



4

Ethics in the Marketplace: Generosity, Competition, and Fairness

Chapter Summary

Chapter 4 investigates the theme of ethics in the marketplace. As discussed in earlier chapters, both Albert Carr and Milton Friedman contend that businesses do not have social or ethical responsibilities. Such a position springs from the view that corporations are artificial rather than real persons—that is, legal entities whose only obligations involve fulfilling fiduciary duties to shareholders and honouring contracts. This chapter begins by critically evaluating the plausibility of such a position.

While the law establishes minimal standards of conduct, strict reliance on law sends the dangerous message that if something is legal it is ethical. Not only is this false, but it brings with it the problematic idea that effective constraints on business conduct must be *external*, thereby failing to capture the growing expectation many people have that businesses should be as *morally* accountable as the rest of us.

Next the discussion moves to the morally controversial practice of corporate gift-giving. Much of the discussion centres on factors to keep in mind when giving and receiving gifts with a view to drawing the line between benevolence and bribery. We are reminded that for Friedman, even benevolence is problematic if investors (shareholders) are put at risk, and once again Friedman's basic position is critically scrutinized.

The chapter then moves on to the theme of justice and fairness. On the liberal view, and in the spirit of Adam Smith, it is often thought the market is a self-regulating mechanism, that the market works best when individuals are free to make choices and government regulation is minimized. Well at least in theory, and provided that certain core values are respected. However, as the authors suggest, in a complex, global world, marketplace competition is not always fair and core values are not always respected. Hence the importance of ethics, government regulation, and above all the recognition, as Adam Smith pointed out long ago, that self interest does not mean an unfettered right to pursue profit.

The remainder of the chapter illustrates these important points about fair dealing, justice and care by examining a number of prominent and recent case studies.

Key Terms

Compassion respect for the humanity of others (p. 100)

Fairness the part of justice that relates to equity; giving each individual their due (p. 100)

Honesty accountability to provide the truth to certain individuals based on context and relationship (p. 100)

Justice the inclusion and consideration of concepts such as equity, need, contributions, merits, social values, risks, and compassion in reaching an outcome (p. 100)

Monopoly a situation in which a single company or entity owns all or almost all of a given type of product, commodity, or service (p. 101)

Oligopoly a state of limited competition in which the market is shared by a few dominant producers or sellers (p. 101)

Teleopathy becoming fixated on goals far from the original mission or outside the original mandate (p. 98)

Trustworthiness the ability to receive a truth or responsibility and sustain the confidence of others that you will not use it lightly or inappropriately (p. 100)

Study Questions

Multiple Choice Questions

1. _____ sets the publicly promulgated, enforceable minimum standards upon which business can build.
 - a) Ethics
 - b) A code of conduct
 - c) Legislation
 - d) Law

2. Rather than attracting public criticism, corporate _____ seems to be expected.
 - a) benevolence
 - b) gift-giving
 - c) dishonesty
 - d) teleopathy

3. The ethical basis of a market economy is that it places a great deal of emphasis on _____.
 - a) the role of government
 - b) a paternalistic bias
 - c) free licence for all shareholders to conduct business as they see fit
 - d) respect for individual autonomy and choice

4. A _____ person treats everyone with respect, and treats equals equally and unequal persons unequally.
 - a) compassionate
 - b) fair
 - c) trustworthy
 - d) honest

5. Between government regulation and utter licence lies _____.
 - a) chaos
 - b) ethical liability
 - c) legal restriction
 - d) ethical responsibility

6. Competition so important to the strength of the free market economy because _____.
 - a) it maintains an equal distribution of wealth
 - b) it leads to the efficient allocation of resources
 - c) it keeps the poor from falling below the poverty line
 - d) without competition, prices would be lower

7. Adam Smith showed that free and competitive market transactions guided by an “invisible hand” would _____.
 - a) bring about market inefficiencies
 - b) bring economic benefit to society
 - c) bring about economic chaos
 - d) raise prices

8. Contrary to what Carr imagines, business must work within the rules and conventions of _____.
 - a) the government
 - b) its shareholders’ own rules
 - c) the legal system
 - d) the social system

9. According to Karl Marx, late capitalism _____.
 - a) moves toward a state of limited competition
 - b) enriches the worker
 - c) provides the best means to an egalitarian society
 - d) promotes free market competition

10. The case of Michael Milken illustrates that _____.
 - a) one can justify one's actions by appeal to property rights
 - b) in a free market economy individuals should have complete autonomy to exchange freely
 - c) market justifications for ethically-suspect behaviour are irrelevant
 - d) one's ability to empathize with others is of no real relevance

True and False Questions

1. The more demands for increased regulation and increased surveillance are implemented, the more successful the business environment will be.
2. It is not possible to make ethically weak people into gladiators through organizational means.
3. If business conduct is not illegal, then it is ethically justified.
4. Benevolence to charities and community projects is akin to a bribe.
5. According to Sternberg, Friedman is wrong in saying that corporate benevolence is a form of taxation.
6. It is mistaken to think that teleopathy is a logical offence.
7. Adam Smith did not believe that self-interested individuals had an unfettered right to pursue profit.
8. Adam Smith would have agreed with Albert Carr that business involves a special game ethic.
9. Karl Marx believed that capitalism would not bring maximum benefit to society.
10. Karl Marx thought the tendency towards oligopoly was supported by labour.
11. In the case of an economic bubble, the people involved are without a moral conscience.
12. It is herd mentality, and not ethical sensibility, that develops in an economic bubble.
13. Without competition, prices will meet at an equilibrium point on price.
14. Fairness as a core value involves going beyond justice.

15. Fairness as a core value is part of justice insofar as it concerns treating equals (or like cases) equally and unequal persons unequally.

Short Answer Questions

1. Why is compliance with the law not enough to satisfy the demands of social responsibility?
2. If one is doing business in a culture in which gift-giving is a cultural norm, is it acceptable to follow along? How does bribery differ from benevolence?
3. It is often argued that respect for individual autonomy and choice lies at the basis of the market economy. How have critics responded to this argument?
4. Why is ethical responsibility so important to the market economy?
5. Why is competition so important to the market, and how is this related to Adam Smith's conception of the "invisible hand."

Essay Questions

1. It has been argued that Milton Friedman's conception of corporate social responsibility fails and is "conceptually incoherent" when applied to the global context. Explain why this might be so.
2. Both Friedman and Sternberg are opposed to the use of corporate funds for benevolent purposes. Explain why, and then critically analyze the plausibility of their arguments.
3. It is often argued that a market unfettered by government regulation is most conducive to market efficiency. Critically evaluate this claim as it applies to today's marketplace.

Answers to Study Questions

Multiple Choice Questions

- | | | |
|----------------------|----------------------|----------------------------|
| 1. d (p. 94) | 5. d (p. 99) | 9. a (p. 101) |
| 2. a (p. 96) | 6. b (p. 100) | 10. c (pp. 101–102) |
| 3. d (p. 99) | 7. b (p. 101) | |
| 4. b (p. 100) | 8. d (p. 101) | |

True or False Questions

- | | | |
|---------------------|-----------------------|---------------------------|
| 1. F (p. 95) | 6. T (p. 98) | 11. F (p. 105) |
| 2. T (p. 94) | 7. T (p. 101) | 12. T (p. 105) |
| 3. F (p. 94) | 8. F (p. 101) | 13. F (p. 100–101) |
| 4. F (p. 96) | 9. T (p. 101) | 14. F (p. 100) |
| 5. F (p. 98) | 10. T (p. 101) | 15. T (p. 100) |

Short Answer Questions

1. There are many reasons why complying with the law does not constitute an act of social responsibility. For one, the law and ethics is not the same thing: laws can be unethical or, as is sometimes the case in developing countries, too lax. Thus complying with a lax law does not amount to acting ethically if, for example, it amounts to harming the environment or violating a person's rights. Another reason is that laws constitute *external* constraints on conduct, while ethics is internal. Thus, if laws set the standards of rightness, then this only invites ever more regulation, not something conducive to a flourishing business environment.
2. It is not acceptable to follow along if the gift influences the decision. This would be tantamount to bribery insofar as it would undermine trust in the market system and so the expectation that products are bought and sold on their merits. However, gifts given after a deal has closed may be permitted in some circumstances. Gift giving for purposes of charity and community projects fall into the category of benevolence.
3. Critics contend that, while individual choice drives the market economy and is at the basis of free market competition, the market needs to be regulated to provide the conditions for *fair* dealing. Without adequate regulation there is always the possibility the choices we make will contribute to social injustice, externalities and so on. In other words, the market is not a perfect instrument and needs to be appropriately shaped by regulation if it is to meet human needs and desires.
4. Ethics is integral to a robust and efficient market economy insofar as our behaviour shapes market exchanges and so competition. The argument that the market economy best works if government involvement is minimized is only plausible if core ethical values are upheld; that is, the market exchanges which comprise a robust economy will be encouraged when the *autonomy* of buyers and sellers is respected.

5. Adam Smith illustrated that the market is a self regulating mechanism. Since both buyers and sellers, motivated by self-interest, are seeking to gain from a market exchange, they usually meet at an equilibrium point in price. That is, without much by way of government intervention, the market delivers the goods and services in the quantities demanded at prices people are willing to pay. Competitive market exchanges, Smith famously argued, are thus led by an invisible hand to serve the public good. Importantly, Smith was adamant that the self-interest which motivates people to exchange and produce does not mean a selfish and greedy quest for profit at any cost. Hence the importance, as we saw in the last question, of ethical, self-interested behaviour.

Essay Questions

Answers will vary.