinds of arguments in favor of placing corporations, at least large and fully developed ones, within an ethical context of expansive social and environmental responsibilities:

1. Corporations are morally required to accept those responsibilities.
2. The existence of externalities attaches companies, in operational and economic terms, to those responsibilities.
3. Enlightened self-interest leads to voluntarily embracing those responsibilities.

The Moral Requirement Argument

The moral requirement that business goals go beyond the bottom line to include the people and world we all share is built on the following arguments:

- Corporations are already involved in the broad social world and the ethical dilemmas defining it. For example, factories producing toxic waste are making a statement about the safety and well-being of those living nearby every time they dispose of the toxins. If they follow the cheapest—and least safe—route in order to maximize profits, they *aren't* avoiding the entire question of social responsibility; they're saying with their actions that the well-being of townspeople doesn't matter too much. That's an ethical stance. It may be good or bad, it may be justifiable or not, but it's definitely ethics. Choosing, in other words, not to be involved in surrounding ethical issues *is* an ethical choice. Finally, because companies are inescapably linked to the ethical issues surrounding them, they're involved with some form of corporate social responsibility whether they like it or not.
- Corporations, at least well-established, successful, and powerful ones, can be involved in the effective resolution of broad social problems, and that ability implies an obligation. Whether we're talking about a person or a business, the possession of wealth and power is also a duty to balance that privilege by helping those with fewer resources. Many accept the argument that individuals who are extraordinarily rich have an obligation to give some back by, say, creating an educational foundation or something similar. That's why people say, "To whom much is given, much is expected." Here, what's being argued is that the same obligation applies to companies.
- Corporations rely on much more than their owners and shareholders. They need suppliers who provide materials, employees who labor, a town where the workplace may be located, consumers who buy, air to breathe, water to drink, and almost everything. Because a business relies on all that, the argument goes, it's automatically responsible—to some extent—for the welfare and protection of those things.
- Because businesses cause problems in the larger world, they're obligated to participate in the problems' resolution. What kinds of problems are caused? Taking the example of an industrial chemical factory, toxic waste *is* produced. Even though it may be disposed of carefully, that doesn't erase the fact that barrels of poison are buried somewhere and a threat remains, no matter how small. Similarly, companies that fire workers create social tensions. The dismissal may have been necessary or fully justified, but that doesn't change the fact that problems are produced, and with them comes a responsibility to participate in alleviating the negative effects.

Conclusion. Taken together, these arguments justify the vision of any particular enterprise as much more than an economic wellspring of money. Businesses become partners in a wide world of interconnected problems and shared obligations to deal with them.

The Externality Argument

The second type of argument favoring corporate social responsibility revolves around *externalities*. These attach corporations to social responsibilities not morally but operationally. An **externality** in the economic world is a cost of a good or service that isn't accounted for in the price (when that price is established through basic laws of supply and demand). For example, if a corporation's factory emits significant air pollution, and that results in a high incidence of upper respiratory infections in the nearby town, then a disproportionately high number of teachers and police officers (among others) are going to call into work sick throughout the year. Substitute teachers and replacment officers will need to be hired, and that cost will be borne by everyone in town when they receive a higher tax bill. The corporation owning the pollution-belching factory, that means, gets the full amount of money from the sale of its products but doesn't pay the full cost of producing them since the broader public is shouldering part of the pollution bill. This strikes many as unfair.

externality

In the economic world, a cost of a good or service that isn't accounted for in the price.

Another example might be a company underfunding its pension accounts. The business may eventually shut its doors, deliver final profits to shareholders, and leave retired workers without the monthly checks they'd been counting on. Then the government may have to step in with food stamps, welfare payments, and similar to make up for the shortfall, and in the final tabulation, the general public ends up paying labor costs that should have been borne by shareholders.

Externalities, it should be noted, aren't always negative. For example, the iPhone does a pretty good job of displaying traffic congestion in real time on its map. That ability costs money to develop, which Apple invested, and then they get cash back when an iPhone sells. Apple doesn't receive, however, anything from those drivers who don't purchase an iPhone but still benefit from it: those who get to where they're going a bit faster because everyone who *does* have an iPhone is navigating an alternate route. More, *everyone* benefits from cleaner air when traffic jams are diminished, but again, that part of the benefit, which should channel back to Apple to offset its research and production costs, ends up uncompensated.

Whether an externality is negative or positive—whether a company's bottom line rises or falls with it—a strong argument remains for broad corporate responsibility wherever an externality exists. Because these parts of corporate interaction with the world aren't accounted for in dollars and cents, a broad ethical discussion must be introduced to determine what, if any, obligations or benefits arise.

The Enlightened Self-interest Argument

The third kind of argument in favor of corporations as seats of social responsibility grows from the notion of enlightened self-interest. **Enlightened self-interest** means businesses take on broad responsibilities because, on careful analysis, that public generosity also benefits the company. The benefits run along a number of lines:

enlightened self-interest

In the business world, taking on broad responsibilities for the social welfare because, on careful analysis, that public generosity also benefits the company's bottom line.

- Corporations perceived as socially engaged may be rewarded with more and more satisfied customers. TOMS shoes is an excellent example. For every pair of shoes they sell, they give a pair away to needy children. No one doubts that this is a noble action—one displaying corporate vision as going beyond the bottom line—but it's also quite lucrative. Many people buy from TOMS *because* of the antipoverty donations, and those customers feel good about their footwear knowing that a child somewhere is better off.
- Organizations positively engaged with society or the environment may find it easier to hire top-notch employees. All workers seek job satisfaction, and given that you spend eight hours a day on the job, the ingredients of satisfaction go beyond salary level. Consequently, workers who select from multiple job offers may find themselves attracted to an enterprise that does some good in the world. This point can also be repeated negatively. Some organizations with more checkered reputations may find it difficult to hire good people even at a high salary because workers simply don't want to have their name associated with the operation. A curious example to fit in here is the Central Intelligence Agency. Some people will accept a job there at a salary lower than they'd make in the private realm because it's the CIA, and others won't work there even if it's their best offer in terms of money because it's the CIA.
- Organizations taking the initiative in regulating themselves in the name of social betterment may hold off more stringent requirements that might otherwise be imposed by governmental authorities. For example, a lab fabricating industrial chemicals may wrap their toxic waste in not only the legally required single, leak-proof barrel but a second as well, to positively ensure public safety. That proactive step is not only good for the environment, but it may help the bottom line if it effectively closes off a regulatory commission's discussion about requiring *triple* barrel protections.

Enlightened self-interest starts with the belief that there are many opportunities for corporations to do well (make money) in the world by doing good (being ethically responsible). From there, it's reasonable to assert that *because* those opportunities exist, corporations have no excuse for not seeking them out, and then profiting from them, while helping everyone else along the way.

cause egoism

Giving the false appearance of being concerned with the welfare of others in order to advance one's own interests.

One basic question about enlightened self-interest is, "Are corporations making money because they're doing good deeds, or are they doing good deeds because it makes them money?" In terms of pure consequences, this distinction may not be significant. However, if the reality is that social good is being done *only* because it makes money, then some will object that corporate social responsibility is twisting into a clever trick employed to maximize profits by deceiving consumers about a business's intention. CSR becomes an example of **cause egoism**—that is, giving the false appearance of being concerned with the welfare of others in order to advance one's own interests.

KEY TAKEAWAY

- There are three broad arguments in favor of corporate social responsibility: it is morally required, it's required by externalities, it serves the interest of the corporation.

REVIEW QUESTIONS

1. In your own words, what are a few reasons a corporation may feel directly required to respond to broad social obligations?
2. What is an example of an externality? How could the existence of that externality be transformed into an argument in favor of corporate social responsibility?
3. List three ways a corporate bottom line may be improved by serving the public welfare.

4. SHOULD CORPORATIONS HAVE SOCIAL RESPONSIBILITIES? THE ARGUMENTS AGAINST

LEARNING OBJECTIVES

1. **Define and elaborate the major arguments in favor of the corporate purpose as limited to increasing profits.**
2. **Define and elaborate major arguments against corporations accepting broad social and environmental responsibilities.**

4.1 The Only Corporate Responsibility Is to Increase Profits

In 1970, just as the idea of corporate social responsibility was gaining traction and influential advocates in the United States, the economist Milton Friedman published a short essay titled "The Social Responsibility of Business is to Increase its Profits." Possibly the most provocative single contribution to the history of business ethics, Friedman set out to show that large, publicly owned corporations ought to be about making money, and the ethical obligations imposed by advocates of CSR should be dismissed. His arguments convinced some and not others, but the eloquent and accessible way he made them, combined with the fact that his ideas were published in a mainstream publication—the *New York Times Magazine*—ensured their impact.[3]

Businesses, as discussed at the chapter's beginning, come in all shapes and sizes. When the topic is social responsibility, however, attention frequently fixes on very large corporations because they're so big (and therefore able to do the most good) and powerful (the philosophies driving them tend to set the tone for business life in general). Friedman's essay concerns these large, publicly held corporations. Here are his arguments.

4.2 The Argument That Businesses *Can't* Have Social Responsibilities

A business can't have moral responsibilities any more than a wrench can. Only humans have moral responsibilities because only we have consciousness and intentions: we're the only things in the world that can control our actions, that can distinguish between what we want to do and what's right to do. Therefore, only we can have responsibilities in the ethical sense. What, then, is a business? Nothing more than a tool, something we make to further our ends. It may work well or poorly, but no matter what, it doesn't do what *it* wishes, so we can't blame or credit the business, only those individuals who use it for one purpose or another.

In Woburn, Massachusetts, according to this argument, it makes no sense to say that W. R. Grace has some kind of corporate responsibility to keep the environment clean. A company doesn't have any responsibilities. It's like a wrench, a thing out in the world that people use, and that's all. Would you accuse a wrench of being irresponsible if someone uses it to loosen the bolts on some truckers' tires and so causes an accident and disastrous spill of toxins? You'd probably accuse the person who *used* the wrench of acting irresponsibly, but blaming the wrench for something would be madness.

4.3 The Argument That Corporate Executives Are Responsible Only to Shareholders

Corporate executives are employees of the owners of the enterprise. They're contracted and obligated to conduct the business as the owners desire, not in accord with the wishes of some other people out in the world advocating broad social concerns. Executives in this sense are no different from McDonald's burger flippers: they're hired and agree to do a certain thing a certain way. If they don't like it, they're free to quit, but what they can't do is take the job and then flip the hamburgers into the trash because their friends are all texting them about how unhealthy McDonald's food is.

What do corporate owners desire? According to Friedman, the typical answer is the highest return possible on their investment. When you buy shares of the industrial chemical maker W. R. Grace, you check once in a while what the stock price is because price (and the hope that it's going up) is the reason you bought in the first place. It follows, therefore, that executives—who in the end work for you, the owner—are duty bound to help you get that higher share price, and the quickest route to the goal is large profits.

What about the executive who decides to dedicate time and a corporation's resources to social welfare projects (to things like reducing runoff pollution even further than the law requires or hiring released felons as a way of easing their passage back into society)? Friedman is particularly cutting on this point. It's despicable selfishness. There's nothing easier than generosity with other people's money. And that's what, Friedman hints, CSR is *really* about. It's about corporate executives who like the idea of receiving accolades for their generous contributions to society, and they like it even more because the cash doesn't come out of their paycheck; it's subtracted from shareholder returns. There's the seed of an argument here, finally, that not only is corporate social responsibility not recommendable, it's reproachable: in ethical terms, corporate leaders are duty bound to refuse to participate in social responsibility initiatives.

4.4 The Argument That Society Won't Be Served by Corporate Social Responsibility

One serious practical problem with the vision of corporate executives resolving social problems is *it's hard to be sure that their solutions will do good*. Presumably, corporate executives got to be executives by managing businesses profitably. That's certainly a difficult skill, but the fact that it has been mastered doesn't automatically imply other talents. More, given the fact that corporate executives frequently have no special training in social and environmental issues, it's perfectly reasonable to worry that they'll do as much harm as good.

One example of the reversed result comes from *Newsweek*. Executives at the magazine probably thought they were serving the public interest when they dedicated space in their April 28, 1975, issue to the threatening and impending environmental disaster posed by global…cooling. Not a very enticing subject, they probably could've done more for their circulation numbers by running a story (with lots of pictures) about the coming summer's bathing suit styles, but they did the science to stoke broad discussion of our environmental well-being. As for the stoking, they certainly succeeded. Today, many scientists believe that global warming is the real threat and requires corporations to join governments in reducing carbon emissions. They have a hard time getting their message out cleanly, though, when there's someone around bringing up that old *Newsweek* article to discredit the whole discussion.

4.5 The Right Institution for Managing Social Problems Is Government

Social problems shouldn't be resolved by corporations because we already have a large institution set up for that: government. If members of a society really are worried about carbon emissions or the disposal of toxic waste at chemical plants, then they should express those concerns to elected representatives who will, in turn, perform their function, which is to elaborate laws and regulations guiding the way all of us—inside and outside of business—live together. Government, the point is, should do its job, which is to regulate effectively, and those in the business world should do their job, which is to comply with regulations while operating profitably.

Underneath this division of labor, there's a crucial distinction. Friedman believes that human freedom is based to some significant degree in economic life. Our fundamental rights to our property and to pursue our happiness are inviolable and are expressed in our working activities. The situation is complicated, however, because it's also true that for us to live together in a society, *some* restrictions must be placed on individual action. No community can flourish if everyone is just doing what they want. There's room for quite a bit of discussion here, but in general, Friedman asserts that while government (and other outside institutions) have to be involved in regulation and the imposing of limits, they shouldn't start trying to mold and dictate basic values in the economic realm, which must be understood in principle as a bastion of individual liberty and free choices.

socialism

In the economic world, the subordination of individual liberty to the general welfare.

At this juncture, Friedman's essay reaches its sharpest point. The notion of corporate social responsibility, Friedman asserts, is not only misguided; it's dangerous because it threatens to violate individual liberty. Stronger, the violation may ultimately lead to **socialism**, the end of free market allocation of resources because rampant political forces take control in the boardroom.

The movement to socialism that Friedman fears comes in two steps:

1. Environmental activists, social cause leaders, and crusading lawyers will convince at least a handful of preening business executives that working life isn't about individuals expressing their freedom in a wide-open world; it's about serving the general welfare. The notion of corporate social responsibility becomes a mainstream concern and wins wide public support.
2. With the way forced open by activists, the risk is that government will follow: the institution originally set up to regulate business life while guaranteeing the freedom of individuals will fall into the custom of imposing liberty-wrecking rules. Under the weight of these intrusive laws, working men and women will be forced to give up on their own projects and march to the cadence of government-dictated social welfare projects. Hiring decisions, for example, will no longer be about companies finding the best people for their endeavors; instead, they'll be about satisfying social goals defined by politicians and bureaucrats. Friedman cites as an example the hiring of felons. Obviously, it's difficult for people coming out of jail to find good jobs. Just as obviously, it's socially beneficial for jobs to be available to them. The problem comes when governments decide that the social purpose of reinserting convicts is more important than protecting the freedom of companies to hire anyone they choose. When that happens, hiring quotas will be imposed—corporations will be forced to employ certain individuals. This intrusive workplace rule will be followed by others. All of them will need to be enforced by investigating agents and disciplining regulators. As their numbers grow and their powers expand, freedom will be squeezed. Ultimately, freedom may be crushed by, as Friedman puts it, "the iron fist of Government bureaucrats."[4]

It's difficult to miss the fact that Friedman's worries were colored by the Cold War, by a historical moment that now feels remote in which the world really did hang in the balance between two views of working life: the American view setting individual freedom as the highest value and the Soviet view raising collectivism and the general welfare above all personal economic concerns and liberties.

Still, and even though today's historical reality is quite different from the 1970s, the essence of Friedman's objection to CSR hasn't changed. It's that you and I get to be who we are by going out into the world and making something of ourselves. When our ability to do that gets smothered beneath social responsibility requirements, we may help others (or possibly not), but no matter what, we sacrifice ourselves because we've lost the freedom to go and do what we choose. This loss isn't just an inconvenience or a frustration: it's the hollowing out of our dignity; it's the collapse of our ability to make ourselves and therefore the end of the opportunity to be someone instead of just anyone.

4.6 The Best Way for Corporations to Be Socially Responsible Is to Increase Profits

The final major argument against corporate social responsibility in its various forms is that the best way for most corporations to *be* socially responsible is to contribute to the community by doing what they do best: excelling in economic terms. When corporations are making profits, the money isn't just disappearing or piling up in the pockets of the greedy super rich (though some does go there); most of it gets sent back into the economy and everyone benefits. Jobs are created, and those that already exist get some added security. With employment options opening, workers find more chances to change and move up: more successful corporations mean more freedom for workers.

Further, corporations don't get to be successful through luck, but by delivering goods and services to consumers at attractive prices. Corporate success, that means, should indicate that consumers are doing well. Their quality of life improves as their consumer products improve, and those products improve best and fastest when corporations are competing against each other as freely as possible.

What about the public welfare in the most general sense, the construction of parks, schools, and similar? Here, too, corporations do the best for everyone by concentrating on their own bottom line. More hiring, sales, and profits all also mean more tax revenue flowing to the government. And since elected governmental entities are those organizations best equipped to do public good, the most a corporation can hope for with respect to general social welfare is to succeed, and thereby generate revenues for experts (or, at least democratically elected officials) to divide up wisely.

The term **marketplace responsibility**, finally, names the economic and social (and political) view emerging from Friedman's arguments. The title doesn't mean ethical responsibility in the marketplace so much as it does the specific conception of ethical responsibility that the open marketplace produces. It has two aspects: first, the notion of corporate social responsibility is misguided and dangerous, and second, the corporate purpose of profit maximization serves the social welfare while cohering with the value of human freedom that should be paramount in business ethics.

marketplace responsibility

The twin views that the notion of corporate social responsibility is misguided and dangerous, and the corporate purpose of profit maximization serves the social welfare while cohering with the value of human freedom that should be paramount in business ethics.

4.7 Conclusion: Corporate Social Responsibility versus Marketplace Responsibility

Advocates of corporate social responsibility believe corporations are obligated to share the burden of resolving society's problems. They maintain that the responsibility stands on pure moral grounds. More, there are operational reasons for the responsibilities: if businesses are going to contaminate the environment or cause distress in people's lives, they should also be actively working to resolve the problems. Finally, there's the strong argument that even if the corporate purpose should be to make profits, social responsibility is an excellent way to achieve the goal.

Advocates of marketplace responsibility—and adversaries of the corporate social responsibility model—argue that by definition corporations can't have moral responsibilities. Further, to the extent ethical obligations control corporate directors, the obligations are to shareholders. More, corporate directors aren't experts at solving social problems, and we already have an institution that presumably does have expertise: government. Finally, there's a strong argument that even if the corporate purpose should include broad social responsibilities, free individuals and corporations in the world making profits is an excellent way to achieve the goal.

KEY TAKEAWAYS

- The first argument against theories of corporate social responsibility is corporations can't have ethical responsibilities.
- The second argument is corporate executives are duty bound to pursue profits.
- The third argument is corporations are ill-equipped to directly serve the public good.
- The fourth argument is social issues should be managed by government, not corporations.
- The fifth argument is marketplace ethics reinforce human freedom and corporate social responsibility threatens society with socialism.
- The sixth argument against theories of corporate social responsibility is the best way for corporations to serve the public welfare is by pursuing profits.

REVIEW QUESTIONS

1. What does it mean to say that, in ethical terms, a corporation is no different from a wrench?
2. What primary responsibility do corporate directors have to shareholders? Why do they have it?
3. Why should social issues be managed by government and not corporations?
4. What is the connection between corporate social responsibility and the threat to freedom posed by socialism? How does socialism limit freedom?
5. What is an example of a company doing good by doing well—that is, making profits—and for that reason improving the general welfare? How can the example be converted into an argument against the theory of the corporation as having social responsibilities?

5. CASE STUDIES

5.1 Casinos and Crime

Source: Photo courtesy of emdot, http://www.flickr.com/photos/emdot/22751767.

Earl Grinols and David Mustard are economists and, like a lot of people, intrigued by both casinos and crime. In their case, they were especially curious about whether the first causes the second. It does, according to their study. Eight percent of crime occurring in counties that have casinos results from the legalized gambling. In strictly financial terms—which are the ones they're comfortable with as economists—the cost of casino-caused crime is about $65 per adult per year in those counties.[5]

When casinos come to town, the following specific crimes increase:

- Robbery (in all three major categories: of individuals, of their homes, of their cars)
- Aggravated assault
- Rape

The crimes also increased to some extent in neighboring counties.

Situation: A casino regular runs out of money after a string of bad cards. She coasts out to the street and drops her purse in front of an out-of-towner. When the chivalrous guy bends over to pick it up for her, she picks his back pocket. With the $100 stolen from the wallet, she heads back into the casino, spends $40 on hard liquor, loses the rest at the roulette table, and goes home. She wakes up alone, though some underwear she finds on her floor makes her think she probably didn't start the night that way. She can't remember.

QUESTIONS

1. Sole proprietorship
   - What is a sole proprietorship?
   - What are the basic legal steps to take on the way to making a sole proprietorship?
   - How are taxes paid in this kind of organization?
   - In most casino states and counties, laws protect owners from liability claims arising from problems caused by gambling. In ethical terms, however, if you're the sole proprietor of the casino, do you feel any responsibility for this episode? Why or why not? If you feel responsibility, to whom would it be? What could you do to set things right?
2. Partnership
   - In business, what is a partnership?
   - You own only 5 percent of a partner-owned casino, and don't pay too much attention to what goes on inside. In fact, you don't like gambling and only invested in the enterprise as a favor to a friend. Do you feel any ethical responsibility for this episode? Why or why not?
3. Nonprofit organization
   - What is a nonprofit organization?
   - You're an equal partner in a nonprofit organization that runs the casino to support the cause of building schools for children in impoverished sections of Peru. You spend a few months every year down there building schools and giving free English-language classes. In ethical terms (and regardless of what the law allows), do you believe anyone involved in this episode should be able to sue you personally for their suffering? Why or why not?
4. Large, public corporation
   - Large public corporations protect their owners from the ethical implications of what the corporation does through the business's organizational structure. What is that structure, and how does it protect shareholders?
   - Say that the casino under discussion in this set of questions is the MGM Grand Hotel and Casino in Las Vegas, which is owned by a large, public corporation. You have five shares of stock inherited a few years ago when a relative died. You are legally protected from liability claims. In ethical terms, however, do you believe that anyone involved in this episode should be able to sue you personally—or just plain blame you—for their suffering? Why or why not?
5. The woman in the story is your eighteen-year-old daughter. Does that change any of your answers?
6. What is an externality? What externalities probably belong to casinos? Are there any *positive* externalities that probably belong to casinos?
7. Pigouvian taxes (named after economist Arthur Pigou, a pioneer in the theory of externalities) attempts to correct externalities—and so formalize a corporate social responsibility—by levying a tax equal to the costs of the externality to society. The casino, in other words, that causes crime and other problems costing society, say, $1 million should pay a $1 million tax.
   - In terms of casinos, would such a tax more or less satisfy any ethical claim that could be made against them for the social problems they cause? Why or why not?
   - The way these social scientists measured the cost of each crime was, more or less, by totaling the *quantifiable* costs—that is, those things that could receive a price tag fairly readily. If, for example, your car gets stolen and sold for parts by a desperate gambler, you can put a price on the crime's cost by checking the car's Kelly Blue Book value. Added to that there are administrative costs—at the police station, the insurance company—and those too may be figured in terms of time and wages. Still, quite a bit of the cost of crime escapes (as the authors readily admit) their measure. Their calculations don't include lost productivity, social service, and welfare costs. They also don't include emotional costs, the tears, and distress of the victim. Is there any way for those costs—especially the emotional suffering—to be put into dollars and cents? If so, how? If not, is there some other kind of requirement that could be strapped onto casinos to help make them socially responsible for their activities?

5.2 Grace

Source: Photo courtesy of Andre Chinn, http://www.flickr.com/photos/andrec/2608065730.

The W. R. Grace Company was founded by, yes, a man named W. R. Grace. He was Irish and it was a shipping enterprise he brought to New York in 1865. Energetic and ambitious, while his company grew on one side, he was getting civically involved on the other. Fifteen years after arriving, he was elected Mayor of New York City. Five years after that, he personally accepted a gift from a delegation representing the people of France. It was the Statue of Liberty.

Grace was a legendary philanthropist. He provided massive food donations to his native Ireland to relieve famine. At home, his attention focused on his nonprofit Grace Institute, a tuition-free school for poor immigrant women. The classes offered there taught basic skills—stenography, typewriting, bookkeeping—that helped students enter the workforce. More than one hundred thousand young women have passed through the school, which survives to this day.

In 1945, grandson J. Peter Grace took control of the now worldwide shipping company. A decade later, it became a publicly traded corporation on the New York Stock Exchange. The business began shifting from shipping to chemical production.

By the 1980s, W. R. Grace had become a chemical and materials company, and it had come to light that one of its plants had been pouring toxins into the soil and water underneath the small town of Woburn, Massachusetts. The poisons worked their way into the town's water supply and then into the townspeople. It caused leukemia in newborns. Lawsuits in civil court, and later investigations by the Environmental Protection Agency, cost the corporation millions.

J. Peter Grace retired as CEO in 1992. After forty-eight years on the job, he'd become the longest-reigning CEO in the history of public companies. During that time, he also served as president of the Grace Institute.

The nonfiction novel *A Civil Action* came out in 1996. The best-selling, award-winning chronicle of the Woburn disaster soon became a Hollywood movie. The movie, starring John Travolta, continues to appear on television with some regularity.

To honor the Grace Institute, October 28 was designated "Grace Day" by New York City in 2009. On that day, the institute defined its mission this way: "In the tradition of its founding family, Grace Institute is dedicated to the development of the personal and business skills necessary for self-sufficiency, employability, and an improved quality of life."[6]

QUESTIONS

1. The specific theory of corporate social responsibility encompasses four kinds of obligations: economic, legal, ethical, and philanthropic.
   - How are business leaders meant to organize these four responsibilities? Which ones take precedence over the others and why?
   - Judging the man named W. R. Grace through the lens of CSR, how well did he respond to his obligations? Explain.
   - Judging the company's more recent activities in the 1980s through the lens of CSR, how well did it respond to its obligations? Explain.
2. The triple-bottom-line theory of corporate responsibility promotes three kinds of sustainability: economic, social, and environmental.
   - What does the term *sustainability* mean within this theory and within each of the three categories?
   - The W. R. Grace company has a long history. From the information provided, what are some of the steps the company has taken to become economically sustainable? Explain.
   - What are some of the steps the W. R. Grace company has taken to promote social sustainability? Explain.
   - What is environmental sustainability? How can the dumping of toxic waste in Woburn be categorized as unethical within the area of environmental sustainability concerns? Explain.
3. Stakeholder theory affirms that for companies to perform ethically, management decisions must take account of and respond to stakeholder concerns.
   - What is a *stakeholder*?
   - Looking back at the early company in New York in the 1800s, who would have been some of the stakeholders surrounding the Grace shipping company?
   - Looking to more recent history, to the corporation as a producer of industrial chemicals in Woburn, Massachusetts, who were some of the major stakeholders surrounding Grace?
   - Explain why the Grace Institute, which receives generous support from the W. R. Grace industrial chemical corporation—and the women receiving training there—are stakeholders in the W. R. Grace corporation.
   - The Grace Institute—the people employed there and the women receiving free training—depend to some extent on the chemical company being profitable. Could you construct an argument in favor of the chemical company being environmentally irresponsible if that allows profits, and therefore necessary support for the Institute?
4. As this question is being written, the share price of W. R. Grace is $26.17, and there are a total of 72,780,100 shares out there in the world. You've saved some money from a summer job and invested in Grace, 100 shares to be exact. That costs you $2,617, and means you own a not-overwhelming 0.000137 percent of the company. Next, you e-mail this to the CEO: "I worked hard for my $2,617, I bought stock to see that amount rise, and I want you to pour a little bit more of the profits into research and development of new products, and a little less into the Grace Institute." Assuming the CEO is a proponent of stakeholder ethics, what do you suppose the response would be?
5. There are a number of arguments supporting the proposal that corporations are autonomous entities (apart from owners and directors and employees) with ethical obligations in the world. The *moral requirement argument* contains four elements:
   - Corporations are already involved in the broad social world and the ethical dilemmas defining it, and therefore they are obligated to participate and help solve problems.
   - Well-established, successful, and powerful corporations *can* be involved in the effective resolution of broad social problems, and that ability implies an obligation to do so.
   - Corporations rely on much more than their owners and shareholders. They need suppliers, employees, a town in which to locate, consumers, air to breathe, and water to drink. That reliance implies an obligation to care for the welfare and protection of those things.
   - Because businesses cause problems in the larger world, they're obligated to participate in the problems' resolution.

   How can each of these general arguments be specified in the case of W. R. Grace?
6. Summarize the externality argument in favor of corporations having ethical obligations in the world. How can it be specified in the case of W. R. Grace?

5.3 The Body Shop

Source: Photo courtesy of the Italian Voice, http://www.flickr.com/photos/desiitaly/2254327579.

The Body Shop is a cosmetics firm out of England, founded by Anita Roddick. "If business," she writes on the company's web page, "comes with no moral sympathy or honorable code of behaviors, then God help us all."[7]

Moral sympathy and an honorable code of behaviors has certainly helped The Body Shop. Constantly promoted as an essential aspect of the company and a reason to buy its products, the concept of corporate social responsibility has been a significant factor in the conversion of a single small store in England to a multinational conglomerate.

Maybe it has been *too* significant a factor. That's certainly the suspicion of many corporate watchers. The suspicion isn't that the actual social responsibility has been too significant but that the actions of corporate responsibility have been much less energetic than their promotion. The social responsibility has been, more than anything else, a marketing strategy. Called *greenwashing*, the accusation is that only minimally responsible actions have been taken by The Body Shop, just enough to get some good video and mount a loud advertising campaign touting the efforts. Here's the accusation from a website called thegoodhuman.com:

> *The Body Shop buys the palm oil for their products from an organization that pushed for the eviction of peasant families to develop a new plantation. So much for their concern about creating "sustainable trading relationships with disadvantaged communities around the world."*[8]

QUESTIONS

1. What is the enlightened self-interest argument in favor of corporate social responsibility? How does the case of The Body Shop illustrate and make that argument?
2. From the perspective of the enlightened self-interest argument in favor of corporate social responsibility, what can be made of the accusation that The Body Shop is a greenwasher? Explain.
3. With reference to Milton Friedman's marketplace ethics—essentially the idea that corporations have only one ethical responsibility, to make money—what can be made of the greenwashing accusation? Is it possible that it's not so much an accusation as a compliment?
4. If a corporation acts in a way that does good in the world, does motive matter, does it matter *why* the corporation does what it does? Justify your answer.

5.4 Greed Is Good

Source: Photo courtesy of the Annie Mole, http://www.flickr.com/photos/anniemole/2750611025.

It's probably the most repeated business ethics line in recent history. Michael Douglas—playing Wall Street corporate raider Gordon Gekko—stands in front of a group of shareholders at Teldar Paper and announces, "Greed is good."

Teldar has been losing money, but the company, Douglas believes, is fundamentally strong. The problem's the management; it's the CEO and chief operations officer and all their various vice presidents. Because they don't actually own the company, they only run it, they're tempted to use the giant corporation to make their lives comfortable instead of winning profits for the actual owners, the shareholders. As one of those shareholders, Douglas is proposing a revolt: get rid of the lazy executives and put in some new directors (like Douglas's friends) who actually want to make money. Here's the pitch. Douglas points at the CEO and the rest of the management team up at their table:

> *All together, these men sitting up here own less than 3 percent of the company. And where does the CEO put his million-dollar salary? Not in Teldar stock; he owns less than 1 percent.*

Dramatic pause. Douglas earnestly faces his fellow shareholders.

> *You own the company. That's right—you, the stockholder. And you're all being royally screwed over by these bureaucrats with their steak lunches, their hunting and fishing trips, their corporate jets and golden parachutes. Teldar Paper has 33 different vice presidents, each earning over 200 thousand dollars a year. Now, I have spent the last two months analyzing what all these guys do, and I still can't figure it out. One thing I do know is that our paper company lost 110 million dollars last year. The new law of evolution in corporate America seems to be survival of the unfittest. Well, in my book you either do it right or you get eliminated.*

He adds,

> *In the last seven deals that I've been involved with, there were 2.5 million stockholders who have made a pretax profit of 12 billion dollars.*[9]

QUESTIONS

1. Douglas says, "In my book you either do it right or you get eliminated."
   - In economic terms, what does "do it right" mean?
   - In *ethical* terms, and with reference to a marketplace morality resembling the one Milton Friedman proposes, what does "do it right" mean?
2. The structure of most large, publicly held corporations separates owners from actual managers who are hired to run the company. They're employed agents of the owners. What does that mean as far as their ethical obligations go with respect to the *purpose* of the company they are leading?
3. In the real world, the paper company Weyerhaeuser promotes itself as socially and environmentally responsible. On their web page, they note that they log the wood for their paper from certified forests at a percentage well above that required by law.[10] Carefully defining a "certified forest" would require pages, but basically the publicly held corporation is saying that they don't just buy land, clear-cut everything, and then move on. Instead, and at a cost to themselves, they leave some trees uncut and plant others to ensure that the forest they're cutting retains its character.
   - How could Douglas's speech at Teldar be rewritten as a criticism of the management at Weyerhaeuser?
   - What specific criticism would Douglas launch at Weyerhaeuser managers who spend corporate money planting trees?
   - If it turned out that the sustainable forest initiative cost Weyerhaeuser some money up front, but ultimately won them positive publicity and consequently more consumers, would Douglas approve of the practice? Explain.
4. One broad argument against the various ideas of corporate social and environmental responsibility is that corporations can't have moral responsibilities at all. How could that argument be specified in the case of Weyerhaeuser?
5. According to the Weyerhaeuser web page, the US government sets certain rules for sustainability with respect to forests. Weyerhaeuser complies and then goes well beyond those requirements. According to Milton Friedman and the ideals of marketplace responsibility, broad questions about social and environmental corporate responsibilities should be answered by democratically elected governments because that's the institution we've developed to manage our ethical life. Governments should try to succeed in the ethical realm by making good laws; companies should try to succeed in the economic realm by making good profits.
   - Weyerhaeuser notes on its web page that in China and Uruguay it obeys local regulations with respect to logging. Apparently, however, the company isn't doing quite as much in those places to avoid the environmental problem of deforestation. Land is very inexpensive in vast, poor nations like these two, and it looks like Weyerhaeuser more or less does what's required and that's it. Maybe the company simply buys acres, cuts them, and moves on. Make the case that *in ethical terms*, the corporate actions in Uruguay and China are more respectable than the actions here in the States.
6. The first part of Douglas's speech concerned problems with the corporate organization's structure, and with out-of-control managers: people employed to run a company who promptly forget who their bosses are. The speech's second part is about what drives life in the business world:

   > *The point is, ladies and gentleman, that greed—for lack of a better word—is good.*
   >
   > *Greed is right.*
   >
   > *Greed works.*
   >
   > *Greed clarifies, cuts through, and captures the essence of the evolutionary spirit.*
   >
   > *Greed, in all of its forms—greed for life, for money, for love, knowledge—has marked the upward surge of mankind.*

   Greed, Douglas says, is an imperfect word for what he's describing. What words might have been better? What words might advocates of marketplace ethics propose?
7. One word that might have worked better than greed is ambition. Whether the word is greed or ambition, it has, according to the Douglas character, marked the upward surge of mankind. Assume that's true. Can you speculate about how the upward surge would play out in a developing nation like Uruguay when a multinational comes to town, brings money, creates jobs, and wrecks the forests?

ENDNOTES

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CHAPTER 14

The Green Office: Economics and the Environment

CHAPTER OVERVIEW

Chapter 14 explores the multiple relations linking business, the environment, and environmental protection. The question of animal rights is also considered.

1. THE ENVIRONMENT

LEARNING OBJECTIVES

1. **Consider damage done to the environment in a business context.**
2. **Delineate major legal responses to concerns about the environment.**

1.1 Cancun

Cancun, Mexico, is paradise: warm climate, Caribbean water, white sand beaches, stunning landscapes, coral reefs, and a unique lagoon. You can sunbathe, snorkel, parasail, shoot around on jet skis, and drink Corona without getting carded.

Hordes of vacationers fill the narrow, hotel-lined peninsula—so many that the cars on the one main street snarl in traffic jams running the length of the tourist kilometers. It's a jarring contrast: on one side the placid beaches (until the jet skis get geared up), and on the other there's the single road about a hundred yards inland. Horns scream, oil-burning cars and trucks belch pollution, tourists fume. Cancun's problem is that it can't handle its own success. There's not enough room for roads behind the hotels just like there's not enough beach in front to keep the noisy jet skiers segregated from those who want to take in the sun and sea quietly.

The environment hasn't been able to bear the success either. According to a report,

> *The tourist industry extensively damaged the lagoon, obliterated sand dunes, led to the extinction of varying species of animals and fish, and destroyed the rainforest which surrounds Cancun. The construction of 120 hotels in 20 years has also endangered breeding areas for marine turtles, as well as causing large numbers of fish and shellfish to be depleted or disappear just offshore.*[1]

For all its natural beauty, environmentally, Cancun is an ugly place. Those parts of the natural world that most tourists don't see (the lagoon, the nearby forest, the fish life near shore) have been sacrificed so a few executives in suits can make money.

From its inception, Cancun was a business. The Mexican government built an airport to fly people in, set up rules to draw investors, and made it (relatively) easy to build hotels on land that only a few coconut harvesters from the local plantation even knew about. From a business sense, it was a beautiful proposition: bring people to a place where they can be happy, provide new and more lucrative jobs for the locals, and build a mountain of profit (mainly for government insiders and friends) along the way.

Everything went according to plan. Those who visit Cancun have a wonderful time (once they finally get down the road to their hotel). College students live it up during spring break, young couples take their children to play on the beach, older couples go down and remember that they do, in fact, love each other. So fish die, and people get jobs. Forests disappear, and people's love is kindled. The important questions about business ethics and the environment are mostly located right at this balance and on these questions: how many trees may be sacrificed for human jobs? How many animal species can be traded for people to fall in love?

1.2 What Is the Environment?

ecosystem

Composed of living and nonliving elements, it's a web of balanced interactions allowing the continuation of each element.

Harm to the natural world is generally discussed under two terms: the environment and the ecosystem. The words' meanings overlap, but one critical aspect of the term **ecosystem** is the idea of interrelation. An ecosystem is composed of living and nonliving elements that find a balance allowing for their continuation. The destruction of the rain forest around Cancun didn't just put an end to some trees; it also jeopardized a broader web of life: birds that needed limbs for their nests disappeared when the trees did. Then, with the sturdy forest gone, Hurricane Gilbert swept through and wiped out much of the lower-level vegetation. Meanwhile, out in the sea, the disappearance of some small fish meant their predators had nothing to feed on and they too evaporated. What makes an ecosystem a system is the fact that the various parts all depend on each other, and damaging one element may also damage and destroy another or many others.

In the sense that it's a combination of interdependent elements, the tourist world in Cancun is no different from the surrounding natural world. As the traffic jams along the peninsula have grown, making it difficult for people to leave and get back to their hotels, the tourists have started migrating away, looking elsewhere for their vacation reservations. Of course Cancun isn't going to disappear, but if you took that one road completely away, most everything else would go with it. So economic realities can resemble environmental ones: once a single part of a functioning system disappears, it's hard to stop the effects from falling further down the line.

1.3 What Kinds of Damage Can Be Done to the Environment?

Nature is one of nature's great adversaries. Hurricanes sweeping up through the Caribbean and along the Eastern Seaboard of the United States wipe out entire ecosystems. Moving inland, warm winters in northern states like Minnesota can allow some species including deer to reproduce at very high rates, meaning that the next winter, when conditions return to normal, all available food is eaten rapidly at winter's onset, and subsequent losses to starvation are massive and extend up the food chain to wolves and bears. Lengthening the timeline, age-long periods of warming and cooling cause desertification and ice ages that put ends to giant swaths of habitats and multitudes of species.

While it's true that damaging the natural world's ecosystems is one of nature's great specialties, evidence also indicates that the human contribution to environmental change has been growing quickly. It's impossible to measure everything that has been done, or compare the world today with what would have been had humans never evolved (or never created an industrialized economy), but one way to get a sense of the kind of transformations human activity may be imposing on the environment comes from extinction rates: the speed at which species are disappearing because they no longer find a habitable place to flourish. According to some studies, the current rate of extinction is around *a thousand* times higher than the one derived from examinations of the fossil record, which is to say, before the time parts of the natural world were being severely trashed by developments like those lining the coast of Cancun, Mexico.[2]

In an economics and business context, the kinds of damage our industrialized lifestyles most extensively wreak include:

- Air pollution
- Water pollution
- Soil pollution
- Contamination associated with highly toxic materials
- Resource depletion

photochemical smog

Better known as smog, it's a cocktail of gases and particles released into the air that react with sunlight to make a harmful cloud.

Air pollution is the emission of harmful chemicals and particulate matter into the air. **Photochemical smog**—better known simply as *smog*—is a cocktail of gases and particles reacting with sunlight to make visible and poisonous clouds. Car exhaust is a major contributor to this kind of pollution, so smog can concentrate in urban centers where traffic jams are constant. In Mexico City on bad days, the smog is so thick it can be hard to see more than ten blocks down a straight street. Because the urban core is nestled in a mountain valley that blocks out the wind, pollutants don't blow away as they do in many places; they get entirely trapped. During the winter, a brown top forms above the skyline, blocking the view of the surrounding mountain peaks; the cloud is clearly visible from above to those arriving by plane. After landing, immediately upon exiting the airport into the streets, many visitors note their eyes tearing up and their throats drying out. In terms of direct bodily harm, Louisiana State University environmental chemist Barry Dellinger estimates that breathing the air in Mexico's capital for a day is about the equivalent of smoking two packs of cigarettes.[3] This explains why, on the worst days, birds drop out of the air dead, and one longer-term human effect is increased risk of lung cancer.

Greenhouse gasses, especially carbon dioxide released when oil and coal are burned, absorb and hold heat from the sun, preventing it from dissipating into space, and thereby creating a greenhouse effect, a general warming of the environment. Heat is, of course, necessary for life to exist on earth, but fears exist that the last century of industrialization has raised the levels measurably, and continuing industrial expansion will speed the process even more. Effects associated with the warming are significant and include:

greenhouse gasses

Gasses that absorb and hold heat from the sun, preventing it from dissipating into space.

- Shifts in vegetation, in what grows where
- Rising temperatures in lakes, rivers, and oceans, leading to changes in wildlife distribution
- Flooding of coastal areas, where many of our cities are located (Cancun could be entirely flooded by only a small rise in the ocean's water level.)

Another group of chemicals, chlorofluorocarbons (CFCs), threaten to break down the ozone layer in the earth's stratosphere. Currently, that layer blocks harmful ultraviolet radiation from getting through to the earth's surface where it could cause skin cancer and disrupt ocean life. Effective international treaties have limited (though not eliminated) CFC emissions.

Coal-burning plants—many of which produce electricity—release sulfur compounds into the air, which later mix into water vapor and rain down as sulfuric acid, commonly known as acid rain. Lakes see their pH level changed with subsequent effects on vegetation and fish. Soil may also be poisoned.

Air pollution is the most immediate form of environmental poison for most of us, but not the only significant one. In China, more than 25 percent of surface water is too polluted for swimming or fishing.[4]

Some of those lakes may have been ruined in the same way as Onondaga Lake near Syracuse, New York. Over a century ago, resorts were built and a fish hatchery flourished on one side of the long lake. The other side received waste flushed by the surrounding cities and factories. Problems began around 1900 when the fish hatchery could no longer reproduce fish. Soon after, it was necessary to ban ice harvesting from the lake. In 1940, swimming was banned because of dangerous bacteria, and in 1970, fishing had to be stopped because of mercury and PCB contamination. The lake was effectively dead. To cite one example, a single chemical company dumped eighty tons of mercury into the water during its run on the coast. Recently, the New York state health department loosened restrictions slightly, and people are advised that they may once again eat fish caught in the lake. Just as long as it's not more than one per month. Those who do eat more risk breakdown of their nervous system, collapse of their liver, and teeth falling out.[5]

Like liquid poisons, solid waste can be dangerous. Paper bags degrade fairly rapidly and cleanly, but plastic containers remain where they're left into the indefinite future. The metal of a battery tossed into a landfill will break down eventually, but not before dripping out poisons including cadmium. Cadmium weakens the bones in low doses and, if exposure is high, causes death.

At the industrial waste extreme, there are toxins so poisonous they require special packaging to prevent even minimal exposure more or less forever. The waste from nuclear power plants qualifies. So noxious are the spent fuel rods that it's a matter of national debate in America and elsewhere as to where they should be stored. When the Chernobyl nuclear plant broke open in 1986, it emitted a radioactive cloud that killed hundreds and forced the permanent evacuation of the closest town, Pripyat. Area wildlife destruction would require an entire book to document, but as a single example, the surrounding pine forest turned red and died after absorbing the radiation storm.

Finally, all the environmental damage listed so far has resulted from ruinous substance *additions* to natural ecosystems, but environmental damage also runs in the other direction as depletion. Our cars and factories are sapping the earth of its petroleum reserves. Minerals, including copper, are being mined toward the point where it will become too expensive to continue digging the small amount that remains from the ground. The United Nations estimates that fifty thousand square miles of forest are disappearing each year, lost to logging, conversion to agriculture, fuel wood collection by rural poor, and forest fires.[6] Of course, most of those tree losses can be replanted. On the other hand, species that are driven out of existence can't be brought back. As already noted, current rates of extinction are running far above "background extinction" rates, which is an approximation of how many species would disappear each year were the rules of nature left unperturbed.

Conclusion. Technically, there's no such thing as preserving the environment because left to its own devices the natural world does an excellent job of wreaking havoc on itself. Disruptions including floods, combined with wildlife battling for territory and food sources, all that continually sweeps away parts of nature and makes room for new species and ecosystems. Still, changes wrought by the natural world tend to be gradual and balanced, and the worry is that our industrialized lifestyle has become so powerful that nature, at least in certain areas, will no longer be able to compensate and restore any kind of balance. That concerns has led to both legal efforts, and ethical arguments, in favor of protecting the environment.

1.4 The Law

Environmental Protection Agency (EPA)

Established in 1970, this agency of the US government monitors and reports on the state of the environment while establishing and enforcing specific regulations.

environmental impact statement

A report on how a project will impact both the natural and human worlds.

Legal efforts to protect the environment in the United States intensified between 1960 and 1970. The **Environmental Protection Agency (EPA)** was established in 1970 to monitor and report on the state of the environment while establishing and enforcing specific regulations. Well known to most car buyers as the providers of the mile-per-gallon estimates displayed on the window sticker, the EPA is a large agency and employs a workforce compatible with its mission, including scientists, legal staffers, and communications experts.

Other important legal milestones in the field of environmental protection include:

- The Clean Air Act of 1963 and its many amendments regulate emissions from industrial plants and monitor air quality. One measure extends to citizens the right to sue companies for damages if they aren't complying with existing regulations: it effectively citizenizes law enforcement in this area of environmental protection.
- The Clean Water Act, along with other, related legislation, regulates the quality of water in the geographic world (lakes and rivers), as well as the water we drink and use for industrial purposes. Chemical composition is important, and temperature also. Thermal pollution occurs when factories pour heated water back into natural waterways at a rate sufficient to affect the ecosystem.
- The Wilderness Act, along with other legislation, establishes areas of land as protected from development. Some zones, including the Boundary Waters Canoe Area in northern Minnesota, are reserved for minimal human interaction (no motors are allowed); other areas are more accessible. All wilderness and national park areas are regulated to protect natural ecosystems.
- The Endangered Species Act and related measures take steps to ensure the survival of species pressed to near extinction, especially by human intrusion. One example is the bald eagle. Subjected to hunting, loss of habitat, and poisoning by the pesticide DDT (which caused eagle eggs to crack prematurely), a once common species was reduced to only a few hundred pairs in the lower forty-eight states. Placed on the endangered species list in 1967, penalties for hunting were increased significantly. Also, DDT was banned, and subsequently the eagle made a strong comeback. It is no longer listed as endangered.
- The National Environmental Policy Act of 1969 requires that an **environmental impact statement** be prepared for many major projects. The word environment in this case means not only the natural world but also the human one. When a new building is erected in a busy downtown, the environmental impact statement reports on the effect the building will have on both the natural world (how much new air pollution will be released from increased traffic, how much water will be necessary for the building's plumbing, how much electricity will be used to keep the place cool in the summer) and also the civilized one (whether there's enough parking in the area for all the cars that will arrive, whether nearby highways can handle the traffic and similar). Staying with the natural factors, the statement should consider impacts—positive and negative—on the local ecosystem as well as strategies for minimizing those impacts and some consideration of alternatives to the project. The writing and evaluation of these statements can become sites of conflict between developers on one side and environmental protection organizations on the other.

Two major additional points about legal approaches to the natural world should be added. First, they can be expensive; nearly all environmental protection laws impose costs on business and, consequently, make life for everyone more costly. When developers of downtown buildings have to create a budget for their environmental impact statements, the expenses get passed on to the people who buy condos in the building. There's no doubt that banning the pesticide DDT was good for the eagle, but it made farming—and therefore the food we eat—more expensive. Further, clean water and air stipulations don't only affect consumers by making products more expensive; the environmental responsibility also costs Americans jobs every time a factory gets moved to China or some other relatively low-regulation country. Of course, it's also true that, as noted earlier, around 25 percent of China's surface water is poisonous, but for laid-off workers in the States, it may be hard to worry so much about that.

Second, these American laws, regulations, and agencies don't make a bit of difference in Cancun, Mexico. Even though Cancun and America wash back and forth over each other (Cancun's hotels were constructed, chiefly, to host American visitors), the rights and responsibilities of legal dominion over the environment stop and start at places where people need to show their passports. This is representative of a larger reality: more than most issues in business ethics, arguments pitting economic and human interests against the natural world are international in nature. The greenhouse gases emitted by cars caught in Cancun traffic are no different, as far as the earth is concerned, from those gases produced along clogged Los Angeles freeways.

KEY TAKEAWAYS

- Ecosystems are natural webs of life in which the parts depend on each other for their continued survival.
- In a business context, the major types of pollution include air, water, soil, and contamination associated with highly toxic materials.
- Resource depletion is a type of environmental damage.
- Numerous laws regulate the condition and use of the environment in the United States.

REVIEW QUESTIONS

1. What is an example of an ecosystem?
2. Explain one way that an ecosystem can resemble an economic system.
3. What are some effects of smog?
4. What's an *environmental impact statement*?
5. Why are the business ethics of the environment more international in nature than many other subjects?

2. ETHICAL APPROACHES TO ENVIRONMENTAL PROTECTION

LEARNING OBJECTIVES

1. **Outline five attitudes toward environmental protection.**
2. **Consider who should pay for environmental protection and cleanup.**

2.1 The Range of Approaches to Cancun

Cancun is an environmental sacrifice made in exchange for tourist dollars. The unique lagoon, for example, dividing the hotel strip from the mainland was devastated by the project. To construct the roadwork leading around the hotels, the original developers raised the earth level, which blocked the ocean's high tide from washing over into the lagoon and refreshing its waters. Quickly, the living water pool supporting a complex and unique ecosystem clogged with algae and became a stinky bog. No one cared too much since that was the street side, and visitors had come for the ocean.

Still, one hotel developer decided to get involved. Ricardo Legorreta who designed the Camino Real Hotel (today named Dreams Resort) said this about his early 1970s project: "Cancun is more water than land. The Hotel Camino Real site was originally 70 percent water. It had been filled during the urbanization process. I wanted to return the site to its original status, so we built the guest room block on solid rock and the public areas on piles, and then excavated what was originally the lagoon. The difference in tide levels provides the necessary water circulation to keep the new lagoon clean."[7]

Specific numbers aren't available, but plainly it costs more to dig out the ground and then build on piles than it does to just build on the ground. To save the lagoon, the owners of the Camino Real spent some money.

Was it worth it? The answer depends initially on the ethical attitude taken toward the environment generally; it depends on how much, and how, value is assigned to the natural world. Reasonable ethical cases can be made for the full range of environmental protection, from none (total exploitation of the natural world to satisfy immediate human desires) to complete protection (reserving wildlife areas for freedom from any human interference). The main positions are the following and will be elaborated individually:

- The environment shouldn't be protected.
- The environment should be protected in the name of serving human welfare.
- The environment should be protected in the name of serving future generations' welfare.
- The environment should be protected in the name of serving animal welfare.
- The environment should be protected for its own sake.

2.2 The Environment Shouldn't Be Protected

free use

From this perspective, the natural world is entirely dedicated to serving immediate human needs and desires.

Should individuals and businesses use the natural world for our own purposes and without concern for its welfare or continuation? The "yes" answer traces back to an attitude called **free use**, which pictures the natural world as entirely dedicated to serving immediate human needs and desires. The air and water and all natural resources are understood as belonging to everyone in the sense that all individuals have full ownership of, and may use, all resources belonging to them as they see fit. The air blowing above your land and any water rolling through it are yours, and you may breathe them or drink them or dump into them as you like. This attitude, finally, has both historical and ethical components.

The history of free use starts with the fact that the very idea of the natural world as needing protection at all is very recent. For almost all human history, putting the words environment and protection together meant finding ways that *we* could be protected from *it* instead of protecting it from us. This is very easy to see along Europe's Mediterranean coast. As opposed to Cancun where all the buildings are pushed right up to the Caribbean and open to the water, the stone constructions of Europe's old coastal towns are huddled together and open away from the sea. Modern and recently built hotels obscure this to some extent, but anyone walking from the coast back toward the city centers sees how all the old buildings turn away from the water as though the builders feared nature, which, in fact, they did.

They were afraid because the wind and storms blowing off the sea actually threatened their existences; it capsized their boats and sent water pouring through roofs and food supplies. Going further, not only is it the case that until very recently nature threatened us much more than we threatened it, but in those cases where humans *did* succeed in doing some damage, nature bounced right back. After a tremendously successful fishing year, for example, the supply of food swimming off the coastlines of the Mediterranean was somewhat depleted, but the next season things would return to normal. It's only today, with giant motorized boats pulling huge nets behind, that we've been able to truly fish out some parts of the sea. The larger historical point is that until, say, the nineteenth century, even if every human on the planet had united in a project to ruin nature irrevocably, not much would've happened. In that kind of reality, the idea of free use of our natural resources makes sense.

Today, at a time when our power over nature is significant, there are two basic arguments in favor of free use:

1. The domination and progress argument
2. The geological time argument

domination and progress argument

The argument that the natural world doesn't need to be protected because it's not important and because technology will resolve problems caused by nature's corruption.

The **domination and progress argument** begins by refusing to place any necessary and intrinsic value in the natural world: there's no autonomous worth in the water, plants, and animals surrounding us. Because they have no independent value, those who abuse and ruin nature can't be automatically accused of an ethical violation: nothing intrinsically valuable has been damaged. Just as few people object when a dandelion is pulled from a front yard, so too there's no necessary objection to the air being ruined by our cars.

Connected with this disavowal of intrinsic value in nature's elements, there's high confidence in our ability to generate technological advances that will enable human civilization to flourish on the earth no matter how contaminated and depleted. When we've drilled the last drop of the petroleum we need to heat our homes and produce electricity to power our computers, we can trust our scientists to find new energy sources to keep everything going. Possibly solar energy technologies will leap forward, or the long-sought key to nuclear fission will be found in a research lab. As for worries about the loss of wildlife and greenery, that can be rectified with genetic engineering, or by simply doing without them. Even without human interference, species are disappearing every day; going without a few more may not ultimately be important.

Further, it should be remembered that there are many natural entities we're happy to do without. No one bemoans the extinction of the virus called variola, which caused smallpox. That disease was responsible for the death of hundreds of millions of humans, and for much of history has been one of the world's most terrifying scourges. In the 1970s, the virus was certified extinct by the World Health Organization. No one misses it; not even the most devoted advocate of natural ecosystems stood up against the human abuse and final eradication of the virus. Finally, if we can destroy one part of the natural world without remorse, can't that attitude be extended? No one is promoting reckless or wanton destruction, but as far as those parts of nature required to live well, can't we just take what we need until it runs out and then move on to something else?

To a certain extent, this approach is visible in Cancun, Mexico. The tourist strip has reached saturation, and the natural world in the area—at least those parts tourists won't pay to see—has been decimated. So what are developers doing? Moving down the coast. The new hotspot is called Playa del Carmen. Extending south from Cancun along the shoreline, developers are gobbling up land and laying out luxury hotels at a nonstop rate and with environmental effects frequently (not in every case) similar to those defining Cancun. What happens when the entire area from Cancun to Chetumal is cemented over? There's more shoreline to be found in Belize, and on Mexico's Pacific coast, and then down in Guatemala.

What happens when *all* shoreline runs out? There's a lot of it around the world, but when the end comes, it'll also probably be true that we won't need a real natural world to have a natural world, at least those parts of it that we enjoy. Already today at Typhoon Lagoon in Disney World, six-foot waves roll down for surfers. And visitors to the Grand Canyon face a curious choice: they can take the trouble to actually walk out and visit the Grand Canyon, or, more comfortably, they may opt to see it in an impressive IMAX theater presentation. There's no reason still more aspects of the natural world, like the warm breezes and evening perfection of Cancun, couldn't be reproduced in a warehouse. Of course there are people who insist that they want the real thing when it comes to nature, but there were also once people who insisted that they couldn't enjoy a newspaper or book if it wasn't printed on real paper.

Next, moving on to the other of the two arguments in favor of free use, there's the idea that we might as well use everything without anxiety because, in the end, we really can't seriously affect the natural world anyway. This sounds silly at first; it seems clear that we can and do wreak havoc: species disappear and natural ecosystems are reduced to dead zones. However, it must be noted that our human view of the world is myopic. That's not our fault, just an effect of the way we experience time. For us, a hundred years is, in fact, a long time. In terms of **geological time**, however, the entire experience of *all* humanity on this earth is just the wink of an eye. Geological time understands time's passing not relative to human lives but in terms of the physical history of the earth. According to that measure, the existence of the human species has been brief, and the kinds of changes we're experiencing in the natural world pale beside the swings the earth is capable of producing. We worry, for example, about global warming, meaning the earth's temperature jumping a few degrees, and while this change may be seismically important for us, it's nothing new to the earth. As Robert Laughlin, winner of the Nobel Prize in physics, points out in an article set under the provocative announcement "The Earth Doesn't Care if You Drive a Hybrid," six million years ago the Mediterranean Sea went bone dry. Eighty-five million years before that there were alligators in the Arctic, and two-hundred million years before that Europe was a desert. Comparatively, human industrialization has changed nothing.[8]

geological time

Time understood relative to the earth's history instead of humanity's.

This geological view of time cashes out as an ethical justification for free use of the natural world for a reason nearly the opposite of the first. The argument for free use supported by convictions about domination and progress borders on arrogance: it's that the natural world is unimportant, and any problems caused by our abusing it will be resolved by intelligence and technological advance. Alternatively, and within the argument based on geological time, our lives, deeds, and abilities are so trivial that it's absurd to imagine that we could seriously change the flow of nature's development even if we tried. We could melt nuclear reactors left and right, and a hundred million years from now it wouldn't make a bit of difference. That means, finally, that the idea of preserving the environment isn't nobility: it's vanity.

2.3 The Environment Should Be Protected in the Name of Serving Human Welfare

The free-use argument in favor of total environmental exploitation posits no value in the natural world. In and of itself, it's worthless. Even if this premise is accepted, however, there may still be reason to take steps in favor of preservation and protection. It could be that the ecosystems around us should be safeguarded not for them, but for *us*. The reasoning here is that we as a society will live better and happier when lakes are suitable for swimming, when air cleans our lungs instead of gumming them up, when a drive on the freeway with the car window down doesn't leave your face feeling greasy. Human happiness, ultimately, hinges to some extent on our own natural and animal nature. We too, we must remember, are part of the ecosystem. Many of the things we do each day—walk, breathe, find shelter from the elements—are no different from the activities of creatures in the natural world. When that world is clean and functioning well, consequently, we fit into it well.

Wrapping this perspective into an ethical theory, utilitarianism—the affirmation that the ethically good is those acts increasing human happiness—functions effectively. For visitors to Cancun, it seems difficult to deny that their trip will be more enjoyable if the air they breathe is fresh and briny instead of stinky and gaseous as it was in some places when the lagoon had decayed into a pestilent swamp. Understood in this way, we could congratulate Architect Legorreta for his expensive decision to carve out a space for the tides to reenter and refresh the inland lake. It's not, the argument goes, that he should be thanked for rescuing an ecosystem, but that by rescuing the ecosystem he made human life more agreeable.

Another way to justify environmental protection in the name of human and civilized life runs through a rights-based argument. Starting from the principle of the right to pursue happiness, a case could be built that without a flourishing natural world, the pursuit will fail. If it's true that we need a livable environment, one where our health—our breathing, drinking, and eating—is guaranteed, then industrialists and resort developers who don't ensure that their waste and contamination are controlled aren't just polluting; they're violating the fundamental rights of everyone sharing the planet.

Bringing this rights-based argument to Cancun and Legorreta's dredging of the lagoon, it's possible to conclude that he absorbed a pressing responsibility to do what he did: in the name of protecting the right of others to live healthy lives, it was necessary to renew the dead water. Again, it must be emphasized that the responsibility isn't to the water or the animals thriving in its ecosystem. They're irrelevant, and there's no obligation to protect them. What matters is human existence; the obligation is to human rights and our dependence on the natural world to exercise those rights.

2.4 The Environment Should Be Protected in the Name of Serving Future Generations' Welfare

social fairness

The doctrine that societies in different places or times should be treated equitably.

The idea that the environment should be protected so that future generations may live in it and have the choices we do today is based on a notion of **social fairness**. Typically in ethics, we think of fairness in terms of individuals. When applying for a job at a Cancun hotel, fairness is the imperative that all those applying get equal consideration, are subjected to similar criteria for selection, and the selection is based on ability to perform job-related duties. When, on the other hand, the principle of fairness extends to the broad social level, what's meant is that groups taken as a whole are treated equitably.

One hypothetical way to present this notion of intergenerational fairness with respect to the environment and its protection is through the previously discussed notion of the veil of ignorance—that is, the idea that you imagine yourself as removed from today's world and then reinserted at some future point, one randomly assigned. You may come back tomorrow, next year, next decade, or a hundred years down the line. If, the reasoning goes, that's your situation, then very possibly you're going to urge contemporary societies to protect the environment so that it'll be there for you when your time comes around, whenever that might be. Stated slightly differently, it's a lot easier to wreck the environment when you don't have to think about others. Fairness, however, *obligates* us to think of others, including future others, and the veil of ignorance provides one way of considering their rights on a par with the ones we enjoy now.

What does this mean in terms of Cancun? We should enjoy paradise there, no doubt, but we should also ensure that it'll be as beautiful for our children (or any randomly selected future generation) as it is for us. In this case, the redredging of the lagoon serves that purpose. By helping maintain the status quo in terms of the natural ecosystems surrounding the hotels, it also helps to maintain the possibility of enjoying that section of the Caribbean into the indefinite future.

There's also a utilitarian argument that fits underneath and justifies the position that our environment should be protected in the name of future generations. This theory grades acts ethically in terms of their consequences for social happiness, and with those consequences *projected forward in time*. To the extent possible, the utilitarian mind-set demands that we account for the welfare of future generations when we act today. Of course the future is an unknown, and that tends to weigh decisions toward their effects on the present since those are more easily foreseen. Still, it's not difficult to persuade most people that future members of our world will be happier and their lives fuller and more rewarding if they're born onto an at least partially green earth.

2.5 The Environment Should Be Protected in the Name of Serving Animal Welfare

One of the more frequently voiced lines of reasoning in favor of ecosystem preservation starts with a fundamental shift from the previous arguments. Those arguments place all intrinsic value in *human* existence: to the extent we decide to preserve the natural world, we do so because it's good for us. Preservation satisfies our ethical duties to ourselves or to those human generations yet to come. What now changes is that the natural world's creatures get endowed with a value independent of humans, and that value endures whether or not we enjoy or need to fit into a web of healthy, clean ecosystems. Animals matter, in other words, regardless of whether they matter for us.

Ethically, the endowment of nonhuman animals with intrinsic worth is to treat them, to some extent, or in some significant way, *as* human. This treatment is a subject of tremendous controversy, one orbiting around the following two questions:

- *Are* nonhuman animals worthy of moral consideration? What do they do, what qualities do they possess that lead us to believe they should have rights and impose obligations on you and me?
- Granting that nonhuman animals do hold value in themselves and impose obligations on humans by their very existence, how far do the obligations go? If we're given a choice on a speeding highway between running over a squirrel and hitting a person, do we have a moral

obligation to avoid the person (and run down the squirrel)? If we do, then it seems that the intrinsic worth of an animal is less than that of a human being, but how much less?

Questions about whether animals have rights and impose obligations are among the most important in the field of environmental ethics. They will be explored in their own section of discussion that follows. In this section, it will simply be accepted that nonhuman animals do, in fact, have autonomous moral standing. It immediately follows that their protection is, to some extent, a responsibility.

In terms of an ethics of duties, the obligation to protect animal life could be conceived as a form of the duty to beneficence, a duty to help those who we are able to aid, assuming the cost to ourselves is not disproportionately high. Protecting animals is something we do for the same reason we protect people in need. Alternatively, in terms of the utilitarian principle that we act to decrease suffering in the world (which is a way of increasing happiness), the argument could be mounted that animals are, in fact, capable of suffering, and therefore we should act to minimize that sensation just as we do in the human realm. Finally, rights theory—the notion that we're free and should not impinge on the freedom of others—translates into a demand that we treat the natural world with respect and with an eye to its preservation in order to guarantee that nonhuman animals may continue to pursue their own ends just as we demand that we humans be allowed to pursue ours.

With the obligation for the protection of—or at least noninterference with—nonhuman animals established, the way opens to extend the conservation to the natural world generally. Because animals depend on their habitat to express their existence, because their instincts and needs suggest that they may be free only within their natural environment, the first responsibility derived from the human obligation to animals is one to protect their wild and natural surroundings. As an important note here, that habitat—the air all animals breathe, the water where fish swim, the earth housing burrowing animals—is not protected for its own sake, only as an effect of recognizing the creatures of the natural realm as dignified and worthy of our deference.

What does this dignity conferred on animal life mean for Cancun? The dredging and revivifying of the lagoon by Legorreta fulfills an obligation under this conception of the human relation to the natural world. It's a different obligation from those developed in the previous cases, however. Before, the lagoon was cleansed in the name of improving the Cancun experience for vacationers; here, it's cleansed so that it may once again support the land and aquatic life that once called the place home. As for whether that improves the vacation experience, there's no reason to ask; it's only necessary to know that saving animals probably requires saving their home.

2.6 The Entire Environmental Web Should Be Protected for Its Own Sake

The environment as a whole, the total ecosystem including all animal and plant life on Earth—along with the air, water, and soil supporting existence—should be protected according to a number of ethical arguments:

- The least difficult to persuasively make is the case that the obligation flows from human welfare: we're happier when our planet is healthy.
- It's more difficult, but still very possible, to make a reasonable case that the obligation to protection attaches to the autonomous value and rights of nonhuman animals. In order to protect all of them, the reasoning goes, we should preserve all elements of the natural world to the extent possible because we can't be sure which ones may, in fact, play an important role in the existence of one or another kind of creature.
- Finally, the most difficult case to make is that humans are obligated to protect the total environment—all water and air, every tree and animal—because all of it and every single part holds autonomous value. This Earth-wide value translates into an Earth-wide obligation: the planet—understood as the network of life happening above and under its surface—becomes something like a single living organism we humans must protect.

What distinguishes the third argument from the previous two is that we don't save the greater natural ecosystem in the name of something else (human welfare or habitat preservation for nonhuman animals) but for itself.

It's easy to trivialize the view that every element of the natural world demands respect and therefore some degree of protection. Do we really want to say that a child experimenting out in the driveway with worms, or pulling up plants to see the roots is failing a moral obligation to the living world? What about the coconut trees felled to make room for Cancun's hotels? Perhaps if they were unique trees, or if a certain species of bird depended on precisely those limbs and no others for its survival, but do we want to go further and say that the standard trees—a few hundred out of millions in the world—should give developers pause before the cement trucks come wheeling in? For many, it will be easier to conclude that if a good project is planned—if there's money to be earned and progress to be made—then we can cut down a few anonymous trees that happen to be standing in the way and get on with our human living.

aesthetic argument

As an argument in favor of protecting the natural world, the conviction that nature's majesty is an ethical imperative to protection.

On the other hand, sitting on the sand in Cancun, it's difficult to avoid sensing a happening majesty: not a reason to pull out your camera and snap, but a living experience that can only be had by a natural being participating, breathing air as the wind blows across the beach, or swimming in the crisp water. There may be a kind of aesthetic imperative here, a coherent demand for respect that we feel with our own natural bodies. The argument isn't that the entire natural ecosystem should be preserved because it feels good for us to jump in the ocean water—it feels good to jump in the shower too—the idea is that through our bodies we experience a substance and value of nature that requires our deference. Called the **aesthetic argument** in favor of nature's dignity, and consequently in favor of the moral obligation to protect it, there may be no proper explanation or reasoning, it may only be something that you know if you're in the right place at the right time, like Cancun in the morning.

The response to the aesthetic argument is that we can't base ethics on a feeling.

2.7 If We Decide to Protect the Environment, Who Pays?

Much of the stress applied to, and the destruction wrought on the environment around Cancun could be reversed. That costs money, though. Determining exactly how much is a task for biologists and economists to work out. The question for ethical consideration is, who should pay? These are three basic answers:

1. Those who contaminated the natural world
2. Those who enjoy the natural world
3. Those who are most able

The answer that the costs should be borne by those who damaged nature in the first place means sending the bill to developers and resort owners, to all those whose ambition to make money on tourism got roads paved, forests cleared, and foundations laid. Intuitively, placing the obligation for environmental cleanup on developers may make the most sense, and in terms of ethical theory, it fits in well with the basic duty to reparation, the responsibility to compensate others when we harm them. In this case, the harm has been done to those others who enjoy and depend on the natural world, and one immediate way to compensate them is to repair the damage. A good model for this could be Legorreta's work, the expense taken to raise a portion of a hotel and so once again allow tide water to freshen the lagoon. Similar steps could be taken to restore parts of the ruined coral reef and to replant the forest behind the hotel area.

The plan makes sense, but there's a glaring problem: times change. Back when Cancun was originally being laid out in the 1960s, ecological concerns were not as visible and widely recognized as they are today. That doesn't erase the fact that most hotel companies in Cancun laid waste to whatever stood in the way of their building, but it does allow them to note that they are being asked to pay today for actions that most everyone thought were just fine back when they were done. It's not clear, finally, how fair it is to ask developers to pay for a cleanup that no one envisioned would be necessary back when the construction initiated.

The proposal that those who enjoy and depend on the natural world should bear primary responsibility for protecting and renewing it also makes good sense. This reasoning is to some extent implemented in America's natural parks where fees are charged for entry. Those revenues go to support the work of the forestry service that's required to ensure that visitors to those parks—and the infrastructure they need to enjoy their time there—don't do harm to the ecosystems they're coming to see, and also to ensure that harm done by others (air pollution, for example, emitted by nearby factories) is cleansed by nature's organic processes.

On a much larger scale, a global one, this logic is also displayed in some international attempts to limit the emission of greenhouse gasses. The specific economics and policy are complicated and involve financial devices including carbon credits and similar, but at bottom what's happening is that governments are getting together and deciding that we all benefit from (or even need) reduced emissions of waste into the air. From there, attempts are made to negotiate contributions various countries can make to the reduction effort. As for the cost, most economists agree that the expense of pollution control measures will, for the most part, be passed along as hikes in the cost of consumer goods. Everyone, in other words, will pay, which matches up with the affirmation that everyone benefits.

Finally, the response that those most able to pay should bear the brunt of the cost for protecting the natural world is a political as much as an environmental posture. One possibility would be a surtax levied on wealthy members of society, with the money channeled toward environmental efforts. This strategy may find a solid footing on utilitarian grounds where acts benefitting the overall welfare remain good even if they're burdensome or unfair to specific individuals. What would be necessary is to demonstrate that the sum total of human (and, potentially, nonhuman animal) happiness would be increased by more than the accumulated displeasure of those suffering the tax increase.

KEY TAKEAWAYS

- The attitude that the environment shouldn't be protected has both historical and ethical roots.
- Confidence in the human ability to control the environment diminishes concerns about protecting its current state.
- The power of nature viewed over the very long term diminishes concerns about protecting its current state.
- Environmental protection in the name of serving human welfare values the natural world because it's valuable for us.
- Environmental protection in the name of serving future generations' welfare derives from a notion of social fairness.
- Environmental protection in the name of serving animal welfare connects with a notion of moral autonomy in nonhuman animals.
- Environmental protection for its own sake values the entire set of the world's ecosystems.
- If the environment is protected, the costs may be made the responsibility of various parties.

REVIEW QUESTIONS

1. Briefly, what is the history of the free-use attitude toward the natural world?
2. How can technology make environmental protection a wasted effort?
3. How can the idea of geological time become an argument against taking expensive steps to protect the natural world?
4. What are some reasons why our ethical obligations to ourselves may lead us to protect the natural world?
5. What is the difference between protecting the natural world because we humans are valuable, and because animals are valuable?
6. What kind of experiences with nature may result in the sensation that, as an interdependent whole, the natural world holds value?
7. If the decision is made to protect nature, who are some individuals or groups that might be asked to pay the cost?

3. THREE MODELS OF ENVIRONMENTAL PROTECTION FOR BUSINESSES

LEARNING OBJECTIVE

1. **Outline three business responses to environmental responsibility.**

3.1 The Role of Businesses in Environmental Protection

Protecting the environment is itself a business, and many organizations, especially nonprofits, take that as their guiding purpose. The World Wildlife Fund, the Audubon Society, and National Geographic exemplify this. Their direct influence over the natural world, however, is slight when compared against all the globe's for-profit companies chugging away in the name of earning money. Whether the place is Cancun, or China, or the United States, the condition of the natural world depends significantly on what profit-making companies are doing, the way they're working, the kinds of goods they're producing, and the attitude they're taking toward the natural world. Three common attitudes are

1. accelerate and innovate,
2. monetize and count,
3. express corporate responsibility.

3.2 Business and Environmental Protection: Accelerate and Innovate

There's a subtle difference between environmental conservation and protection. Conservation means leaving things as they are. Protection opens the possibility of changing the natural world in the name of defending it. One way for a business to embrace the protection of nature is through technological advance. New discoveries, the hope is, can simultaneously allow people to live better, and live better with the natural world. Looking at a stained paradise like Cancun, the attitude isn't so much worry that we're ruining the world and won't be able to restore a healthy balance, it's more industrially optimistic: by pushing the accelerator, by innovating faster we'll resolve the very environmental problems we've created.

progressive approach

As an approach to environmental protection, the attitude that technological advance will resolve problems.

Examples of the **progressive approach** to environmental protection—as opposed to the conservative one—include solar and wind power generation. Both are available to us only because of the explosion of technology and knowledge the industrialized, contaminating world allows. Because of them, we can today imagine a world using energy at current rates without doing current levels of environmental damage. Here's a statement of that aim from a wind power company's web page: "Our goal has always been to produce a utility-scale wind turbine that does not need subsidies in order to compete in electricity markets."[9]

The idea, in other words, is that electricity produced by this company's windmills will be as cheap (or cheaper) than that produced from fossil fuels, including coal. To reach that point, the development of very strong yet lightweight materials has been necessary, along with other technological advances. If they continue, it may be that American energy consumption can remain high, while pollution emitted from coal-burning electricity plants diminishes. One point, finally, that the wind turbine company web page doesn't underline quite so darkly is that they'll make a lot of money along the way if everything goes according to plan. This incentive is also typical of an accelerate-and-innovate approach: not only should industrialization go forward faster in the name of saving the environment, so too should entrepreneurialism and profit.

In broad terms, the business attitude toward employing innovation to protect the environment acknowledges that human activity on earth has done environmental damage, and that matters. The damage is undesirable and should be reversed. The way to reverse, however, isn't to go backward by doing things like reducing our energy use to previous levels. Instead, we keep doing what we're doing, just faster. The same industrialization that caused the problem will pull us out.

3.3 Business and Environmental Protections: Monetize and Count

cost-benefit analysis

The summing of an action's costs and its weighing against summed benefits.

A **cost-benefit analysis** is, theoretically, a straightforward way of determining whether an action should be undertaken. The effort and expense of doing something is toted on one side, and the benefits received are summed on the other. If the benefits are greater than the costs, we go ahead; if not, we don't. Everyone performs cost-benefit analyses all the time. At dinner, children decide whether a dessert brownie is worth the cost of swallowing thirty peas. Adults decide whether the fun of a few beers tonight is worth a hangover tomorrow or, more significantly, whether getting to live in one of the larger homes farther out of town is worth an extra half-hour in the car driving to work every morning.

Setting a cost-benefit analysis between a business and the environment means adding the costs of eliminating pollution on one side and weighing it against the benefits of a cleaner world. The ethical theory underneath this balancing approach to business and nature is utilitarianism. The right act is the one most increasing society's overall happiness (or most decreasing unhappiness), with happiness measured in this case in terms of the net benefits a society receives after the costs of an action have been deducted.

The most nettlesome problem for businesses adopting a cost-benefit approach to managing environmental protection is implementation. It's hard to know exactly what all the costs are on the business side, and what all the benefits are on nature's side. Then, even if all the costs and benefits are confidently listed, it's equally (or more) difficult to weigh them against each other. According to a report promulgated by the nonprofit Environmental Defense Fund, North Carolina's coal-fired electricity plants could install smokestack scrubbers to significantly reduce contaminating emissions. The cost would be $450 million. The benefits received as a result of the cleaner air would total $3.5 billion.[10] This seems like a no-brainer. The problem is that when you dig a bit into the report's details, it's not entirely clear that the benefits derived from cleaner air add up to $3.5 billion. More troubling, it looks like it's hard to put any price tag at all on them. Here are a few examples:

- According to the report, "It is estimated that pollution from power plants triggers more than 200,000 asthma attacks across the state each year and more than 1,800 premature deaths." The word *estimated* is important. Further, how do you put a dollar total on an asthma attack or a death?

- According to the report, "One should be able to see out 93 miles on an average day in the Smoky Mountains, but now air pollution has reduced this to an average of 22 miles." How do you put a dollar total on a view?
- According to the report, "Air pollution contributes to significant declines in populations of dogwood, spruce, fir, beech, and other tree species." What is "significant?" What's the dollar value of a dogwood?[11]

The list of items goes on, but the point is clear. A cost-benefit analysis makes excellent sense in theory, but it's as difficult to execute as it is to assign numbers to human experiences. If the attempt is nonetheless made, the technical term for the assigning is **monetization**.

monetization

Assigning dollar values to human experiences.

A final set of hurtles to clear on the way to implementing a cost-benefit approach to business and the environment involves formalizing mechanisms for paying the costs. Two common mechanisms are regulation and incentives.

Regulations are imposed by federal or local governments and come in various forms. Most directly, and staying with electrical plants in Carolina, the plants could be required to install smokestack scrubbers. Costs of the installation would, to some significant extent, be passed on to consumers as rate hikes, and the benefits of cleaner air would be enjoyed by all. It's worth noting here that the contamination producers in question—coal-burning electricity plants—are pretty much stuck where they are in geographic terms. You can't produce electricity in China and sell it in the States. Other kinds of businesses, however, may be able to avoid regulations by packing up and heading elsewhere. This, of course, complicates the already knotted attempt to tote up the benefits and costs of environmental protection.

regulation

Requirements for action imposed by governmental bodies.

A more flexible manner of regulating air and other types of pollution involves the sale of permits. There are multiple ways of mounting a permit trade, but as a general sketch, the government sets an upper limit to the amount of air pollution produced by all industry, and sells (or gives) permits to specific operating businesses. In their turn, these permits may be bought and sold. So an electric company may find that it makes economic sense to install scrubbers (limiting its pollution output) and then sell the remaining pollution amount on its license to another company that finds the cost of limiting its emissions to be very high. One advantage of this approach is that, while it does limit total contamination, it allows for the fact that it's easier for some polluters than others to cut back.

As opposed to regulations that essentially force businesses to meet social pollution goals, **incentives** seek the same results cooperatively. For example, tax incentives could be offered for environmental protection efforts; money paid for the scrubbers a company places in their smokestacks may be deducted from taxes at a very high rate. Similarly, matching funds may be offered by government agencies: for every dollar the company spends, the government—which in this case means you and I and everyone who pays taxes—chips in one also.

incentives

Offered by government agencies and other institutions, they provide reasons for organizations to voluntarily cooperate with environmental protection efforts.

Alternatively, government agencies including the Environmental Protection Agency may provide public recognition to anticontamination efforts undertaken by a business, and in the hands of a strong marketing department those awards may be converted into positive public relations, new consumers, and extra profits that offset the original pollution control costs.

Specific awards tied to government agencies may not even be necessary; the incentive can be drawn from a broad range of sources. A good example comes from the *Washington Post*. A long and generally quite positive news story recounts Walmart's efforts to encourage suppliers in China to increase energy efficiency while decreasing their pollution output. Basically, Walmart told suppliers that they need to clean up or they'll get replaced. According to the account, not only is the effort bearing fruit, but it's working better than government regulations designed to achieve similar ends: "In many cases, Walmart is first trying to bring firms up to government standards. Suppliers may not care about government fines, but they care about orders from the buyers."[12]

As for Walmart, their cause is served by the free publicity of the story when it's distributed to almost a million newspaper readers in the Washington, DC, area and then projected broadly on the Internet. Further down the line, the good publicity ended up getting cited here. Going back to the specific newspaper story, it finishes with a clear acknowledgment of the public relations dynamic. These are the article's last lines: "Wal-Mart sees this not just as good practice but also good marketing. 'We hope to get more customers,' said Barry Friedman, vice president for corporate affairs in Beijing. 'We're not doing it solely out of the goodness of our hearts.'"[13]

One notable problem with the incentive approach is identical to its strength: since participation is voluntary, some heavy polluters may choose not to get involved.

As a final point about incentives, many industrial plants already receive incentives to *not* protect the environment. To the extent they're allowed to simply jet sulfur and other contamination into the air, they are, in effect, forcing society generally to pay part of their cost of production. Every time someone in Carolina falls ill with an asthma attack, the consequences are suffered by that individual while the profits from electricity sales go to the electric company. As previously discussed, these **externalities**—these costs of production borne by third parties—actually encourage businesses to follow

externalities

Business costs borne by third parties.

any route possible to make outsiders pay the costs of their operations. One route that's frequently possible, especially for heavy industry, involves letting others deal with their runoff and waste.

3.4 Business and Environmental Protections: Corporate Social Responsibility

The third posture an organization may adopt toward environmental protection falls under the heading of corporate social responsibility. The attitude here is that companies, especially large, public corporations, should humanize their existences: an attempt should be made to see the corporation, in a certain sense, as an individual person. Instead of being a mindless machine built to stamp out profits, the business is reenvisioned as a seat of economic *and* moral responsibility. Responding to ethical worries isn't someone else's concern (say, the government's, which acts by imposing regulations), instead, large companies including Walmart take a leading role in addressing ethical issues.

The *Washington Post*'s flattering presentation of Walmart in China fits well here. The story actually presents Walmart as transitioning from a vision of itself as a pure profit enterprise to one exercising corporate citizenship. Originally,

> *Walmart only cared about price and quality, so that encouraged suppliers to race to the bottom on environmental standards. They could lose contracts because competition was so fierce on price.*

Now, however,

> *Walmart held a conference in Beijing for suppliers to urge them to pay attention not only to price but also to "sustainability," which has become a touchstone.*[14]

sustainability

The concept of acting to protect both the environment and people surrounding an operation, so that they may continue to contribute to the enterprise.

Sustainability means acting to protect the environment and the people surrounding an operation so that they may continue to contribute to the profit-making enterprise. As a quick example, a logging operation that clear-cuts forests isn't sustainable: when all the trees are gone, there's no way for the company to make any more money. Similarly in human terms, companies depending on manual labor need their employees to be healthy. If a factory's air pollution makes everyone sick, no one will be able to come in to work.

For Walmart in China, one step toward sustainability involved energy efficiency. A supplier installed modern shrink-wrapping machines to replace work previously done by people wielding over-the-counter hair dryers. In theoretical terms at least, the use of less energy will help the supplier continue to produce even as worldwide petroleum supplies dwindle and energy costs increase. Steps were also taken, as the newspaper story notes, to limit water pollution: "Lutex says it treats four tons of wastewater that it used to dump into the municipal sewage line. That water was supposed to be treated by the city, but like three-quarters or more of China's wastewater, it almost certainly wasn't."[15]

More examples of Walmart suppliers making environmentally conscious decisions dot the newspaper story, and in every case these actions may be understood as serving the long-term viability of the supplier's operations.

stakeholders

All those who have a stake in an organization's decisions.

Stakeholder theory is another way of presenting corporate social responsibility. The idea here is that corporate leaders must make decisions representing the interests not only of shareholders (the corporation's owners) but also of all those who have a stake in what the enterprise is doing: the company exists for *their* benefit too. Along these lines, Walmart encouraged farmers in China to abandon the use of toxic pesticides. The corporation contracted with farmers under the condition that they use only organic means to kill pests and then allowed their products to be sold with a label noting their Walmart-confirmed clean production. The real lives of locals who eat that food and live on the now less-contaminated land are markedly improved. As another farming-related example of dedication to the well-being of the Chinese making up their manufacturing base, Walmart sought "to help hundreds of small farmers build rudimentary greenhouses, made of wood and plastic sheeting, in which they grow oranges in midwinter to sell to Walmart's direct farm program. Zhang Fengquan is one of those farmers; he gathers more than three tons of nectarines from more than 400 trees in his greenhouse. Asked what he did during the winter before the greenhouse was built, he said he worked as a seasonal laborer. Or played the popular Chinese board game mah-jongg."[16]

In both cases, Walmart is not simply abandoning its workers (or its suppliers' workers) once they punch out. As stakeholders in the company, Walmart executives feel a responsibility to defend employees' well-being just as they feel a responsibility to bring good products to market in the name of profit.

The fact that Walmart's recent actions in China can be presented as examples of a corporation expressing a sense of responsibility for the people and their natural world that goes beyond immediate profit doesn't mean that profit disappears from the equation. Shareholders are stakeholders too. And while corporate attitudes of social responsibility may well result in an increasingly protected environment, and while that protection may actually help the bottom line in some cases, there's no guarantee that the basic economic tension between making money and environmental welfare will be resolved.

Conclusion. Businesses can react to a world of environmental concern by trusting in technological innovation, by trusting in governmental regulation, and by trusting in a concept of corporate responsibility. It is currently uncertain which, if any, of these postures will most effectively respond to society's environmental preoccupations.

KEY TAKEAWAYS

- One business response to concerns about the environment is to participate in the process of technological innovation to produce cleaner, more efficient ways of living.
- One business response to concerns about the environment is to participate in, and act on cost-benefit studies of environmental protection.
- One business response to concerns about the environment is to express corporate responsibility: to make the business a seat of economic *and* ethical decisions.

REVIEW QUESTIONS

1. What's the difference between environmental protection and environmental conservation?
2. How has industrialization caused environmental problems? How can it resolve those problems?
3. What is a *cost-benefit analysis*?
4. With respect to the environment, how can a cost-benefit analysis be used to answer questions about business and environmental protection?
5. What is practical problem with the execution of a cost-benefit analysis strategy for responding to environmental problems?
6. What's the difference between a corporation guided by profit and one guided by a sense of social responsibility?
7. Why might a stakeholder theory of corporate decision making be good for the environment?

4. ANIMAL RIGHTS

LEARNING OBJECTIVES

1. **Elaborate arguments in favor of and against the proposition that animals have ethical rights.**
2. **Distinguish questions about animal rights from ones about animal suffering.**

4.1 Do Animals Have Rights?

Were this a textbook in environmental ethics, two further questions would be added to this subsection's title: which rights, which animals? It's clear that chimps and dolphins are different from worms and, even lower, single-cell organisms. The former give coherent evidence of having some level of conscious understanding of their worlds; the latter seem to be little more than reactionary vessels: they get a stimulus, they react, and that's it. Questions about where the line should be drawn between these two extremes, and by what criteria, fit within a more specialized study of the environment. In business ethics, attention fixes on the larger question of whether animals can be understood as possessing ethical rights as we customarily understand the term.

There are two principal arguments in favor of understanding at least higher-order nonhuman animals as endowed with rights:

1. The cognitive awareness and interest argument
2. The suffering argument

And there are three arguments against:

1. The lack of expression argument
2. The absence of duties argument
3. The anthropomorphism suspicion argument

The **cognitive awareness and interest argument** in favor of concluding that animals do have ethical rights begins by accumulating evidence that nonhuman animals are aware of what's going on around them and do in fact have an interest in how things go. As for showing that animals are aware and interested, in higher species evidence comes from what animals do. Most dogs learn in some sense the rules of the house; they squeal when kicked and (after a few occurrences) tend to avoid doing whatever it was that got them the boot. Analogously, anyone who's visited Sea World has seen dolphins respond to orders, and seemingly understand that responding well is in their interest because they get a fish to eat afterward.

If these deductions of animal awareness and interest are on target, the way opens to granting the animals an autonomous moral value and standing. Maybe their ethical value should be inferior to humans who demonstrate sophisticated understanding of their environment, themselves, and their interests, but any understanding at all does bring animals into the realm of ethics because determinations about whose interests should be served in any particular situation are what ethical discussions concern. The reason we have ethics is to help those who have specific interests have them satisfied in ways that don't interfere with others and their attempts to satisfy their distinct interests. So if we're going to have ethical principles at all, then they should apply to dogs and dolphins because they're involved in the messy conflicts about who gets what in the world.

Putting the same argument slightly differently, when the owner of a company decides how much of the year-end profits should go to employees as bonuses, that's ethics because the interests of the owner and the employees are being weighed. So too when decisions are made at Sea World about how often and how intensely animals should be put to work in entertainment programs: the interests of profits (and human welfare) are being weighed against the interests of individual dolphins. As soon as that happens, the dolphins are granted an ethical standing.

The **suffering argument** in favor of concluding that animals do have ethical rights fits neatly inside utilitarian theory. Within this ethical universe, the reason we have ethical rules is to maximize happiness and minimize suffering. So the first step to take here is to determine whether dogs and similar animals do, in fact, suffer. Of course no dog complains with words, but no baby does either, and no one doubts that babies suffer when, for example, they're hungry (and whining). When dogs would be expected to suffer, when they get slapped in the snout, they too exhibit clear signs of distress. Further, biological studies have shown that pain-associated elements of some animal nervous systems resemble the human version. Of course dogs may not suffer on the *emotional* level (if you separate a male and female pair, there may not be any heartbreak), and it's true that absolute proof remains elusive, but for many observers there's good evidence that some animals do, in fact, feel pain. If, then, it's accepted that animals suffer, they ought to be included in our utilitarian considerations by definition because the theory directs us to act in ways that maximize happiness and minimize suffering. It should be noted that the theory can be adjusted to include only human happiness and suffering, but there's no necessary reason for that, and as long as there's not, the establishment of animal suffering is enough to make a reasonable case that they are entities within the ethical world, and ones that require respect.

On the other side, the arguments *against* granting animals a moral standing in the world begin with the **lack of expression** argument. Animals, the reasoning goes, may display behaviors indicating an awareness of the world and the ability to suffer, but that's not enough to merit autonomous moral standing. To truly have rights, they must be *claimed*. An explicit and demonstrated awareness must exist of what ethics are, and why rules for action are attached to them. Without that, what separates animals from a sunflower? Like dogs, sunflowers react to their environment; they bend and twist to face the sun. Further, like dogs, sunflowers betray signs of suffering: when they don't get enough water they shrivel. Granting, finally, animals rights based on their displaying some reactions to their world isn't enough to earn a moral identity. Or if it is, then we end up in a silly situation where we have to grant sunflowers moral autonomy. Finally, because animals can't truly explain morality and demand rights, they have none.

Another way to deny animal rights runs through the **absence of duties argument**. Since animals don't have duties, they *can't* have rights. All ethics, the argument goes, is a two-way street. To have rights you must also have responsibilities; to claim protection against injury from others, you must also display consideration before injuring others. The first question to ask, consequently, in trying to determine whether animals should have rights is whether they have or could have responsibilities. For the most part, the answer seems to lean toward no. Were a bear to escape its enclosure in the zoo and attack a harmless child, few would blame the bear in any moral sense; almost no one would believe the animal was guilty of anything other than following its instincts. People don't expect wild animals to distinguish between their own interest and instinct on one side, and doing what's right on the other. We don't even expect that they *can* do that, and if they can't, then they can't participate in an ethical world any more than trees and other natural creatures that go through every day pursuing their own survival and little more.

The last argument against granting moral autonomy or value to animals is a **suspicion of anthropomorphism**. **Anthropomorphism** is the attribution of human qualities to nonhuman things. When we look at dogs and cats at home, or chimpanzees on TV, it's difficult to miss the human resemblance, the blinking, alert eyes, the legs stretching after a nap, the howls when you accidentally step on a tail, the hunger for food, the thirst and need to drink. In all these ways, common animals are very similar to humans. Given these indisputable similarities, it's easy to imagine that others must exist also. If animals look like we do (eyes, mouth, and nose), and if they eat and drink as we do, it's natural to assume they feel as we do: they suffer sadness and boredom; they need affection and are happy being cuddled. And from there it's natural to imagine that they think as we do, too. Not on the same level of sophistication, but, yes, they feel loyalty and experience similar inclinations. All this is false reasoning, however. Just because something *looks* human on the outside doesn't mean it experiences some kind of human sentiments on the inside. Dolls, for example, look human but feel nothing.

anthropomorphism

The attribution of human qualities to nonhuman things.

Transferring this possibility of drawing false conclusions from superficial resemblances over to the question about animal rights, the suspicion is that people are getting fooled. Animals may react in ways that look like pain to us but aren't pain to them. Animals may appear to need affection and construct relationships tinted with loyalty and some rudimentary morality, but all that may be just us imposing our reality where it doesn't actually exist. If that's what's happening, then animals shouldn't have rights because all the qualities those rights are based on—having interests, feeling pain and affection—are invented for them by us.

Corresponding with this argument, it's hard not to notice how quickly we rush to the defense of animals that look cute and vaguely human, but few seem very enthusiastic about helping moles and catfish.

4.2 Dividing Questions about Animal Rights from Ones about Animal Suffering

The debate about whether animals should be understood as possessing rights within the ethical universe is distinct from the one about whether they should be subjected to suffering. *If* animals do have rights, then it quickly follows that their suffering should be objectionable. Even if animals aren't granted any kind of autonomous ethical existence, however, there remains a debate about the extent to which their suffering should be considered acceptable.

Assuming some nonhuman animals do, in fact, suffer, there are two major business-related areas where the suffering is especially notable:

- Research
- Consumer goods

The case of research—especially medical and drug development—provides some obvious justification for making animals suffer. One example involves a jaw implant brought to market by the firm Vitek. After implantation in human patients, the device fragmented, causing extensive and painful problems. Later studies indicated that had the implant been tested in animals first, the defect would've been discovered and the human costs and pain avoided.[17] From here, it's easy to form an argument that if significant human suffering can be avoided by imposing on animals, then the route should be followed. Certainly many would be persuaded if it could be proven that the net animal suffering would be inferior to that caused in humans. (As an amplifying note, some make the case that testing on humans can be justified using the same reasoning: if imposing significant suffering on a few subjects will later help many cure a serious disease, then the action should be taken.)

The case of animal testing in the name of perfecting consumer goods is less easily defended. A *New York Times* story chronicles a dispute between the Perdue chicken company and a group of animal rights activists. The activists got enough money together to purchase a newspaper ad decrying poultry farm conditions. It portrayed chickens as crowded together so tightly that they end up fiercely attacking and eating each other. Even when not fighting, they wallow in disease and convulse in mass hysteria.[18] Though Perdue denied the ad's claims, many believe that animals of all kinds are subjected to extreme pain in the name of producing everything from cosmetics, to dinner, to Spanish bullfights. When animals are made to suffer for human comfort or pleasure—whether the result is nice makeup, or a tasty veal dish, or an enthralling bullfight—two arguments quickly arise against subjecting animals to the painful treatment. The utilitarian principle that pain in the world should be minimized may be applied. Also, a duty to refrain from cruelty may be cited and found persuasive.

KEY TAKEAWAYS

- Cognitive awareness and directed interest by animals may be sufficient to grant them autonomous ethical rights.
- Accepting that animals suffer may be sufficient to grant them autonomous ethical rights.
- The fact that animals do not explicitly claim ethical rights may be sufficient to deny them those rights.
- The fact that animals don't have duties may be sufficient to deny them ethical rights.
- Anthropomorphism may lead to erroneously seeing animals as possessing autonomous ethical value.
- The question about whether animal treatment causing suffering is ethically acceptable may be managed independently of the question about whether animals possess rights.

REVIEW QUESTIONS

1. What are the basic steps of the cognitive awareness and interest argument?
2. What are the basic steps of the suffering argument?
3. What are the basic steps of the lack of expression argument?
4. What are the basic steps of the absence of duties argument?
5. What are the basic steps of the anthropomorphism suspicion argument?
6. In ethical terms, how is animal suffering for research reasons distinct from the suffering of a Spanish bullfight?

5. CASE STUDIES

5.1 Yahoo! Answers: Why Should We Save the Planet?

Source: Photo courtesy of Kim Woodbridge, http://www.flickr.com/photos/kwbridge/2541993688.

Some people argue that there's no ethical requirement to protect the environment because the natural world has no intrinsic value. Against that ethical posture, here are four broad justifications for environmental protection. Each begins with a distinct and fundamental evaluation:

1. The environment should be protected in the name of serving human welfare, which is intrinsically valuable.
2. The environment should be protected in the name of serving future generations because they're valuable and merit intergenerational fairness.
3. The environment should be protected to serve animal welfare because there's an independent value in the existence and lives of animals.
4. The entire environmental web should be protected for its own sake because the planet's collection of ecosystems is intrinsically valuable.

On a Yahoo! forum page, a student named redbeard_90 posts the question "why should we save the planet?" and partially explains this way: "With all the constant talk of 'saving the planet' and stopping global warming, should we actually try to stop it? Perhaps in a way, this is humans transforming the planet to better suit us?"[19]

QUESTIONS

1. It sounds like redbeard_90 might think that humans doing damage to the environment is OK because it's just a symptom of "humans transforming the planet to better suit us."
   - Where is redbeard_90 placing value?
   - What might redbeard_90's attitude be toward the *free use* conception of the human relation with the environment?
   - What is the *domination and progress argument* against worrying about saving the planet? How could that argument fit together with what redbeard_90 wrote?
2. The response by a woman named Super Nova includes this reasoning: "We should try to save the planet because there would be less people with health problems. Did you know that there are more people with respiratory problems because of all the air pollution contributing to it? Also, we should think about future generations on Earth and how it would affect our future. Also, global warming is affecting our essential natural resources like food and lakes are drying up and it is causing more droughts in the world."

   The overall tone of her answer is strong with conviction.
   - It sounds like Super Nova wants to save the planet. What values sit underneath her desire? Why does she think environmental protection is important?
   - Does it sound like she believes nature in itself has value? Why or why not?
3. The poster named Luke writes an animated response, including these sentences:

   > *The first thing we need to do is help make some changes in our national mind set from one that lets us believe that our earth can recover from anything, to one that lets us believe that our earth could use a little help.*
   >
   > *Developing cleaner ways to produce electricity is not going to hurt a thing; if it does nothing but make the air we breathe cleaner it works for me.*
   >
   > *Developing alternative fuels to power our transportation needs, again won't hurt a thing, reduce the demand for oil you reduce the price we pay for it, I think everyone can say "that works for me" to this.*
   >
   > *I'm a global warming advocate but, not because of some unfounded fear of Doomsday but (as you may have guessed by now) because it won't hurt a thing to help our earth recover from years of industrial plunder.*

   - Some people are worried about human welfare, some people care a lot about the welfare of the planet, some people mix a little of both. Where would you say Luke comes down? Justify by specific reference to his words.
   - Some people who are concerned about the earth's welfare are most interested in helping nonhuman animals; others are more interested in the natural world in its totality. Where would you say Luke comes down here? Why?
   - Environmental *conservation* efforts can be conservative in the sense that they try to undo damage to the earth by limiting industrialization. The idea of environmental protection leaves open the possibility of using industrial advances—the same forces that have been contaminating the earth—to help resolve the problem. Does Luke sound more like a conservationist or a protector? Explain.
4. The poster named scottsdalehigh64 is the most intense. He's also fairly experienced: assuming his username is true and he graduated high school in 1964, he's about retirement age now. He writes, "There is an alternate question: Why do we think we have a right to be so destructive to other life forms on the planet? Perhaps the best answer is that we want to leave a good place to live for the species that are left when we go extinct."

   Unlike most of the other posters, he doesn't include any personal note or "best wishes" type line in his response. He's focused and intense.
   - How much value does scottsdalehigh64 place in human existence?
   - Where does he place value? What does scottsdalehigh64 think is worth aiding and protecting?
   - Just from his words, how do you imagine scottsdalehigh64 would define "a good place to live?"

5. Scottsdalehigh64 doesn't seem to like those who are "destructive to other life forms on the planet."
   - Could an argument be built that, in preparing for our own eventual extinction, we should make sure that we eliminate *all* life-forms that are destructive to other life forms? What would that elimination mean? What would need to be done? How could it be justified?
   - In a newspaper column, the philosopher Jeff McMahan appears to tentatively endorse scottsdalehigh64's vision. He proposes that we "arrange the gradual extinction of carnivorous species, replacing them with new herbivorous ones."[20] If, in fact, we decided to wipe out meat-eating animals and leave the world to plants and plant eaters, would we be valuing most highly ourselves? Nonhuman animals? The entire natural world? Something else? Explain your response.
6. An excited poster, KiRa01, announces, "Just live like theres no tomorrow!!!!"

   With respect to the environment, justify his attitude in ethical terms.

5.2 Going Green

Source: Photo courtesy of Elliott Brown, http://www.flickr.com/photos/ell-r-brown/4601959323.

Fifty years ago airports were designed to reward fliers with architecture as striking as the new experience of flight was rare and exciting. From those early days, only a few airports remain unspoiled by renovation and expansion. The Long Beach Airport south of Los Angeles is a survivor. The low lines of midcentury modern architecture captivate today's visitors just as they did the first ones. The restaurant overlooking the tarmac remains as elegant and perfectly simple as always. Walking the concourse, it's easy to imagine men in ties and women and children in their Sunday clothes waiting for a plane while uniformed porters manage their suitcases.

Flying is different today—no longer exciting and rare, it's just frustrating and crowded. Recognizing that reality, when the large European nations combined to form an airplane manufacturer, they didn't choose a distinguished and elevated name for their enterprise, they just called it Airbus: a company that makes buses that happen to go up and down.

Airplanes are tremendously polluting. In the United States, large passenger flights account for about 3 percent of released greenhouse gasses. That doesn't sound like much, but when you compare the number of flights with car trips, it's clear that each airplane is billowing massive carbon dioxide. And the problem is only getting worse, at least on the tourism front. Over the course of the next decade, global tourism will double to about 1.6 billion people annually.

Tourists aren't the only fliers. Planes are also taken by people heading to other cities to talk about tourism. One of them, Achim Steiner, is the executive director of the United Nations Environment Program. At a recent conference in Spain, he said, "Tourism is an extraordinary growth industry, it's the responsibility of operators—from hoteliers to travel companies—as well as governments to ensure that sites are sustainable."[21]

Sustainability has at least two sides. On one side, there's the economic reality: revenue provided by visitors pays for needed services. An example comes from the Masai Mara park reserve in Kenya. In villages surrounding the park, schools were forced to close when political unrest scared away the tourists and their money. On the other side, sustainability also means environmental protection. According to Steiner, there's the possibility that "Masai Mara could be overused to the point where it loses its value."

QUESTIONS

1. According to Steiner, "Hoteliers, travel companies, and governments are responsible" for ensuring the sustainability of sites including Masai Mara. In most discussions about *paying* the costs of a clean environment, three groups are signaled:
   - Those who contaminate the natural world
   - Those who enjoy the natural world
   - Those who are most able to pay

   How do each of these three fit into Steiner's vision?
2. Airplane exhaust contributes significantly to the damage currently being done to the environment. Steiner rode an airplane to a city to talk about that damage.
   - What is a cost-benefit analysis?
   - How could a cost-benefit analysis be used to show that his boarding the plane and going was actually an environmentally respectable act?
3. Fifty years ago, airplanes contributed almost no pollution to the environment because so few could afford to fly. One way to limit the amount of pollution into the air is through incentives. In the airplane case, a large tax could be attached to an airline ticket, thus providing an incentive to tourists to stay home or use alternate sources of transportation. Of course, for the very wealthy, the tax will be more absorbable and, presumably, airplane travel would tend toward its origins: flying would be something the rich do.

   How could a utilitarian analysis be used to justify the action of, in essence, reserving plane flying for the rich in the name of helping the environment?
4. The airport at Long Beach is a low-ranking historical treasure. Tourists will never flock to see it, but it does incarnate and vivify a time in the recent past. The airport at Long Beach is also a business. That may lead its directors to initiate remodeling and expansion plans that will destroy the airport's original essence.
   - Is preserving the natural world like the preservation of a historical architectural treasure? If so, why? If not, why not?
   - Using standard arguments against the business responsibility to preserve the natural world (free use, domination and progress, geological time), make the case that progress should be allowed to destroy the Long Beach Airport's historical authenticity if that course of action is profitable.
   - Using standard arguments in favor of the business responsibility to preserve the natural world (preservation for human welfare, for future generations, for the sake of the thing itself), make the case that the Long Beach Airport should be preserved.
   - If the airport is preserved, who should pay? Why?
5. In ethical terms, make the case that it's more important to preserve the Masai Mara park reserve in Kenya than the Long Beach Airport.

5.3 IBM and IBM

Source: Photo courtesy of p_a_h, http://www.flickr.com/photos/pahudson/2212158878.

Bernadette Patrick moved away from her home in Endicott, New York, saying this about the town: "It was very neighborly and well kept, with lots of kids and families. Then all of a sudden it seemed like they put a skull and crossbones on all the doors. It was like a scene from a science fiction movie."[22]

The science fiction part is the large, white metal boxes attached to Endicott homes. With tubes burrowing down in the earth and shooting up high into the air, they're wired to pump air from below and jet it above. The idea is to disperse toxic vapors rising up through the ground. The vapor's source is industrial solvents poured down drains and dripped out of leaky pipes at the local IBM factory over the course of its seventy-five-year history.

Those seventy-five years have otherwise been good ones. IBM money and jobs drove the small town forward. As Wanda Hudak put it, "The IBM plant paid for a lot of college educations and cottages at Perch Pond."[23] The good feelings ended when a company IBM hired started showing up at people's homes to test the air and offer to install the mechanical ventilation systems.

QUESTIONS

1. IBM is paying millions for cleanup efforts. They're installing air cleaners on homes and pumping contaminated groundwater to the surface for safe disposal. An IBM spokesman said this about the toxic pollution, "None of it was done intentionally, but we still are sticking around to take care of it. We feel obligated legally, ethically. We are not going anywhere."[24]
   - Make the ethical case that those who contaminated the environment—IBM—should pay all the cleanup costs.
   - Make the case that those who benefit from a clean environment—the locals who work at the company and those who don't—should pay for the cleanup.
2. When the extent of the environmental pollution became clear, it was also evident that the cleanup would be tremendously expensive. In general terms, how could a cost-benefit analysis be mounted to decide between going forward with the environmental cleanup or closing the factory, shuttering the town, and moving on?
3. One critical element of the notion of corporate social responsibility is the idea of sustainability.
   - In both environmental and economic senses, what is sustainability?
   - What would be sustained by a cleanup in this case? How?
4. One critical element of the notion of corporate social responsibility is the idea of stakeholder theory.
   - Who are the obvious stakeholders in this case?
   - Thinking about the situation from the directorship of IBM, what are the company's responsibilities to each of the stakeholders?
5. The IBM of Endicott, New York, is an IBM of the past, one focused on factories and making business machines like typewriters and photocopiers. The IBM of today leaves most hard manufacturing to foreign firms in low-cost countries. What IBM now wants to do now, according to their advertising, is "build a smarter planet." That means solving problems like this one reported by CNN:

   > *Stockholm bogs down in rush-hour traffic. A series of bridges connecting Sweden's capital creates bottlenecks that cause gridlock and air pollution, waste millions of gallons of fuel, hamper public transportation, and endanger pedestrians.*[25]

   The solution? Swede governmental officers decided on a congestion fee, on charging vehicles money for entering the city at peak traffic times. The aim was to seriously reduce the number of cars downtown at rush hours. That's easier said than done, however. Stopping people at toll booths would just make the problem worse: it would add yet another air-polluting stop to the traffic through town. So IBM was hired to produce camera technology allowing license plate numbers to be recorded and recognized automatically. Then monthly bills were generated and mailed out to the car owners. As CNN reported, these were the results:

   > *Traffic fell 35 percent almost immediately and stayed down 22 percent—and not just at peak times or solely downtown. Emissions also dropped by 14 percent. The streets became more pedestrian friendly, and the buses began finishing their routes so quickly that the city had to rewrite the schedules. The fee schedule makes it obvious when traffic will be the worst, so drivers who trek in during peak hours know they'll pay more for what will probably be a maddening experience. As a result, people seem to be cutting out unnecessary trips: bundling afterschool pickups, say, with visits to the grocery store. In short, Swedes are driving smarter.*[26]

   When IBM protects the environment by cleaning up Endicott, they're losing money; when IBM protects the environment by selling smart systems to the Swedes, they're profiting.
   - Make the case that, ethically, IBM's actions in Endicott are nobler than the actions in Sweden.
   - Make the case that, ethically, IBM's actions in Sweden are nobler than the actions in Endicott.

6. In the world of business ethics and the environment, one of the more spirited debates is this: should we slow down technology and industrialization to use less and pollute less, or speed up industrialization and technology in the hope that we'll discover solutions to the environmental problems caused by industrialization and technology?
   - How does the case of IBM incarnate that debate?
   - Does the decision about where you come down depend on where you place value (human welfare versus environmental welfare)? Explain.
7. With respect to the environment and money, there are two formulas for thinking about IBM's project in Sweden:
   a. The aim was to clean up the environment, and money happened to be made along the way.
   b. The aim was to make money, and cleaning up the environment happened to be a good strategy for profit.

   In terms of basic values and ethics, outline the difference between these two visions.
8. Thinking about ethics and IBM in Endicott and in Sweden, what's more important: the intentions of a company when it acts, or the consequences of the actions? Explain.

5.4 Windmills and Condors

Source: Photo courtesy of Tom Caswell, http://www.flickr.com/photos/caswell_tom/2426923924.

The wind farms of Northern California produce clean electricity. Every lightbulb illuminated by the giant turbines represents less destruction of the earth by mining and drilling operations, and less contamination of the air by coal- and oil-fired power plants. It also represents fewer California Condors.

The spinning blades of the windmills erected in spots including the Altamont Pass are proving deadly for the rare birds, which are a kind of vulture. Here's a reaction by the environmental writer and activist Jim Wiegand: "For all the 'green energy' believers out there, this is a video you have to see. Each year across America thousands of eagles, hawks, owls, falcons, vultures and condors perish at green energy wind farms. This video will open your eyes and your mind when you see how easily a soaring vulture is smashed by the innocent looking blades of a prop wind turbine."[27]

Fatal Accident with Vulture on a Windmill

View the video online at: http://www.youtube.com/v/9srPoOU6_Z4

The video shows a large and calm vulture cycling slowly around a modern wind turbine and then getting struck by one of the spinning blades. The bird drops out of the air. Left on the ground beside the towering contraption, it drags and struggles to flap its broken wing.

QUESTIONS

1. Unlike single-cell creatures, vultures seem to have awareness and interest in their environment. They notice distressed animals, circle patiently, and in the end descend to eat the carcass.
   - How can this behavior be translated into an argument that animals have ethical rights?
   - How can the claim that aware and interested vultures have independent ethical rights be mustered into an argument against installing wind turbines in areas that threaten vultures, no matter how much clean electrical energy they may generate?
2. If you have a chance to see the video and watch the fallen bird struggling and dying on the ground, do the images change your feelings about the importance of protecting this creature?
   - Assume the bird writhing on the ground is, in fact, suffering in a way not completely unlike human suffering. How can this behavior be translated into an argument that animals have ethical rights?
   - Make the case that the video doesn't allow the conclusion that birds suffer.
3. Assume that, for whatever reason, you're convinced that those condors being cut down by California wind turbines have ethical rights comparable with the ones we deposit in human animals. Can you nonetheless outline an argument in favor of continued windmill use because of the clean energy it provides?
   - Make your case by appeal to a utilitarian argument.
   - Make your case by appeal to a cost-benefit analysis.
   - Make your case by appealing to the idea that the environment should be protected in its entirety because, as an interlocked set of ecosystems, it holds autonomous value.
4. If you can make the case that some nonhuman animals that have autonomous ethical rights should be allowed to meet their end in the name of clean energy, could you make the same argument for human animals? Imagine, for example, that actually constructing these wind turbines leads to high worker fatalities, say, 10 times higher than any other kind of work. Could those deaths be justified ethically in the name of clean energy? Why or why not?

5.5 The PETA Homepage

Source: Photo courtesy of HaPe_Gera, http://www.flickr.com/photos/hape_gera/2929195528/.

People for the Ethical Treatment of Animals is possibly the most active animal-rights organization in the United States. On the day this case study was written, the organization's home page featured pictures of a sad-eyed Dalmatian, a noble elephant, and a cuddly rabbit. There was also a tease to a story set underneath a picture of smiling, former President Clinton. It read, "What's the secret behind this former president's newly trim waistline, enhanced energy, and improved cardiovascular health? A vegan diet! Read more."[28]

QUESTIONS

1. A vegan diet excludes all products derived from animals and promotes plant-based eating. In this PETA ad, what values probably underlie the strategy (is the appeal to protect animals made in the name of human welfare, animal welfare, or general environmental welfare)? Justify.
2. What is anthropomorphism? How could the phenomenon of anthropomorphism lead someone to posit autonomous ethical dignity, and rights, in nonhuman animals that really shouldn't be considered worth protecting any more than trees?
3. From the description provided of the PETA home page, how could it be described as inviting anthropomorphism?
4. Were you in charge at PETA, an organization fighting for animal rights that depends on donations, would you use the phenomenon of anthropomorphism to boost your organization's revenue?
    - What is an argument in favor of the strategy?
    - What is an argument against the strategy?

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CHAPTER 15

The Domination Office: The Star System and Labor Unions

CHAPTER OVERVIEW

Chapter 15 investigates ethical issues raised by extreme disparities in income and wealth. Issues surrounding labor unions are also considered.

1. WHAT IS THE STAR SYSTEM?

LEARNING OBJECTIVE

1. **Define and characterize the star system in contemporary business life.**

1.1 Cash Break Zero

Hard times, according to the *Los Angeles Times*, have come to Hollywood: "Today, actors who used to make $15 million are making $10 million. The filmmakers who used to make $10 million are making $6 million. As one prominent agent put it, 'Everyone is in free fall. It's just brutal out there.'"[1]

The news isn't all bleak, however, for Hollywood's top actors, directors, and producers. Though they're being forced to settle for these embarrassingly small up-front paychecks, they're getting a higher percentage on the back end. The key concept is *cash break zero*—the point where the money a studio spent making, promoting, and distributing a film is balanced by the income from ticket sales in theaters, cable rights, home rentals, and similar. Once that break-even number has been hit, actors and filmmakers who are being forced to cut their up-front salary are getting a large chunk of the profits. This arrangement can lead to huge rewards, but the talent only rakes it in if they're willing to bet on themselves making a movie that generates more money than it cost.

According to the *Times*, one exemplary winner is director Michael Bay, who pocketed $80 million for his successful—but not earth-shatteringly popular—movie *Transformers*. In the new Hollywood arrangement, just modest box-office success can translate into a giant payday. For those who make stinkers, however, they're walking away with their reduced up-front salary and nothing more. One major result, finally, of tying compensation to profits is that the distance between the big winners and everyone else in Hollywood increases dramatically. Just like a few movies every year break through the clutter of entertainment options to become must-see shows, so too some paychecks rocket above the rest.

The question about whether stars should get less at the beginning but potentially much more later on is a hot topic in Hollywood, but it doesn't connect with too many people's actual lives. In the words of one successful producer, "The studio pays for the lead actor or actress, but after that, well, the talent is just getting grinded. Everyone else is lucky to be working."[2]

Young people stepping off the bus in Hollywood and getting grinded is a long tradition. Even the biggest names tell stories about working the restaurant night shift six times a week so they're free to audition all day long, and then getting nothing but bit-parts for years. Once in a while someone catches a real break, but most of the time what breaks is the actor. After absorbing endless rejections, there's no direction left but the one leading back to the bus station, and then a long ride back home. The Hollywood blogger T. R. Locke provides a list of the reasons why:

- There are 120,000 SAG (Screen Actors Guild) actors in Hollywood.
- At any given time 85 percent of them are out of work.
- The average salary of a SAG actor is less than $10,000 a year.
- Most of them are just trying to earn the required $7,500 a year to keep their health benefits.
- Less than 1 percent are the ones you read about and know: the real stars, the actors who make million-dollar salaries.[3]

The reality is sobering. In Hollywood the real paycheck difference—the salary separation dividing top talent from just the average—is $10,000 versus $80 million. When Michael Bay cashed his *Transformer*'s check, he got enough to pay the yearly salary of *eight thousand* actors. That $79,990,000 gap separating Bay from each one of those aspiring stars explains Locke's good advice for Hollywood newcomers: "The best way to achieve your dreams is to wake up."[4]

Hollywood actors aren't the only ones staring across giant wealth gaps. If a typical employee at Microsoft who has, like many Americans, a net worth of about $100,000, spends $150 at the bars on a big Friday night, it would be about proportional to what Microsoft chairman Bill Gates would do to his net worth ($57 billion) were he to blow through…$85 million. In fact, just one Bill Gates party night could pay a weekend-long bender for every single adult in Wyoming. And if Gates wanted to hire actors in Hollywood, he could get a year of services from six million of them. If every single man, woman, and child living in Rhode Island, Montana, Delaware, South Dakota, Alaska, North Dakota, Vermont, and Wyoming were actors, he could hire them all for a year.

Bill Gates is not the richest man in the world. The Mexican Carlos Slim is. Rounding the numbers off, and using the average Mexican per-capita earning, he could hire ten million people to work a year for him. In US terms, he could hire a personal assistant for every adult in Florida.

Wall Street executive Stephan Schwarzman earned $702,440,573 in 2009: about enough to hire twelve thousand teachers for New York City's public schools. Oracle CEO Larry Ellison earned $560 million: enough to pay ten thousand junior-level software engineers. Occidental Petroleum CEO Ray Irani got $223 million: enough to pay five thousand gas station attendants. The list goes on. Reality imitates Hollywood: nearly every field of work has its stars.[5]

1.2 What Is the Star System?

star system

In the economic world, a winner-take-almost-all structure for distributing wealth.

The **star system** in the economic world is a winner-take-almost-all structure for distributing wealth: those who are successful in any particular field take home a vastly disproportionate share of the revenue. This is easy to see in the movies and some other places (big-time professional sports, for example), but what makes the star system a pressing issue in business ethics is that it seems to be expanding through our economic lives. To begin getting a sense of the expansion—exactly what it is and means—two distinctions may be drawn:

1. Individual worth versus salary (or income)
2. Vertical versus horizontal expansion of the star system

individual worth

How much money someone has.

salary

How much money someone makes at work.

Individuals can separate from the larger population mass in terms of **individual worth**, and in terms of **salary**. Loosely, the first is how much money someone would have if they sold everything they owned and concentrated the dollars in a single bank account; the second is the amount an individual gets paid each year to *do* something. These two measures may be very distinct—someone may be a star in one category and ordinary in the other. Indra Tamang is a Nepalese immigrant who served a wealthy New Yorker as butler for many years. In terms of salary, he could not be called a star. When his matron passed away, however, she left him just under $10 million (and cut her own children out in the process). That rocketed Tamang into the upper end of the net-worth scale, even while his always-modest salary went to zero.[6]

At the other extreme, but still in New York, basketball player Eddy Curry received $10 million to play a single year's worth of basketball for the New York Knicks, clearly establishing him in the top echelon of earners. Still, he's not worth much. In fact, he's worth around zero: his house is in foreclosure, and creditors are suing for his cars. It's not clear where all the money went, but a pretty good clue comes from the fact that one of his creditors is charging a jaw-dropping 85 percent interest rate, and that's only legal in Nevada.[7] Finally, it's clear that the Nepalese butler and the high-rolling basketball player are extreme cases. More typically, individual worth and salary dovetail: those who make a lot end up having a lot. Still, the difference between them remains as two dimensions of a star system.

The second distinction to draw through an examination of gaping wealth differences is horizontal versus vertical. **Vertical wealth imbalances** measure the distance between top earners and typical ones. It's the distance between the hyperrich, a Bill Gates in Seattle or a Carlos Slim in Mexico City, and the guy pouring cement at a Seattle construction site or the waitress serving tamales in a Mexico City restaurant.

vertical wealth imbalances

The distance between the top earners and the typical ones.

According to Internal Revenue Services tax returns, in the fifteen years from 1992 to 2007, the four hundred wealthiest Americans have seen their average yearly income jump from about $50 million a year, to $350 million. That's about $300 million of extra space between the big earners and everyone else.[8] As a parallel statistic, according to a Hofstra political science professor, "The ratio of executive salary to the average paycheck during the mid-twentieth century was about thirty to one. In the last decade it has ranged from three hundred to over five hundred to one."[9]

Though there are many ways to measure the star system, there's a common conclusion: in terms of pure dollars, the rich are getting richer relative to everyone else.

As against the star system's vertical measure, **horizontal** expansion refers to the number of fields of activity where large wealth imbalances are prevalent. Some occupations fairly naturally lead to all or near-nothing incomes: wildcat oil drilling, hedge-fund managing, movie acting. Other fields seem naturally inclined to resist divergences. There aren't many farmers on lists of the hyperwealthy. Plumbers frequently earn a solid income, but rarely climb above that. The idea of the star system's horizontal expansion is that more and more careers resemble the first set of occupations, while fewer and fewer resemble the second set. It's difficult to find raw statistics to prove this expansion, but it's not hard to locate reasons for suspecting it.

horizontal wealth imbalances

Within the star system, the number of fields of activity where large wealth imbalances are prevalent.

One important reason the star system may be spreading is technological advancement. Justin Bieber, for example, is a cute adolescent boy from Canada with a nice singing voice and good instincts for catchy pop licks. Had he appeared forty years ago, he may have become known around his hometown of London, Ontario. With a lot of long drives and late nights, he may have become a star in his Canadian province and earned a nice concert income for a while. Thanks to YouTube, however, he was able to jump straight from singing a few songs a few times in remote Canadian towns to international superstardom. Similarly, lawyers that may once have become successful in a single courthouse can now buy cheap, late-night advertising on a cable network and set up branch offices around an entire state or even the nation. Anyone sitting at home with a laptop can use the camera to film themselves pitching some product or service and then display the commercial around the world using Google Ads for only a few pennies. What's happening is that people who have a good product or service or pitch are today able to scale up their success very rapidly and inexpensively. No one is saying that it's easy to become an overnight international sensation in any profession, but the *opportunities* to do that are expanding as our world becomes more interconnected.

One further point. Twenty years ago, if Justin Bieber had become successful in Ontario, he would've taken attention and economic opportunity away from some other aspiring singers in a Canadian province. Today, his success crowds out other potential preteen heartthrobs all around the world. Something similar has happened in corporate boardrooms as companies that used to operate in a state or a region have become international behemoths. It used to be that big-time CEOs managed hundreds of employees. The CEO of Walmart today is responsible for millions. For young and ambitious employees entering the Walmart company, that means, there's a lot more competition than there used to be for that one slot on top of the pyramid.

Conclusion. The star system isn't measured or defined by one specific statistic; it's a constellation of ideas involving the increasing concentration of wealth within a profession—and within the economy generally—in the hands of a few individuals.

KEY TAKEAWAYS

- The star system in the economic world is a winner-take-almost-all structure of wealth distribution.
- In the contemporary economic world, wealth imbalances are growing vertically and horizontally.

REVIEW QUESTIONS

1. Name a field of economic activity characterized by the star system. Explain.
2. Name a field of economic activity that resists the star system. Why does it resist?
3. With an example, explain the difference between vertical and horizontal wealth imbalances in a society.

2. QUESTIONS PROVOKED BY THE STAR SYSTEM

LEARNING OBJECTIVES

1. **Discuss different formulas for distributing wages and wealth in society.**
2. **Consider different ways individuals are compensated for their labor.**
3. **Define cronyism and distinguish it from a star system.**
4. **Discuss theoretical notions of envy.**

2.1 How Should Wages Be Distributed?

From a business ethics perspective, a modern society striated by extreme income or wealth imbalances provokes questions:

- How should wages be distributed?
- What counts as compensation?
- What's the difference between a star system and crony capitalism?
- Why do we want to be stars?

market forces

The determination of prices, wages, and similar in accord with basic economic laws of supply and demand.

Beginning with the question about wage distribution, in today's economy a multitude of architectures may determine compensation levels for individuals at work. The appeal to **market forces** is the most straightforward. When the question is "How much should Bill Gates get?" the direct answer is whatever he can find a way to earn. This rationale has nothing to do with how hard Gates works. He may well struggle mightily, but it could also be that he sat down for a few mornings, jammed the lines of code composing the Windows operating system into his computer, and he hasn't done a thing since. He'd still be fully justified in claiming his billions because people are willing to pay his company to get the product.

Expanding the logic that people should receive whatever they can get someone to pay them, no one thinks twice about applying that way of thinking to paintings. The worth of a Picasso that goes on sale tomorrow is no more or less than what the highest bidder offers. So too, the argument goes, should wages be determined.

This subject will be returned to later, but provisionally it may be stated that this method of apportioning money fits well with the contemporary star system. It fits because if some few people find ways of accumulating huge sums in the open marketplace, that's not a problem or an injustice. If anything, it's an indication that the market economy, which privileges individual initiative and freedom, is working as it should.

value generated for society

As a formula for wage distribution, the assignment of wages to reward those performing tasks that provide happiness as measured across an entire community.

Another way of thinking about how wages and wealth should be distributed is **value generated for society**. Under this formula, few would deny that Bill Gates—whose software contributes mightily to making our lives easier—deserves healthy compensation. However, does he deserve more than the top-notch elementary school teacher who every year sends thirty children forward, ready to contribute to society? What about a paramedic? It's true that Gates has touched most all our lives, but he hasn't *saved* any.

With respect to ethically justifying this form of wealth distribution, it fits together well with the utilitarian ideal of acting in the name of the common welfare. When economic incentives are put in place to highly reward those performing tasks that provide for happiness when measured across an entire community, even those who don't care about anyone but themselves will find their efforts channeled toward the general welfare.

On the question, finally, about gaping imbalances in income and wealth distribution, deciding to apportion money in terms of value added for society may not shrink the disparities. It's true that Wall Street speculators may have a harder time justifying million-dollar bonuses, but others may claim their place on the spectrum's upper end (Scientists? Teachers?). And with respect to someone like Gates, he'd stand on solid ground demanding huge riches based on his role in software development.

effort

As a formula for wage distribution, the assignment of wages to reflect number of hours or amount of force exerted toiling.

A third structure for dividing wealth is **effort**, measured by, say, number of hours toiling or amount of measurable work done. American Apparel employs this formula when dividing up wages among sewers at its Los Angeles factory. The sewers are grouped, and each member receives a respectable hourly base wage, and then a bonus depending on how many garments their team produces. Some groups produce faster than others and so make more money, but no individual rises above the pack as drastically as financier Stephan Schwarzman did on Wall Street when he earned $702,440,573 in one year. To underline the difference, if Schwarzman worked twenty-four hours every day of the year, he'd be getting $80,000 an hour. No sewer at American Apparel gets anything close to that.

Ethically justifying a structure for wealth distribution based on pure effort may lead toward the duty to fairness. If there's broad agreement that all individuals should have an equal opportunity to pull down a big paycheck, then aligning the paycheck with effort makes sense. It works especially well by eliminating advantages some people have over others as a result of luck. Someone born with a knack for math may do better on Wall Street than another born without, but both have it in their power to work equally hard. If, consequently, we want to ensure that all society's members have the same shot at becoming wealthy, setting paycheck decisions to accord with effort may function well.

With respect to a star system, finally, it's immediately clear that this method of dividing wages drastically suppresses income differences. It may be that Wall Street maven Stephan Schwarzman works harder and longer than any sewer at American Apparel (or he may not), but there's no way he works $80,000 an hour harder.

A still flatter system of wealth distribution is precisely **flat wealth distribution**—that is, everyone gets the same check at the end of the month. Retirees collecting Social Security approximate this reality. Though it's true that Social Security payments vary depending on factors including how much individuals contributed during their working lives and how early they began accepting benefits, there's no room whatsoever for a star system. Near-blind equality across the board, in fact, is one of the main principles guiding the Social Security system.

flat wealth distribution

A formula for wage distribution where everyone gets the same amount.

Of course, one reason people are willing and, for the most part, happy to participate in Social Security's relatively flat payment system is that they *aren't* working. When people are working, when they receive a check for labors accomplished during preceding weeks, it becomes difficult to justify giving everyone the same amount regardless of how many hours they may have put in or effort exerted. In a certain sense, it actually becomes impossible because such a distribution breaks the link between work and payment (even someone who sucked their thumb all day would receive the same wage as the dedicated nurse) and so the entire discussion about dividing up salary levels evaporates. Dispersing money to the population becomes a political task more than an economic one. It is, it must be underlined, quite possible to ethically justify a flat wealth distribution system; it's just that the justification would rest on social and political grounds, not economic and business ones.

The last structure for wealth division is in terms of **need**. Everyone gets the funding necessary to maintain a quality of life comparable with that of everyone else. A gesture in this direction is made in the United States by government welfare programs, a notable example being food stamps (about 40 million Americans, or 12 percent of the population, receive them). The idea behind the benefits is that those unable to afford the grocery store should receive a supplemental income to guarantee a sufficiently stocked kitchen cabinet. There are many and heated debates about the extent to which government institutions should be redistributing wealth by channeling tax revenue. It is clear, however, that giving to all members of society in accordance with their need will eliminate the star system. It may be true that some will *receive* vastly more than others (for example, those with serious physical disabilities), but there wouldn't be any outsized accumulation of wealth; there wouldn't be any Bill Gates out there with $50 billion in the checking account.

need

A formula for wage distribution where everyone gets the funding necessary to maintain a quality of life comparable with that of everyone else.

Conclusion. The star system in American business life is not necessary; other systems of wealth distribution are possible and justifiable. However, the star system does fit together well with the proportioning of wealth through open market forces.

2.2 What Counts as Compensation?

The president of the United States receives "only" $400,000 annually. Then again, he also gets a brass band striking up a tune in his honor every time he goes out the front door. Michael Bloomberg spent 108 million of his own dollars to be elected mayor of New York City in 2010. Since the job's salary is $225,000, he'd need to work 480 years just to break even. On the other hand, with a police escort he has a lot less trouble with the cross-town traffic frustrating so many New Yorkers, no matter how wealthy they may be. On Wall Street, *quants* are quantitative analysts: people who use mathematical algorithms (among other tools) to buy and sell stock. Their compensation can reach astronomical heights, which explains why some people who have the talent to be math professors at universities give up campus life for the world of finance. Others, however, decide against finance and in favor of the campus and a paycheck that struggles to reach six figures. In 1993, basketball superstar Michael Jordan left the game and signed up to play minor league baseball with the Birmingham Barons. Not everyone, reality teaches, wants to be a star, at least not in purely financial terms.

It's also true, however, that most people who could be financial stars forgo that possibility only because they get what *they perceive* to be a better offer. The better offer may not appear so wonderful to many—it takes a certain kind of person to choose minor league baseball over the NBA, or campus life instead of glittering Wall Street—but the decision nonetheless makes sense for the deciders (and to enough outside observers for the choice to avoid being labeled insane). The point is that compensation, what you want to get back for doing your job, comes in many flavors, and it's hard to put a universal price tag on them. Many would thoroughly enjoy the perks of being president, but probably few see why living a life of the mind at a remote university is preferable to being rich in New York City. Regardless, one of the difficulties in gauging and fully delineating the star system as it exists in professional life is accounting for the kinds of benefits that don't appear on paychecks.

2.3 What's the Difference between the Star System and Crony Capitalism?

crony capitalism

Decisions made on the basis of personal relationships and loyalties more than unbiased judgments and purely professional considerations.

Cronyism is partiality to others because they're friends and allies. Normally, cronyism also includes some expectation of reciprocity: favors are exchanged. **Crony capitalism** is an insiders' game in business, one where decisions are made on the basis of personal relationships and loyalties more than unbiased judgments and professional considerations.

About cronyism, everyone engages in it to some extent. When children come around in December selling gift wrap to raise money for their school, one girl may knock on the door and give a tremendous presentation along with some discount options, but you still buy more from the boy who mumbles and forgets most of the samples because he's your sister's son and also because you hope that when your children get older, your sister will do the same favor for you.

In the neighborhood and on a small scale, it's difficult to object to outbreaks of personal allegiance at the cost of economic purity. In fact, an ethics of care—one that sets the preservation of social and family bonds as the highest moral good—actually endorses this kind of cronyism. The problem comes further up the scale when personal relations guide decisions about *other people's* money, either directly or indirectly. One example is the bailout of Boston's OneUnited Bank. It was located in the district of a powerful congressman and led at one point by the husband of a powerful congresswoman. When the bank collapsed under the weight of bad loans, it should've been put out of business. In fact, the Federal Deposit Insurance Corporation, a regulating arm of the US government, ordered the bank to stop making loans. Still, after a string of telephone calls stretching from the bank to the congresswoman and then on to the congressman in charge of doling out government bailout funds, a $12 million check got written. The incompetent bankers at OneUnited got to keep working, and US taxpayers got a seven-figure bill.[10]

The purely economic description of this kind of bailout is "privatizing the profits and publicizing the losses," meaning that when a company does well, the private sector people—the managers and shareholders—keep the profits, and when money is lost, the bill is charged to the public sector, to taxpayers. This kind of practice may well encourage wealth accumulation among a few people with powerful friends in government since their insider connections grant them a tremendous advantage on the economic playing field: they can bet everything knowing that if they lose, they'll just get their stake back to try again.

Ethically, a number of arguments may be quickly mounted against cronyism:

- In terms of basic duties, including the duty to fairness, cronyism fails because economic players aren't getting the same opportunity to succeed. In the banking example, the duty to fairness doesn't mean all bankers necessarily succeed equally, but it does require that the difference between winning and losing gets determined in terms of the skills of banking (attracting depositors, correctly determining which loans are good and which should be avoided, and similar). Cronyism replaces banking expertise with social and political maneuverings at the core of success, which is unfair by definition, just as it would be to screen applicants for a bartending job by asking them all to participate in a running race.
- Another duty-based argument against cronyism is that it can be construed as a form of stealing. When political friends provide taxpayer dollars to a business, there's no one person who can claim to have been robbed, but as a collective, taxpayers find someone has taken their money.
- A utilitarian argument against crony capitalism would succeed by showing that an economic system distorted by political favoritism is less efficient, and therefore, less supportive of the general welfare than one where only those who are best at one or another activity gain rewards.

Conversely, and in support of crony capitalism, an ethics of egoism could be mustered. Viewed from the perspective that whatever is best for me personally is also ethically recommendable, it's hard to find fault with individuals in the world seeking to use *all* their resources—including friendships and discreet deals with government bigwigs—to succeed. An argument could even be made that if everyone simply accepted that we should all use every resource at our disposal, there might be a balance in the distribution of favors and underhanded advantages.

Regardless of the ethical defensibility of crony capitalism, there are important differences between it and a star system, at least a star system conceived in its purest form. The central contrasts:

- The concentration of income in the hands of a few within a working star system generally traces back to their professional talents, as opposed to their personal connections.
- The income concentration frequently results from an economic system allowing for successes to be transparently replicated on a tremendous scale, as opposed to sneaky, back-room deals.

An illustrative example of the difference comes from the top of the *Forbes* 400 list. The world's two wealthiest individuals, according to the ranking, are Carlos Slim and Bill Gates. While everyone knows Gates, few people outside of Mexico have heard the name Carlos Slim, which isn't remarkable given that he's never invented anything, participated in the providing of an improved service, or even found a way to get typical goods and services to market more efficiently than anyone else. What Slim *has* done very well is pay off politicians.

In the early 1990s, Mexico, like many developing nations, was selling off inefficient state assets. One of them was *Telefonos de Mexico* (Telmex), the sole provider of telephone services for the country. Slim, together with a group of investors, bought the company in a shady deal (it's not clear how much, if any, money the Mexican people received in exchange for the company their taxes built) and then got national legislators to grant them an effective monopoly. With no competition, the new directors of Telmex were free to charge whatever they wished for phone service, and they didn't hesitate. They also didn't bother investing in system improvements, so, until recently, multiline technology was not even introduced in the country. People and businesses who wanted to have more than one line had to have a second (or third, or fourth) line physically wired to their location. As the telecommunications industry around the world exploded—the demand for services including Internet shooting through the roof—people in Mexico had to wait for a crew to come out and run a wire. The wait was months or more. The people at Telmex were in no rush since their friends in the national legislature were busy assuring that no competitor could sweep in and take the client. The result, twenty years later, is that Slim is one of the world's wealthiest individuals, and Mexicans pay among the world's highest phone bills for abysmally poor service.

Except for the accrued wealth part, Slim's story is completely different from Bill Gates's. Though defenders of Apple enjoy pointing out that Microsoft's Windows operating system came after, and looked suspiciously like the early Apple operating systems (almost as though it was a copy with just enough changes to claim originality), few deny that Windows, along with MS Office, have responded nimbly to consumer demands, and responded more skillfully than comparable offerings from competitors. And in a world where software can be mass-stamped as a small plastic disc or downloaded rapidly over the Internet, the Microsoft success has galloped across the economy: the Windows operating system along with MS Office almost immediately went to the extreme of creating a monopoly in America and elsewhere. No payoffs to politicians or other cronyism-stoking was necessary. The lesson is that in at least some parts of the interconnected world, quality differences (even small ones) between competing products can translate quickly into huge business success because consumers across the spectrum almost all make the same buying decision.

Something similar could be written about Walmart, as well as other companies. Though it's true that the price difference between a Walmart cart of items and one from a competitor isn't too great, the fact that there's even an incremental difference quickly leads to a slaughtering of huge chunks of competition because there's no difference between winning by a little and winning by a lot. In an interconnected world, most people hear very quickly that Walmart is cheaper, and overwhelmingly respond by going there. What's important is that whether the company is Microsoft, Walmart, or a similar enterprise, market domination—along with the associated enrichment of a few individuals—has followed from genuine quality as determined by consumer decisions flocking together in an open market.

Both crony capitalists and the leaders in an economic star system build mountainous wealth, but the former do so at the cost of others by denying consumers choices or by short-circuiting the market's natural functioning, while the latter do so by satisfying consumer demands and taking full advantage of a smooth-running market economy.

2.4 Do We Want to Want to Be Like the Stars? The Psychology of Envy

Though questions about envy—"What is it?" "What causes it?" "Is it OK to feel it?"—generally belong to studies in psychology, they're inescapable in the economic world when a few participants have money flowing in so fast that it's not worth the five seconds of their time required to bend down and pick up a twenty-dollar bill they dropped.

In sweeping terms, there are two broad emotional—as opposed to ethical—reactions to the hyperrich and the question about whether the rest of us want to be like them. The first response is, "Yes, obviously." This makes sense. Most of us have lists of consumer goods we'd like to buy—an iPad, a new dress, a vacation trip—and it'd be nice to swipe the credit card without worrying about the balance.

This reaction, it should be noted, isn't just a pleasant thought: it may also contain traces of envy or, stronger, of resentment and even anger. Anyone who internalizes what it would mean (and how great it could be) to receive a wage that exceeds by thousands of dollars per hour the one we currently get, is going to be vulnerable to disliking or even hating those who have so much more.

The other way to make sense of the star system's vast wealth disparities comes from a proposition on the subject found in Aristotle's *Rhetoric*, book 2, chapter 10. There, Aristotle proposes that envy of others decreases as their distance increases. These distances may include years: few of us envy the medieval kings and queens of Europe. We know they had servants waiting on their every desire, but that doesn't make us want to be them or get angry at their privileged lives. No one's mad at Henry VIII; he's just someone we see portrayed on the History Channel. Alternatively, the distance separating us from others who have more than we do could be measured in space and culture. We feel less envious of those people we hear about who may be tremendously wealthy but who live in some far-off place we've never visited and speak a language we'll never understand. We may read about their exotic lives in a magazine, but it doesn't affect us emotionally. Finally, the distance can also be economic: Aristotle's proposition is that the hyperwealthy—Bill Gates, Warren Buffett—are *so* far away from us that we don't feel stung and angry when confronted with statistics about their wealth. Their lives are just too different to relate with.

We only sense envy, Aristotle affirms, for those who come from similar backgrounds, for those who desire and chase similar things, and for those whose economic and social status isn't too far above our own. We need, in other words, to already be like others in some ways in order to want to be like them in others. For this reason, it can drive you crazy when your next door neighbor gets a sparkling Mercedes, but when a Saudi prince buys his seventh Rolls Royce, you don't bat an eye.

distance limited

As a conception of envy, the idea that we only feel jealous of those who are like us in important ways.

Why is envy **distance limited**? According to Aristotle, when those who are like us end up getting more than we do, it's a reproach to us: *it's our fault* that we didn't get the promotion or the better-paying job at the start-up company. If we're like our neighbors in most every way except for the fact that they're bringing in more money, that means we somehow blew the chance to get that much ourselves.

Finally, these two very different reactions to astronomically wealthy members of our society have important consequences for the ethical verdict reached about the star system. One of the criticisms launched at modern economies characterized by extreme wealth disparities is that the disparities poison society with rancor and envy. No matter, the argument goes, how positive the inventions of a Bill Gates may be, the social welfare his work generates is cancelled by the sourness and resentment his personal wealth creates. If that's true, then maybe we should impose limits on the economic success of individuals.

On the other hand, if Aristotle is right and we don't rage when we find ourselves dwarfed by giant wealth, the star system becomes much easier to justify on the grounds that the prospect of endless money incentivizes people to invent goods and services that make all our lives better.

KEY TAKEAWAYS

- Wages and wealth may be assigned in accordance with multiple formulas.
- The assignment of wages and wealth may be justified by reference to multiple theories.
- Money is only one of several ways people are rewarded for their work.
- Cronyism, which works through personal favors, may result in wealth disparities, but it is not synonymous with or necessary for a star system.
- A decision about how envy works affects ethical evaluations of an economic star system.

REVIEW QUESTIONS

1. Name a field of work where market forces typically determine wages. Does the star system naturally take root there? Why or why not?
2. What's the difference between wages based on "value generated for society" and "effort exerted"? Can you cite examples to indicate that one resists a star system more than another?
3. What's a job where the main compensation isn't money? Why do people want that job?
4. What are two ethical arguments against crony capitalism?
5. Why might someone be more envious of a neighbor whose house is slightly larger than their own than of a Saudi prince with eight luxury homes scattered around the world?

3. ETHICS: JUSTIFYING AND CRITICIZING THE STAR SYSTEM

LEARNING OBJECTIVES

1. **Define and consider the main ethical arguments supporting a star system.**
2. **Define and consider the main ethical arguments reproaching a star system.**

3.1 Justifying the Star System: Rights

In evaluating the ethics of the star system, three arguments are commonly mounted in favor of respecting vast wealth disparities:

1. The rights argument
2. The social welfare argument
3. The fairness argument

The **rights argument** defends the respectability of wealth concentrations by affirming that *not* allowing those accumulations is a violation of human freedom. From this perspective, all ethics centers on individual opportunity: right and wrong is about guaranteeing that free individuals can pursue whatever goals and as much money as they like on the way to finding their own happiness. Concerns about society's overall welfare become secondary and derivative.

rights argument

Arrayed to defend the ethical respectability of the star system, it affirms that disallowing accumulations is a violation of human freedom.

Ethics that make freedom the highest value can be used in a thought experiment inspired by the philosopher Robert Nozick to produce a substantial defense of an economic star system. It goes this way:

1. Imagine that everyone in our society has the same income, everything goes forward as perfect equality, and no one complains.
2. Next, imagine that NBA superstar Kobe Bryant proposes a new contract with his team. It stipulates that the ticket price for every home game will go up five dollars, and that extra five bucks goes directly to him.
3. The team owners say, "No."
4. Kobe says, "I'm going to quit, and go get a job as a gym teacher at the school near my house."
5. The owners change their mind.
6. Some season ticket holders, angry at the new price, cancel their purchase, but most say, "Yeah, it's worth an extra five dollars to see Kobe."
7. A total of 17,500 people fit into the Forum, the Los Angeles basketball arena where Kobe Bryant plays, and he plays forty-one games there each year.
8. Kobe pockets an extra $3,590,000. Annually.

Does anyone have a problem with this? Is there someone who didn't agree to the arrangement, to this new society where one guy—Kobe Bryant—is suddenly a lot richer than everyone else? Is there someone who's being forced to do something they don't want to do? Is anyone else being denied the chance to renegotiate their own contract or search for a different job? Are there *any* legitimate grounds someone can stand on to launch a complaint?

Further, if someone *does* complain, if they say Kobe shouldn't have proposed the new contract, the owners shouldn't have agreed to it, or the spectators shouldn't have ponied up the extra money, then isn't the complaint itself unethical? Isn't anyone launching those criticisms really just trying to limit the freedom of someone else?

The rights-based argument affirming the star system's respectability is powerful and hard to stop once it gets going. If you buy the premise—if you accept that business ethics is fundamentally about ensuring the right to individual freedom—it's nearly impossible to break the chain of arguments against those who'd try to limit the choices Kobe Bryant and his adoring fans can make, no matter how much wealth piles up for the one player.

Moving the argument over to a broader consideration of the American star system, something like the Kobe Bryant thought experiment actually happens with respect to Hollywood celebrities, especially within the cash-break-zero reality currently gripping the movie capital. Big-name actors are essentially saying that they want a dollar (or whatever the relevant number is) from everyone who pays to see their movie. In this case, as in the Kobe example, the owners of the enterprise are perfectly free to find different actors if they don't like the terms of the deal they're being offered. And on the consumer side, moviegoers entering a theater are free to look up at the listings and choose another show if they don't like the idea of padding the pockets of a particular Hollywood celebrity. Moviegoers are also perfectly free to walk out of the theater and redirect their entertainment dollars at museums, vacation travel, web browsing, or a novel. The list is interminable, and as long as it is, it becomes difficult to deny ethical acceptance to the movie attraction that's making one star incredibly rich.

The Logic of Rights: License or Responsibility?

The Kobe Bryant thought experiment illustrates how a rights-based ethics licenses individuals to accumulate wealth without accumulating moral guilt. In the hands of its most dedicated defenders, however, the logic of rights goes further. It's not just a license to accumulate; it's something nearer to a responsibility. Taking the case of Bill Gates, when he piles up astronomical wealth, he isn't only expressing his freedom; he's inciting others to pursue *their* freedom: he's providing them an example, he's offering them products they may freely choose to purchase or reject, and he's offering them tools they can use to pursue their own goals. With respect to those tools, many small businesses have gotten off the ground with the help of—and been *able* to get off the ground because of—the spreadsheet, publishing, and word-processing software found in MS Office. The fact, therefore, that Gates (and his fellow stars) are so rich in an open market economy shows that their ethical aptitude and performance is just as stellar as their economic one. They aren't obnoxiously greedy; they're the most dedicated servers of pure ethics because they're living free and helping others be that way too.

Those who criticize Gates's wealth in the name of spreading the money around to more needful members of society may sound noble, but they're not. They should be reprimanded for distorting expressions of human freedom. Stronger, broad demands for wealth's redistribution—which may occur, for example, through increased taxes levied on the wealthy or through pressure to donate to charitable causes—are *not* virtuous calls to social responsibility: they're deplorable violations of basic human rights.

3.2 Justifying the Star System: General Welfare

utilitarian argument

Defends the star system as ethically acceptable by claiming that the general welfare can be served by wealth imbalances in society.

The **utilitarian argument** defending the star system as ethically acceptable affirms that the general welfare can be served by wealth imbalances. If moral good and bad only reflect whether the general welfare is served, the argument builds this way:

1. Breakthrough developments of consumer goods are encouraged by a star system because it allows inventors to reap a significant portion of the economic reward.
2. Breakthrough developments can positively impact social welfare incrementally (Apple's iPad), and sometimes be revolutionary (the invention of the assembly line).
3. The broad social happiness provided by these breakthroughs outweighs unhappiness attributed to giant wealth imbalances. (This is especially true if the imbalances are sufficiently great to preclude envy in the terms Aristotle proposed.)

This argument may be formulated slightly differently as a hypothetical question. Imagine you could have one of these two lives:

1. A typical middle-class European or American today. You're far from rich but you can always afford decent food and a night out here and there. You've got a car that doesn't break down too much. There's a microwave to make popcorn in the kitchen, a TV in the main room, and some clothes you like in the closet. On the other hand, you need to go to work in the morning and clean grime out of the shower occasionally.
2. King of England. In 1600. You never have to clean the shower, but then again, the shower hasn't been invented. There are no flush toilets either. You get whatever clothes you want, but they better be warm since there's no heat for your castle except the fireplace. You don't have a microwave, and even if you did, there's no electricity to run it. You get from place to place fairly well on the country's best horse.

This is a hard choice: live better in objective terms in the present or better in subjective terms in the past. It's a way of asking, "What's more important: how well you live, or, how well you live relative to everyone else?" There's no right or wrong response here. This is a question that's as much about psychology and economics as it is about morality. However, if you go for the first, you're leaning toward the utilitarian argument justifying wealth imbalances. As long as those imbalances are functioning to encourage life-improving innovations, then the stark economic inequalities they leave in their wake become acceptable.

3.3 Justifying the Star System: Fairness

The **fairness argument** justifying the star system is increasingly persuasive as technological advances allow communication and operational organization to cover the globe instantly. That has opened the way for single individuals to amass tremendous responsibilities in vast organizations and then claim that it's only fair that their reward be equally massive.

fairness argument

Defends the star system as ethically acceptable by claiming that extraordinarily high levels of responsibility merit extraordinarily high levels of compensation.

Only fifty years ago the largest department and grocery stores in the United States were mostly local concerns; crossing one or two state lines was a big deal. Of course expansive companies including the telegraph transmitter Western Union (which now specializes in international money transfers) and the Ford Motor Company have been around for more than a century, but neither compares in size, reach, or number of employees to today's Walmart. With more than two million workers spread across the globe, CEO Michael Duke holds management responsibilities dwarfing the ones known by corporate heads in the past. To the extent that's right, if it's true that Duke's responsibilities are astronomically high, then shouldn't he receive a wage commensurate with the difference?

The fairness argument favoring the star system—at least in those cases where high salary reflects high responsibility—is that it would be arbitrary and unequal to simply put a lid on managers' compensation if there's no corresponding lid on the size of management responsibility. Concretely in Walmart's case, a store manager overseeing the work of, say, a hundred employees makes about $100,000. By that logic (the business pays $1,000 of salary for every employee managed), Michael Duke, who oversees the work of two million people, should make about $2 *billion*. That's a hundred times what he actually makes.

When Walmart wanted to open a store in Chicago recently, a local alderman complained about the CEO's salary this way: "How can you go to bed at night and sleep knowing you make this kind of money?"[11]

One response allowed by an argument appealing to fairness is that it's difficult for CEO Duke to sleep because he's making so little. His wage is massively unfair in its paltriness.

3.4 Criticizing the Star System: Social Welfare

In evaluating the ethics of the star system, these arguments are commonly mounted against respecting vast wealth disparities:

- The social welfare argument
- The duty to beneficence argument
- The virtue argument

The **social welfare argument** against the star system is the most obvious and commonly cited, it's that, essentially, Aristotle is wrong and wealth differences—especially extreme disparities—are ethically reproachable because of the emotional turmoil they cause within a community. While it may be true that allowing vast wealth accumulation motivates innovators and managers to perform exceptionally well, and while their work may benefit society significantly, the upside fails to outweigh the human cost of the resentment. The social rancor of inequality isn't worth the benefits provided by highly paid innovators.

social welfare argument

Set against the star system, it's the argument that extreme wealth disparities are ethically reproachable because of the emotional turmoil they cause within a community.

3.5 Criticizing the Star System: Duty to Beneficence

The **beneficence** argument against the star system operates from the duty to help others when doing so requires no unreasonable sacrifice of our own interests. Most discussions of beneficence revolve around acts. For example, if a man is drowning in a lake and you don't know how to swim, you have no responsibility to jump in. But if you're Michael Phelps in exactly the same situation, then the duty to save the flailing man applies.

duty to beneficence

The requirement to help others when doing so requires no unreasonable sacrifice of one's own interests.

Transposing the discussion into monetary terms, one basic question is, "At what point does my accumulated money translate into a responsibility to charity?" If a woman works a few overtime hours to buy a new pair of boots for the upcoming winter, there's no clear duty to share the cash with a neighbor in similar circumstances. By contrast, when Alice Walton (daughter of Walmart founder Sam Walton) who's worth $18 billion walks down a street near her home outside of Forth Worth, Texas, she'd have a hard time convincing those passing by that she couldn't establish, say, a generous college scholarship program for society's neediest members without suffering any tangible loss. Probably, most people at the very top of the wealth pyramid could dedicate large chunks of cash to charitable causes without severely denting their quality of life. In these circumstances, the duty to beneficence becomes pressing.

With respect to the star system, it's important to note that beneficence doesn't form an argument against high incomes or even astronomical wealth accumulation; it does, however, argue against the *maintenance* of large disparities. A society oriented by the duty to beneficence would, in other words, tolerate a star system, but only a fleeting one, a reality where people could make tremendous amounts, but not without feeling a charitable responsibility (or something similar) that would significantly diminish the economic gap separating them from the general population.

3.6 Criticizing the Star System: Virtue

Virtue ethics eschews reliance on social outcomes (the utilitarian model) as well as strict rules for action (the duty model). Instead, decisions are left in the hands of those who've been taught to think and be virtuous, with the key to virtue frequently being located as those actions that take a middle road between extremes.

virtue argument

Set against high wealth concentration, it recommends that formulas for wealth distribution avoid extremes.

A **virtue argument** against wealth concentration begins by locating extreme situations. At one pole, the star system grows exponentially. Market rules function without reserve, and traditional wealth-redistribution measures are scuttled. The progressive income tax, for example, is replaced by a flat charge for all citizens. (The justification: everyone uses roads and other services more or less equally, so they should all pay the same tax dollars). Further, social attitudes could be adjusted. The idea of earning huge amounts and accumulating even more usually elicits both respect and also suspicion of greed. That could be changed: schools and other institutions could be adjusted to teach that getting extremely rich is an unmixed good, and suspicions by others of greed is nothing more than cloaked envy.

Toward the other extreme, there's the vision of a broadly equitable society. Redistributive taxation is heightened. In Denmark, for example, the highest earners pay an eye-popping 68 percent of their salary. On top of that, estate taxes paid on an individual's death could be hiked to ensure that money doesn't build up over successive generations. Then, on the social level, attitudes could be bred in our schools, churches, and similar institutions that any significant wealth difference above the mean is worrisome, and their possessors aren't admirable so much as ugly hoarders. These combined economic and social actions would almost certainly reduce wealth differences across the social spectrum.

Next, and building above this foundation of extremes, the virtue ethicist would navigate a moderate course. Redistributive measures undertaken by the government may not reach the 68 percent taxation rate, but they wouldn't allow the wealthy to use accounting tricks and similar measures to drop their total payments to levels comparable with what middle class individuals pay. Then, with respect to social attitudes, a balanced sense of pride and shame would need to be instilled in the community, one that granted successful entrepreneurs like Bill Gates respect for their accomplishments, but one that also taints his (or anyone's existence) when that wealth reaches a point where it's enough to hire six million struggling Hollywood actors for a year.

KEY TAKEAWAYS

- Arguments ethically justifying the star system may be based on rights and freedom, the general welfare, and appeals to fairness.
- Arguments criticizing the star system may be based on the general welfare, the duty of beneficence, and virtue.

REVIEW QUESTIONS

1. Can you take the Nozick-inspired thought experiment concerning Kobe Bryant and re-create it in your own words and with a different example?
2. What is an example of the star system serving the general welfare by promoting innovation?
3. Why might the contemporary star system be considered fair?
4. Why does the star system harm the general welfare?
5. How might the duty to beneficence be applied to Bill Gates? Why would the duty tend to preclude an economic star system?

4. UNIONS

LEARNING OBJECTIVES

1. Define a labor union.
2. Discuss the ethics of union membership.

4.1 Hollywood Writers

Movie theater lobbies are inevitably lined with advertising posters for upcoming attractions. A standard poster carries a recognizable celebrity face (or, if you don't recognize it, the expression is so beaming and confident that you immediately assume you missed the news of a huge new star's arrival). The movie's title is there, and the lead actors' names too. Sometimes the director gets big billing. The producer, the studio, they're easy to locate. You need to go a long way down the poster, though, and into the fine print, to find the writer's name.

Inside the industry's day-to-day working life, writers don't get much respect. Longtime agent Nancy Nigrosh writes that frequently they're not invited to the screening or any other film-opening festivity. She paints the situation bleakly: "Unless you hire your own hardworking publicist you'll be sitting at the kiddy table and arguing politely with security at the star's tent at the premier because here's the other thing: nobody cares."[12]

The heart of the reason no one cares is the way films are composed. It's not like a novel or a poem or even journalism where one person more or less shepherds a work from beginning to end. Instead, scripts are written and then rewritten by someone else. Then another author is called in for some further adjustments and it's all reworked while the filming actually happens, and by the time the movie's done, it's almost impossible to figure out who deserves credit for which words. In that kind of situation, writers find themselves in a bad spot when it comes to bargaining for money. It's true that the studios need writers, and that provides some leverage, but they don't usually need any *particular* writer. There are exceptions, but since movie scripting is usually an assembly-line process, substituting one with another probably won't affect the final product too much in most cases.

One response to this reality is that workers organize and sell their labor collectively. Conceptually, the idea is simple. When employers threaten to replace individual workers with others who'll perform the same services for even less credit and at a lower price, the other employees—seeing that they could be next in line to face replacement—stand together in support of their colleague.

Whether the workers are Hollywood writers, Detroit autoworkers assembling cars, or hotel maids cleaning the rooms and making up the beds, the strategy of forming an alliance to defend common interests can work by reversing the star system. The star system promotes the general welfare by freeing individuals to pursue their own interests. In labor unions, individuals promote their own interests by defending the general welfare or, at least, the collective welfare of their fellow laborers.

4.2 Unions: Definition and Quick History

A **labor union** is an organization of wage earners formed to promote job-related interests, especially with respect to wages and working conditions. A union can be as informal as a band of salespeople telling the boss they're not going to come in the next morning unless the coffeemaker is fixed. Most discussion, however, surrounds larger and more formalized unions: members pay dues, hold elections to choose leaders, and in the largest instances, hire a professional management team to advocate for the laborers' common interests.

labor union

An organization of employees formed to promote their job-related interests, especially with respect to wages and working conditions.

Two inflection points mark the history of labor unions in the United States. The Wagner Act (more formally, the National Labor Relations Act) was approved in Washington, DC, in 1935. It blocked employers from mistreating or firing workers attempting unionize a shop's workforce. The act also prohibited the summary firing of workers who've gone out on strike. The freedom to organize, along with the power to strike effectively, quickly translated into more unions, more walkouts, and two large organizations guiding the efforts of many smaller trade unions: the American Federation of Labor (AFL) and the Congress of Industrial Organizations (CIO). While it's true that in the years after World War II business-damaging strikes grew more frequent, wages also rose and nourished a broad American middle class. Organized labor came to play a central role in business life.

The maturation of organized labor in the United States harmonized with world events. Political parties dedicated to workers—especially the hard labor sectors—swept the globe, frequently leading to socialist and communist societies. Those movements eventually reached US shores. In 1947, communists eager to maximize their influence took control of sectors of the United Auto Workers Union, the Detroit collective making nearly all the cars Americans drove. Pictures from the time—auto workers waving signs announcing they're for "Tommie the Commie" seem far out of sync with today's reality but serve to remind how quickly the world's orienting values and ideologies can change.[13]

union shop

A workplace where all employees are required to join the local union, or at least pay the dues associated with joining.

In that same heated year, 1947, congress responded to sweeping unionization and complaints that the workers' organizations had become too powerful with the Taft-Hartley Act. It prohibited the so-called closed shop, which is a workplace where being hired carries with it the requirement to already be a union member. It allowed, however, a **union shop**, a workplace where all employees are required to join or at least pay the dues associated with joining. Later, the US Supreme Court ruled that even though striking workers couldn't be fired for walking off (in accordance with the Wagner Act), they could be permanently replaced. Over time, this significantly diminished union strength since those going on strike were now risking their jobs.

As decades rolled forward, the counterunion tide on the legal front eventually replicated as important changes in American industry. Many of the skilled and heavy laboring jobs involving cars, steel, and similar industries that had responded well to organizational efforts began drying up for at least two reasons. Increased international trade allowed companies to shift many labor-intensive tasks to other countries with lower wages. Also, jobs that remained Stateside faced the threat of machines taking over many functions. Detroit assembly lines formerly composed of blue-collar workers are now dominated by sophisticated robots. Politically, organized labor also dimmed over the second half of the twentieth century. In the 1980s, the nation's air traffic controllers went on strike. President Reagan fired them all and hired new ones. Reagan also challenged the world's communist nations; the collapse of countries explicitly guided by the collective welfare of laborers was rapid and nearly complete.

Today, organized labor unions play roles in most sectors of American economic life, but their influence is limited, except in a few areas. Government workers continue to be very highly unionized: more than half of all union laborers in the United States today have government jobs. Unions also remain in small fields that resist marketplace forces. The National Football League players, for example, are unionized: you can't just send their jobs overseas. Also, workers in the health-care field have a fairly high unionization rate: you can't replace a nurse with a machine (at least, not yet). In political terms, and though diminished, unions continue to be a notable force. The single largest outside spender in the 2010 election campaign was the American Federation of State, County and Municipal Employees. AFSCME spent a whopping $90 million (much coming from workers' dues) to support candidates around the country. Still, with only 1.6 million members, the group is no larger than the United Auto Workers union back in 1970 when US population was only two-thirds of today's number. Currently, the UAW has about 400,000 active members.

Three questions asked about unions in the field of business ethics are:

1. Who should be a union member?
2. What kinds of demands should unions make?
3. What kinds of actions can unions justifiably undertake?

4.3 Membership

In principle, a unionized workplace incorporates all employees: the idea of a union is a united workers front presented to management when wages and conditions are discussed. In practice, however, the ideal often falls short. For example, the Writers Guild of America (WGA) represents Hollywood's writers: they're the people penning scripts for everything from TV sitcoms to big-budget movies to the annual Oscar Awards. With around twelve thousand members, the union members produce around one hundred scripts and rewrites a week through the major studios. Without their work, quite a bit of the showtime industry halts. It doesn't all halt, though. According to the *New York Times*, in the 1980s, nearly all Hollywood's writing came from Guild members, but the percentage has now dropped to about half. Union writers are being displaced by freelancers.[14]

While the scriptwriting evolution from the 1980s to today is essentially the move away from—though not a complete departure from—unionization in Hollywood, there are three strong arguments in favor of reversing the trend and refortifying the writers' collective. They're based on

- fairness,
- solidarity,
- respect.

On the other side, there's one main argument frequently set up against the proposal that the model workplace become something close to a union shop:

- the right to free agency, along with a derived duty to individuality

The first argument supporting broad union membership rests on fairness. Gains in wages and improvements in working conditions don't come for free. Take, for example, the WGA demand that residuals go to writers. The union is saying that those receiving credit for the program script should receive money not only at filming but also later on if the show is a hit and ends up getting repeatedly shown into the indefinite future. On almost any night somewhere in the United States, one of the *Die Hard* movies is broadcast, and licensing rights are subsequently divvied up among those who made the film. The actors, the directors, the producers, everyone wants as much as they can get, and for writers to take a share, they need professional negotiators who can bargain hard, as well as lawyers and other experts who understand the complicated laws and dynamics of residual payments. The money to pay for these services comes from union dues, and if writers who aren't in the union nonetheless receive these hard-bargained benefits, they're free riders. They get the advantages of unionization without paying the cost. If, the argument concludes, freelance writers want to receive long-term benefits, then they should pay their fair share to the operation making them possible.

The second argument in favor of drawing workers into unions rests on a notion of solidarity. **Solidarity**, in this sense, is the moral obligation to share in the struggles of others facing challenges similar to those we face. For example, when William Russell Grace immigrated to New York in 1865 and set up a successful business (now called simply Grace Incorporated), one of the steps he took as an expression of solidarity with immigrants coming after him was to set up a free school where new arrivals could learn basic skills helping them find employment in their new country. Called the Grace Institute, there's an ethical solidarity incarnated in the school, one uniting immigrants around their shared experiences and common hardships. Broad social movements also provide abundant examples of the ethics of solidarity. A case could be made, for instance, that women and African Americans have a special obligation to unite with homosexuals seeking workplace equality because women and African Americans too know, and have shared the suffering of discrimination.

solidarity

The moral obligation to share in the struggles of others facing challenges similar to those we face.

It's true that the case of Hollywood film writers isn't so dramatic as immigration or broad job discrimination, but the ethics are the same. Because all scriptwriters share a common vocation, similar challenges, and common hardships, they have a duty to stand together. Unionization is an expression of that solidarity. People don't sense the obligation to join up as a way of getting higher wages; instead, the union becomes a site of empathy, of mutual experience and support.

The third argument in favor of obligating new workers to join the union is based on a duty of respect. When a group of individuals have labored to form a cooperative in the name of their mutual benefit, those joining the occupation have a duty to honor those efforts by not undercutting them. The crucial point here is that, in many cases, there's no middle ground. It'd be one situation if Hollywood writers could work on their own without affecting the efforts of unionized script producers, but that's not usually the case. Workers who refuse to join and participate in the WGA and who forge their own contracts and reimbursements are also undermining union efforts because, presumably, the reason producers go outside the union to hire is that freelancers are cheaper. If that's right, and if new writers coming to town don't respect the existing union structure, then market forces are eventually going to put the union out of business: instigated by the need to maximize profits, owners and managers will hire nonunion workers to replace the more expensive, organized ones as fast as possible.

This is, in essence, what has started happening in Hollywood. To the extent the studios are funding independent projects pitched by freelancers, they're replacing higher-cost union talent with writers who are willing to work for very little in exchange for the chance to get a break, be famous, and be a star (in the relatively dim world of script writing). There's a problem here, obviously: if writers are allowed to work for something near slave wages to get a break, then as soon as they're established in the industry, some younger dreamers are going to come along and undercut them just as they earlier undercut the WGA workers. That's economics, though. The moral imperative is that respect for others' unionization efforts is also an obligation to not undermine them.

Set up against these three arguments in favor of union shops, there's the powerful rights-based argument. If ethical discussion starts from the premise that each of us owns ourselves, and we're free to use and sell our abilities as we like, then no one can pressure us to sign up for a union without violating our intrinsic liberty. In terms of Hollywood scriptwriting, this is the **right to free agency**.

right to free agency

The claim that each of us owns ourselves, and we're free to use and sell our abilities as we like.

Derived from the right to free agency there is a **right to self-definition**: each of us is uniquely qualified to define who we are and which desires guide our working life. This derivative argument resists the entire concept of unionized activity because collective bargaining eliminates individuality. What allows labor unions to work, what gives them strength at the negotiating table, is precisely that they compact an entire workforce into a single model of interests and demands; it's that focus and the united voice of the workers behind it that allow union leaders the strength they need to bargain effectively. This strategy can, no doubt, work, but only by forcing all scriptwriters to renounce their singularity and uniqueness in the business world: they all demand to be paid in accordance with the same pay structure, to be covered by the same set of benefits, to labor in the same working conditions, and so on.

right to self-definition

The claim that each of us is uniquely qualified to define who we are and which desires guide our life; possessing the right is also a responsibility to express it.

The lynchpin, finally, to this argument is that because unions function by erasing the individuality of specific workers, we're all morally prohibited from joining. Doing so is a violation of the fundamental obligation we all have to ourselves to express our freedom by being who we are. We are duty-bound to resist any nameless, faceless mass, whether that mass happens to be a labor union or any other collective.

4.4 The Card Check

card check

The Employee Free Choice Act or "card check" legislation allows unions to be organized without a secret ballot vote.

One hot spot of union membership debate is the proposed Employee Free Choice Act or so-called card check legislation. If enacted, this law would make an important change to the process of forming a workplace union. As currently regulated, the process typically goes like this. It's necessary to get at least 30 percent of the workforce to sign cards stating their preference to be represented in collective bargaining. Once the number has been reached, the list is forwarded to the National Labor Relations Board and to the employer. The list is checked. If the numbers are verified, a secret-ballot election follows: workers are asked to vote on whether they want to be represented by a labor union. The majority rules. What **card check** legislation changes is the secret ballot component. No longer necessary, if organizers can simply accumulate a list of 50 percent of the workers requesting unionization, then the structure will be applied.

The main objection to the secret ballot's elimination is that workers may be intimidated into putting their names on the list. The reason for a secret vote in the current system is to allow those preferring not to be unionized a chance to express that without fear of retribution from their peers. Not surprisingly, the US Chamber of Commerce and other business groups lobby against the legislation. For their part, the major unions see card check as an opportunity to expand their membership and lobby in favor.

Regardless of the legislative value, the ethical debate underneath the card check parallels the one about a union shop. For those valuing solidarity, unionization—even with pressure—may seem recommendable. More, because a union draws its strength from forcibly uniting the divergent workers into a set of single demands, the greater good that's served by the united front simply outweighs protests that may be expressed by individuals. So while it's true that workplace pressures following the approval of card check legislation may make some employees uncomfortable, they should be more strongly guided by a sense of fairness (if they want to benefit, they've got an obligation to join), by a sense of solidarity ("we're all workers"), and by a sense of respect (some workers are dedicating their energy to lead a cause serving everyone).

On the other side, for those whose ethical orientation begins from the idea of individual rights, self-ownership and the duty to self-definition, any organizational structure that presents the risk of violating individual freedom will, on principle, be rejected. The kinds of pressures on individuals that may be applied by peers in the attempt to get them to sign the union card are so fundamentally in violation of our deepest rights that the legislation must be voted down, even at the potential cost of power for workers at the bargaining table.

4.5 Union Demands: The Workplace and Public Policy

The two stalwart demands made by organized labor unions on behalf of employees are wage hikes and working conditions. The balance between these two concerns shifts depending on the kind of work being done. When a Hollywood writer arrives on a soundstage to straighten out final kinks in a script, the kinds of working-condition issues being faced may be trivial (Is the coffee hot? Are there some nonfattening snacks around somewhere?). When a coal miner takes the elevator down into the earth, the questions are more serious. What kind of emergency safeguards protect against a collapsed shaft? How careful are foremen to ensure that tired workers nearing the end of their shift aren't assigned to work on the more dangerous of the heavy machines or set off dynamite charges? A coal miners union, clearly, is going to expend a greater effort bargaining for safe conditions than the WGA.

On the compensation side, one challenge unions face is melding the distinct interests of diverse members into a single bargaining strategy. If you check the WGA website, you'll find union involvement on issues ranging from direct pay for work to health-care benefits and pensions. A twenty-five-year-old just breaking in is going to be more concerned, possibly, about getting as much cash now as possible for work done, while an older writer will begin asking about paying medical bills and living decently in retirement. In translating these diverse situations into a collective set of negotiating points, simple market forces will play a role (a union active in a field heavily stocked with younger workers will have to take account of that, or people will stop participating), but other structures may be erected to resolve problems also. A utilitarian structure, for example, may provide a way for union leaders to justify decisions making some members unhappy.

Finally, unions don't only represent workers before employers; they can also carry labor issues into the political arena. As noted, AFSCME spent $90 million supporting (and opposing) candidates around the country during the 2010 midterms. Unions can also—and frequently do—provide voting guides advising members on which candidates will better respond to their immediate interests. With respect to specific issues, and besides the already mentioned card check legislation, unions lobby elected representatives and government agencies in areas including workplace safety, the minimum wage, and health care.

KEY TAKEAWAYS

- Labor unions allow workers to organize and bargain collectively for improvements in wage and working conditions.
- Ethical arguments in favor of workers joining unions may be built upon notions of fairness, solidarity, and respect.
- The right to free agency, along with a derived duty to individuality, forms the basis for an ethical stand against joining unions.
- Unions take sides in workplace issues, and broader political debates.

REVIEW QUESTIONS

1. Why might the notion of fairness convince a worker to join a labor union?
2. In your own words, and with respect to labor unions, what does *solidarity* mean?
3. How does joining a union harm one's sense of individuality? Why might that harm be an ethical argument against union membership?
4. What is card check legislation, and how might it advance the interests of labor unions?
5. How can a union represent the interests of members beyond negotiating with a specific employer?

5. UNION STRIKES

LEARNING OBJECTIVES

1. **Define a labor strike.**
2. **Consider ethical justifications for striking.**
3. **Weigh responsibilities set against striking.**
4. **Consider the rights of employers and strikebreakers.**

5.1 The Hollywood Writers' Strike

The most contentious area, both economically and ethically, of union action involves **strikes**: workers collectively walking off the jobsite in an attempt to pressure employers to accede to their demands. The Writers Guild of America (WGA) led one of the most publicized recent walkouts when Hollywood script writers put down their pencils and closed their laptops—at least officially—in November of 2007. By the time they returned in early 2008, the economic damage wrought in the Los Angeles basin was massive, $3.5 billion according to some estimates, but the resolution ultimately satisfied most members of the moviemaking community.

strike

Workers collectively walking off the jobsite in an attempt to pressure employers to accede to their demands.

During the strike, two constellations of ethical issues came to the fore. First, questions involved

- the right for workers to not work,
- the right of employers to find someone who will work,
- the rights of third parties to go on with their lives and work.

The second set of questions involved responses to the strike:

- Who in Hollywood, if anyone, is obligated to support the writers?
- Is it OK to take a striker's job?

5.2 Justifying Not Working

Some Hollywood writers are contracted by faceless studios to churn out rewrites for movies; others generate TV dramas and soap operas. There's work to be done inventing jokes for sitcoms like *The Office*, and opening monologues for Jay Leno's *Tonight* show need to be written a few days every week. As the writers' strike extended, the walkout's effects beamed into living rooms. Almost immediately, Leno went into reruns. *The Office*, which had a few episodes in the can, lasted several weeks. The moviemakers—many of whom live underneath piles of scripts submitted unsolicited by writers—kept going.

Out on the picket lines, Leno zipped around in his vintage sports car to support the stoppage, and occasionally stopped to chat with the strikers and crack good-humored jokes. Of course Leno, who makes millions a year, probably didn't really need his paychecks. Others in Hollywood, however, live from day to day and without much room for unemployment. Set designers, prop companies, on-site catering services, all the people surrounding the now-halted industry saw their income wither. In the face of the injurious consequences, three arguments nonetheless favor and justify the writers' walkout.

1. The *rights argument* in favor of the workers' strike is direct and convincing for many: all individuals have a right to *not* go to work in the morning. Whether we're talking about a union action or just someone who wakes up with a hangover, any ethical theory that takes its bearings from individual rights is generally going to turn in a verdict in favor of the worker's right to stay home.
2. The *last resort argument* affirms that workers are justified in striking when three conditions are met: First, there must be a just cause. The driving issue cannot be petty angers or interpersonal conflicts of some kind; instead, the motive must be wages or working conditions that are out of step with industry norms or reasonable expectations. In the writers' case, this condition may have been met because they represented one of the few talent sectors not benefitting from payments for programming broadcast over new media, especially the Internet. Second, there must be proper authorization, which means the workers themselves must support the action, and have reached a well-deliberated decision. In the writer's case, most did support the action, which had been planned for months. Third, the strike must be a last resort, meaning attempts to find solutions must've been fully explored. Here too writers met the condition as long negotiations had explored most possible solutions.
3. The *marketplace argument* is the rawest of the justifications for striking, and it answers the ethical question with economic facts. If workers can get away with striking, the reasoning goes, then they're justified. The argument is less flippant than it sounds. If workers *really are* being underpaid for their labors, then when an employer seeks others to replace those who've walked out, none will emerge, at least none capable of doing the work well. On the other hand, if market conditions determine that the striking workers are demanding more than they legitimately should within the current economic context, then when an employer tries to replace strikers with fresh hires, the cost of doing so will be less than the wage increase the strikers are demanding.

On the other side, the kinds of arguments normally set up to obligate striking workers to return to their stations involve responsibilities to the larger community:

1. The *public safety* argument applies only in selected situations. The famous air-traffic controllers' strike in the 1980s involved the safety of fliers. Similarly, police officers, firefighters, and similar may find it difficult to justify a full-fledged strike given the serious suffering that may result. There are many borderline cases, however. For example, in Tennessee some fire departments collect fees directly from those they protect. In one case, a man who hadn't paid found that his house was on fire and called the department; they responded, but only to protect nearby homes from the fire's spread. They watched the flaming home burn to the foundation without intervening because the bill hadn't been paid. Of course, the situation would've been different had a person been trapped inside. In this case, however, the loss and dispute was entirely about money.[15]
2. The *public welfare argument* against workers going on strike weighs in when strikes affect third parties, people outside the initial dispute. The scriptwriters' walkout, for example, left a large chunk of Hollywood unemployed. The most rudimentary way to elaborate the argument is simply to note that the suffering caused across the entire industry by the five-month writers' strike almost surely outweighed the benefits the writers finally obtained. It should also be remembered, however, that if some workers somewhere don't draw the line against owners and employers, those employers will have no incentive to not push *everyone's* wages down, ultimately affecting the welfare of most all the industry's participants.
3. The *immediate welfare argument* against the writers' strike finds support in an ethics of care. An ethics of care values most highly an individual's immediate social web; concern for those people

who are nearest outweighs abstract rules or generalized social concerns. In the case of the Hollywood writers' strike, the suffering incurred by families and friends related to particular strikers may be taken to outweigh any benefits the broad union collective won from the action.

Finally, it's important to note that strikes don't need to be long-term walkouts. The dynamic and ethics surrounding the refusal to work change when, for example, a union decides to go on strike for only a single day as a way of pressuring management.

5.3 Standing in Line and Crossing It: The Ethics of Supporting Strikes and Breaking Them

The Hollywood writers' strike featured some big-name backing. Jay Leno cruised around in his Bugatti; Steve Carell, star of *The Office*, refused to cross the picket lines; and Sally Field mingled with writers in the Disney Studios lot. These shows of support scored public relations points and provoked this question: what obligation do workers in related fields hold to support strikers?

The range of responses corresponds well with those already outlined to justify the unionization of workers in a particular shop.

- One way to oblige workers in related fields to support strikers is the argument from fairness. When workers in a certain industry strike and win concessions, those gains may be cited by other workers as justifying their own demands. In fact, in Hollywood the writers themselves had used this strategy in the past: instead of going on strike, they'd waited for the directors union (Directors Guild of America) to negotiate demands with the major studios and then used those results to make their own case for concessions. The argument for supporting striking workers based on fairness is that *all* workers for a particular company or across an industry may well benefit when one group makes gains, and if that's so, then those other groups also have a responsibility to support the strikers when they're sacrificing.
- A second argument is based on solidarity, on the idea that an alliance between workers in an industry is ethically natural: there's an obligation to share in a struggle when facing similar challenges. Because other members of the Hollywood community are uniquely positioned to understand the realities and hardships of screenwriting life, they have a duty to act on that empathy.

As events transpired, the WGA did, in fact, receive wide support from across Hollywood, but the solidarity was far from complete. As this outburst from a writer's blog shows, some network studios tried to keep their soap operas in production by hiring **strikebreakers**, or scabs, as they're known to picketers:

strikebreakers

They occupy the posts of striking workers during walkouts, alleviating pressure on employers.

> *The scab writers work under fake names, work from home and use different email addresses so only the executive producer knows the real identities of the scabs. These tend to be experienced soap writers who aren't currently on a show. They are then promised employment after the strike is over. While they're scabbing, they get paid less than union writers.*[16]

This under-the-table scripting captures a conflict inherent in the union's attempt to use economic force against employers. On one side, by cutting off their labor, strikers are trying to win concessions through economic force. But their success depends on the suspension of basic economic rules: as this blogger is admitting, there *are* scriptwriters out there willing to work at current wages for the studios. It sounds like they may even be willing to work for less.

For these secretive scriptwriters, what ethical justifications can be mounted for what is, in essence, picket-line crossing? The blog post decrying scab workers actually rallied some to post arguments in the strikebreakers' defense. One comes from a poster named Jake: "Maybe he [the blogger writing the original post complaining about strikebreakers] has unlimited funds somewhere and can stay out of work forever, but some need to support themselves now."[17]

The argument here is that we all have fundamental duties to ourselves that must be served before deferring to others. It's not, in other words, that scriptwriters should feel no obligation to their colleagues, but all of us have a deeper responsibility to our own welfare (and possibly to that of our family members who may depend on us), and that responsibility takes precedence when the situation becomes extreme, when going without work represents more than just an inconvenience.

Another argument wraps through the following exchange between two blog readers. The first, who registers his comment anonymously, writes, "I'm a little amazed by some of these comments.…Do you guys [who support strikebreakers] not know about unions? Do you not understand what it *means* to cross a picket line?…People need to work for just (as in fair) pay."[18]

This response comes from a poster named Tim: "Anonymous said, 'Do you not understand what it means to cross a picket line?' Yes, it means you are trying to work for someone who wants to pay you. In moral terms, it's just a voluntary mutually beneficial exchange that for the most part is no one else's business. Members of a union do and should have the right to refuse to provide a service, but they don't have a right to prevent others from providing the service."[19]

Tim's argument is based on the principle of free agency and the ethics of freedom. According to him, what's morally right is any action particular scriptwriters and studio owners agree to undertake. The only ethical obligation individuals have is to *not* violate the freedom of others and, according to Tim, everyone involved in this strikebreaking is acting freely without stopping others from doing the same. The strikers, like the strikebreakers, may go to work—or not go—whenever they like. To the extent that's right, ethical objections shouldn't be raised against either choice.

The key phrase in Tim's response is that the strikebreaking writers' actions are "no one else's business." Those defending the union could choose to intervene here and assert that the claim is fundamentally wrong. Ethics depends on compassionately taking account of others' interests, and factoring them into your own decisions: what writers decide to do must serve not only their own but also the general welfare. Possibly, Tim could respond to this by asserting that in a market economy the best way to serve the general welfare is for individuals to pursue their own success. There are responses to this argument too, and the discussion continues.

KEY TAKEAWAYS

- A rights argument and a marketplace argument may lend ethical support to workers' decision to strike.
- Ethical arguments against striking may derive from broad social concerns, or justifiably privileging one's own interests.
- Arguments in favor of supporting strikers from outside the union may stand on conceptions of fairness or solidarity.
- Both strikebreakers and employers may claim the right to bypass union demands based on economic realities, or their rights as free agents.

REVIEW QUESTIONS

1. Explain the marketplace argument in favor of the right for workers to strike.
2. How could a union worker ethically justify not joining companions on the picket lines?
3. Outline an argument from fairness that could be made against strikebreakers.
4. Sketch two arguments that could be made in favor of independent writers swooping in and taking union jobs when the SGA goes out on strike.

6. CASE STUDIES

6.1 Jim Webb's Speech

Source: Photo courtesy of Mike Baird, http://www.flickr.com/photos/mikebaird/2202443907.

At the height of the American economic boom running from 2000 to 2008, a freshly elected senator from Virginia gave a sobering speech. He said,

> *When one looks at the health of our economy, it's almost as if we are living in two different countries. The stock market is at an all-time high, and so are corporate profits. But these benefits are not being fairly shared. When I graduated from college, the average corporate CEO made 20 times what the average worker did; today, it's nearly 400 times. In other words, it takes the average worker more than a year to make the money that his or her boss makes in one day. In short, the middle class of this country, our historic backbone and our best hope for a strong society in the future, is losing its place at the table. Our workers know this, through painful experience.*[20]

QUESTIONS

1. What is the star system?
2. According to Senator Webb (and doing the math), when he was in college around 1966, a corporate CEO had to labor eighteen days to make the money the average worker earned in about a year. Now, CEOs only need a day to reach a worker's yearly total.
   - What is vertical wealth imbalance?
   - In terms of the days a CEO must labor to net the average worker's yearly pay, where does the star system line get drawn? Webb seems to think it's somewhere between eighteen days and one day, but where would you draw the distinction? How would you justify your decision?
3. Webb says the "middle class of this country" is disappearing. How does this claim relate to the idea of horizontal wealth imbalances?
4. When Webb asserts that the benefits of a healthy economy aren't being "fairly shared," he's making an ethical claim, saying the wealth concentration is wrong. He was speaking on national TV and so didn't have time to flesh things out, but how could an argument be formulated to support his claim?
5. Jim Webb is a United States senator. When the United States was founded, there was about one senator for every twenty-five thousand people. Today, it's one in three million. The salary of a US senator is $175,000; the salary of the average American worker is about $40,000.
   - Besides money, what kinds of compensation do you imagine Webb gets for his job?
   - Do you believe Webb's compensation (salary plus other nonmonetary benefits) qualifies him as a star? Why or why not?
   - Does the fact that Webb represents more constituents than the original senators convert into a case that Webb's salary should be higher relative to his constituents than the salary granted to senators two hundred years ago? Explain.
   - Make the case that Webb has an ethical responsibility to donate a significant part of his salary to public service causes.
6. Part of the reason Webb's talk lacked specifics was that, as a US senator, he doesn't want to offend any particular person or large company. (He probably wants their money for his reelection campaign, or at least he doesn't want them funding his opponent.) Others, however, who share his opinion about wage imbalances aren't similarly constrained. One notable example comes from the web page *Daily Kos*, a politically oriented site with a huge readership and located on the left fringe of American politics, somewhere between rowdy and rabid. On that page, the following point was added to Webb's speech:

   > *As an example of this inequality, look no further than Ford Motor Company. Just this week, Ford announced a staggering $12.7 billion loss, the highest in company history. This came after a year in which the company announced that it was cutting more than 40,000 jobs (30,000 of them union jobs). So what to do in a company that's failed to deliver innovative products to the market, completely misjudged consumer trends, and managed itself into a fiscal bind? You award bonuses to the top management.*[21]

   The web page went on to explain that Ford CEO Alan Mulally would be giving performance bonuses to his top executives because, according to Mulally, "You have to keep the talented people you really need."
   - Just from the provided facts, why might someone be suspicious that CEO Mulally participates in crony capitalism? How might he respond to the charge?
   - Justify the *Daily Kos* attack on Mulally's bonuses in terms of general social welfare, and in terms of the duty to beneficence.
   - Make the case that the bonuses are justified in ethical terms with the language of rights.
   - Through the language of rights, argue that those who criticize the bonuses—like writers at *Daily Kos*—are ethically despicable.
7. Consider these four jobs: US senator, political commentator on a widely read web page (regardless of whether it happens to tilt left or right), CEO of Ford, and union worker on a car assembly line.
   - Who do you expect would earn most and least were wages divided only by market forces? Loosely, how would wages be apportioned? Would the differences reach star system proportions?
   - How would you rank their wage order in terms of value generated for society? Loosely, how would wages be apportioned? Would the differences reach star system proportions?
   - How would you rank their wage order in terms of effort? Loosely, how would wages be apportioned? Would the differences reach star system proportions?

6.2 First You Get the Money…

Source: Photo courtesy of xelusionx, http://www.flickr.com/photos/xelusionx/452851416.

The film *Scarface* cost $25 million to make and has earned back about $200 million so far. The story follows Tony Montana as he enters the cocaine dealing business. His mentor tells him that to survive over the long term you've got to fly under the radar and stay small. Comfortably wealthy, yes, but wildly rich, no. Montana isn't so sure. Later he decides the advice is directly bad, kills the mentor who gave it to him, and expands his business as far and as fast as he can. As moviegoers learn at the film's end, the mentor was probably right.

QUESTIONS

1. Though the initial reviews were mixed, time has proven the film's popular appeal. More than twenty years after its release, *Scarface* continues to be a rental favorite, a standard campus feature, and a late-night TV standard.
    - How can the notion of the general welfare be used to justify giving big bucks to the stars making the film: actor Al Pacino, director Brian De Palma, and writer Oliver Stone?
    - Can you form an argument against the concentration of money in the hands of a very few people that would work equally well against Al Pacino's (presumed) wealth and Tony Montana's?
2. Given the way Montana got wealthy, can the duty to beneficence argument against the star system still be applied to him? Why or why not?
3. Possibly the movie's most repeated line is Al Pacino as Tony Montana explaining that to be successful in America, "First you get the money, then you get the power, then you get the women."
    - What is Aristotle's theory of envy?
    - Does the story the movie tells about Montana's life—coming to America with nothing as an immigrant and getting ahead by killing and drug dealing—make you more or less envious of his success (at least the money and power parts), or does it not make any difference?
    - How does envy factor into ethical considerations of the star system?
4. Amado Carrillo Fuentes—better known as *Lord of the Skies*—was a serious innovator before he died in a Mexico City Hospital during a plastic surgery procedure to transform his appearance. While everyone else in his profession was flying small Cessna-like aircraft around Latin America and over the border into the States, he broke every limit by buying full-size Boeing passenger planes, hollowing them out, filling them with cocaine, and flying multimillion-dollar shipments. Though he never made the *Forbes* list of the world's most powerful and wealthy (unlike other traffickers from the same Mexican state of Sinaloa, including Joaquín Guzmán), there's no doubt that Carrillo Fuentes got extraordinarily wealthy by bringing innovation to the cocaine business.

    Bill Gates got extraordinarily wealthy by bringing innovation to the software business. One argument frequently presented in favor of outsized rewards in the business world is that it can stimulate innovative ideas. Does the fact that creativity in the business world can do social good *and* social harm weaken this argument in favor of the star system? Explain.

6.3 The Delta Vote

Source: Photo courtesy of Anthony Easton, http://www.flickr.com/photos/pinkmoose/2955932263.

When Delta Airlines absorbed Northwest Airlines in 2008, the expanded Delta employed about twenty thousand flight attendants, or *FAs* as they're called in the industry. The thirteen thousand Delta FAs weren't unionized; the seven thousand that came over from Northwest were.

The nation's largest flight attendant union, the Association of Flight Attendants (AFA) saw the opportunity to build membership numbers and lobbied the united workforce to unionize. The question went to a vote and the results were excruciatingly close: votes in favor fell 328 short out of 18,760 cast. Subsequently, the *USA Today* published a roundup of media reports and readers reactions.[22]

QUESTIONS

1. One argument in favor of joining labor unions works from fairness, the idea that if workers are *benefitting* from the work done by a collective, they should sign up and contribute their share of the dues required to pay for the lawyers and the negotiators a major union needs to operate.
    - How does the following reaction to the "no" vote intersect with the fairness argument? Flight attendant Cindy Hanks said, "I'm ecstatic. There is no reason for a union at Delta. I get paid more than my co-workers [who worked for Northwest before the merger]. I have an open-door policy with my management. Whenever I have a complaint, I am listened to, and there is always a resolution. I'm not left in the dark."[23]
2. One person added this comment below the story about the culture around Delta: "Nobody cares about workers' rights, including the workers."[24]

   One argument in favor of joining labor unions works from a notion of solidarity. With respect to labor unions, what's the solidarity argument for joining the FA union at Delta?
3. Delta spokeswoman Betsy Talton reacted this way to the "no" vote, "We have said all along that we believe our direct relationship works well for our people and our company,"
    - One argument against joining a labor union is the duty to individuality derived from the right to free agency. What is the right to free agency? What is the derived duty to individuality?
    - How can Talton's reaction be buttressed in ethical terms by reference to the right and derived duty?
4. The vote at Delta was a secret ballot. What is *card check* legislation, and what does it do? How might that law have changed the results at Delta?
5. Some of the responses to the Delta vote didn't concern the specific FA union but the question of unions generally. For example, one commenter believes a stigma attaches to union membership, a bad one. As he puts it, "I have read pro union people are lazy and want protection." Another commentator adds that unions have, "basically destroyed the auto industry and the steel industry."[25]

   How can this criticism of unions and union workers be converted into an ethical argument in favor of an economic star system?
6. A person identified as dinstinctM wrote, "Labor unions BUILT the American middle class. The middle class that is shrinking as unions have been decimated."[26]

   This is an economic claim. Assume it's true. How can it be converted into an ethical claim in favor of the FA union?

6.4 Responding to a Transit Strike

Source: Photo courtesy of Neilhooting, http://www.flickr.com/photos/neilhooting/2424703385.

The web page titled "How to Commute By Bicycle, All of a Sudden" begins this way: "There is a transit workers' strike in NYC today. If you need to get somewhere, consider riding your bike. Even though it's 22 degrees right now (8:33 EST), this is not a crazy suggestion."[27]

When you need to preface a suggestion with the assurance that it's not crazy, you can be pretty sure that the situation is bad.

The New York City transit strike began on December 20, 2005, and ran three days. Representing the subway operators, bus drivers, and some related personnel, there was the Transport Workers Union, Local 100 (TWU). On the other side, representing the city—and the traveling, tax-paying public—there was the Metropolitan Transit Authority (MTA). Wages and retirement age were the main issues. The MTA argued (correctly) that the transit workers' wages were much higher than the national norm, and their retirement age extremely low. The workers argued (correctly) that the job of driving in New York City was more stressful than in most other places. When negotiations failed, public transportation stopped a few days before Christmas, leaving millions of daily commuters stranded.

For some commuters, the bike became an option. In the abstract—sitting in a warm room reading about it—the possibility doesn't sound so bad, get some good exercise and brisk fresh air on the way to work and back. There are real problems, though. The air can be dangerously cold and streets in winter are icy. It also needs to be remembered that the sun goes down early in December, so people biking home at night along the roadside are pedaling in the dark. Falls are common. Falls in front of oncoming cars are especially bad.

QUESTIONS

1. The transit workers strike was actually illegal. After a similar walkout years before, the Taylor Law had been enacted; it barred transportation workers from leaving their posts and implemented arbitration methods for settling disputes. When the workers ignored the law, a judge hit them with fines and sentenced their leaders to short jail terms.
    - In the face of the strike's illegality, how can a rights argument be mounted to ethically justify the walkout?
    - Is the rights argument affected by the fact that many commuters suffered?
2. The "last resort argument" justifying a workers strike is activated when three conditions are met: (1) There must be a just cause; (2) there must be proper authorization; and (3) the strike must be a last resort—that is, attempts to find solutions must've been fully explored.

    In this case, the transport workers national union actually ordered the local to go back to work. The national union, in other words, didn't authorize the strike, but the actual workers on the scene did. Does this count as *proper authorization*? In a union organization, who, ultimately, gets to decide whether a strike is appropriate, the organizing management selected to speak for the collective, or the individual workers on the ground? Explain.
3. What is the public safety argument against a union going out on strike? From the information provided, how could it be implemented in this case?
    - How would the public safety argument against the strike differ from the public welfare argument?
    - In general terms, is there public welfare argument that could be sketched in *favor* of the strike?

6.5 Air and Bus Traffic: Stars and Collectives

Source: Photo courtesy of Ekavet, http://www.flickr.com/photos/ekavet/3680866253.

The early 1980s were seismic years in American business. Newly elected President Reagan promoted waves of deregulation legislation, and the openness loosed a breed of entrepreneurs bringing innovative goods and services to the marketplace so rapidly that entire segments of business life erupted in disorder. One especially affected area was transportation, and one very affected transporter was the venerable Greyhound bus lines. This report from San Jose State University summarizes:

> *Deregulation of the transportation industry made the competition for passengers stiff. New entrepreneurs who paid low wages entered the business and offered fare prices much lower than the more established inter-city lines. The newly deregulated airline industry made things even worse for Greyhound. Low-cost passenger airline carriers sprang up. People Express, for example, charged only $23 for a flight between New York City and Buffalo. Greyhound charged $41 for the trip. A flight by Southwest Airlines from San Francisco to Phoenix was only $60, compared to a Greyhound's bus ticket to the same location costing $79.*[28]

When a higher-quality service (a fast plane ride) actually costs *less* than a lower-quality service (a slow bus trip), the simple rules of economics are, sooner or later, going to put the bus company out of its misery.

To survive, Greyhound had to cut its prices, which meant cutting costs. The prices of buses and gasoline and similar were fairly fixed, leaving wages to be targeted. Greyhound went to the workers collective, the local Amalgamated Transit Union, and proposed a 9.5 percent wage cut.

The answer was no. Greyhound insisted. A strike ensued.

Greyhound was prepared. They'd already recruited more than a thousand new hires in anticipation of the walkout, and agreed to pay them the salary the union had refused. A tremendous segment of business was lost while the company struggled to bring still more drivers aboard but, eventually, it became clear that the union would have to break, which it did.

In the aftermath, a stinging article was written: "Leave the Slave-Driving to Us." That's a play on the Greyhound advertising line "Leave the Driving to Us," and it pretty clearly displays where the author comes down on the ethics of labor walkouts broken by replacement workers.[29]

QUESTIONS

1. From the "Leave the Slave-Driving to Us" article: "After the strike got underway the Bus Lines tried to run scab buses. In response, the striking Greyhound workers carried out militant actions that were effective as far as they went. For example, pickets from Local 1225 in San Francisco, together with some supporters, tried to block the departure of buses from the 7th Street depot in downtown San Francisco. There was then a cop attack on the picket line and a melee ensued. Only one bus left the station. It soon experienced a collision with another vehicle (the driver of the other vehicle just happened to be a striking Greyhound driver) and it was forced to retreat to the S.F. depot."
   - When the striking Greyhound driver drove his car or pickup into the bus, he probably damaged his own vehicle. Who should pay for the repairs? Justify.
   - Is it possible to argue that, ethically, Greyhound should pay? Explain.
   - Who should pay to repair the damaged Greyhound bus? Why?
   - The "cop attack" was, presumably, police officers clearing strikers from the public road. The police are frequently unionized. Do they have, as union workers, any responsibility to leave the strikers alone?
2. From the "Leave the Slave-Driving to Us" article: "During any strike material pressures (rent or house payments, utility bills, RV financing, etc.) may influence strikers' decisions. Since Greyhound is not merely a bus line, but a conglomerate with revenues from many lines of business, its capacity to bear losses from a strike is much greater than that of individual strikers to bear the loss of wages. Even those who have substantial savings may run short during a long strike. To succeed, they had to convince other transport workers and their unions to strike in sympathy with them. But of course, that's illegal under existing contracts and laws. But that only means that the ranks needed to take matters into their own hands from the very beginning. The rank and file did not have to respect the law."
   - What is Greyhound's structural economic advantage over the workers?
   - Does the Greyhound economic advantage provide an ethical justification for the workers to illegally (in terms of contractual commitments) try to get others in related fields to strike in support of the Greyhound workers? Explain.
3. The marketplace test showed the strike was, in purely economic terms of supply and demand, not justified. The company was able to find workers at the wages it wanted to offer.
   - Ethically, does the economic reality justify the strikebreakers' actions in crossing the picket lines? Explain.
   - The "Leave the Slave-Driving to Us" author considers these strikebreakers to be slaves. What is the ethical argument behind this insult?
4. From the "Leave the Slave-Driving to Us" article: "'Greyhound Lines Chair Frank Nagotte pulled down a hefty $447,000 in salary and benefits' in 1983 [that's 1,004,000 in today's dollars]. In general, Greyhound management was slated to receive a 7–10% salary/benefit increase. Despite the competition from lower air fares cited by Greyhound management, the Bus Lines division alone earned a profit that has been estimated at $5 million in the first nine months of 1983."
   - The chairman's salary and benefits were about one million in today's dollars. In terms of basic rights, how could he justify taking that mountain of money home after firing the drivers?
   - In terms of the value his work generated for society, how could chairman Nagotte justify taking the mountain of money home after firing the drivers?
   - In terms of his responsibilities as chairman, how could Nagotte justify taking the mountain of money home after firing the drivers?
   - What ethical argument could the drivers use to justify demanding that the chairman take a salary and benefit cut in line with the one he was asking from the drivers?
5. The fundamental cause of the Greyhound problem was competition from new transportation companies providing better service at lower cost, including Southwest Airlines, founded by Rollin King and Herb Kelleher. They're both bright stars in the American economic star system.
   - Make the case that King and Kelleher have an ethical obligation to support the Greyhound drivers who lost their jobs. What is the case? What kind of support do they owe?
   - Convert the Greyhound experience into an ethical argument that no employee at Southwest should seek to unionize.

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