

# Circles within a Circle: The Condition for the Possibility of Ethical Business Institutions Within a Market System

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**ABSTRACT.** How can a business institution function as an ethical institution within a wider system if the context of the wider system is inherently unethical? If the primary goal of an institution, no matter how ethical it sets out to be, is to function successfully within a market system, how can it reconcile making a profit and keeping its ethical goals intact? While it has been argued that some ethical businesses do exist, e.g., Johnson and Johnson, the argument I would like to put forth is that no matter how ethical a business institution is, or how ethical its goals are, its capacity to act in an ethical manner is restricted by the wider system in which it must operate, the market system. Unless there is a fundamental change in the notion of the market system itself, the capacity for individual businesses to act in an ethical manner will always be restricted. My argument is divided into two parts. The first part is to show the inherent bias towards unethical outcomes that is inherent in the market system. The second part is to suggest how to reorient the general economic framework in order to make ethical institutions more possible. The question then becomes, how to define economic behavior in terms other than competition for profit.

**KEY WORDS:** Adam Smith, capitalism, distribution, economic motivation, market system, production, self-interest, the profit motive

## Is the market system inherently unethical?

The market system functions ideally for the individual producer by the control of supply. The greater the market share, the higher the degree of control the producer can exert over the supply. Ideally, 100% of the market share would define the maximum degree of control over the supply. Pricing can then be set to achieve the maximum profit without losing either to a competitive supplier or losing the demand altogether. Maximum profit can be derived from raising the price as high as possible while maintaining the greatest degree of market share. The greater the control of the market, the higher the price can be set. There is a direct proportion between control of a market share and market price. The controller can set a price that is in keeping with the goal of maximizing his or her profit to the detriment of the consumer. While it could be argued that competition which leads to a number of producers sharing a market can keep price levels down, inevitably the larger producers drive out the smaller producers and price levels are adjusted upwards. While theoretically economies of scale could encourage lower prices this is contrary to the goal of maximizing profit. Hence, the only solution is the alteration of the goal of the maximization of profit.

It is therefore an oversimplification to argue as the distinguished Amartya Sen with whom I find so much to agree, that “The market system works by putting a price on a commodity and the allocation

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between consumers is done by the intensities of the respective *willingness* to buy it at the prevailing price. When “equilibrium prices” emerge they balance demand with supply for each commodity.”<sup>1</sup> But it is not only a matter of *willingness*. It is a matter of capability. Demand is not ethically driven. Demand is driven by the capability on the part of the purchaser of paying the price for the commodity. *Supply* is not ethically driven. The price of the supply is not ethically driven. The price of the supply is set by the supplier in accordance with what the market – translate the financially advantaged – is capable and willing to pay. The price is thus a function of what the financially advantaged is capable and willing to pay and how high this price can be set by the supplier without losing sufficient volume of sales which would lower the profit margin. “Equilibrium prices” are at an equilibrium only for the financially advantaged. The market system, whether engaged in by a state socialism or privately owned capitalism is inherently unethical so long as the market system is motivated by the maximization of profit for the producer of the goods or services.

### The profit system

The profit system, defined as a win-loss system, is inherently unethical. By definition, one man’s profit is another man’s loss. In order to profit, therefore, one must cause loss in another. The very making of profit is inherently unethical. With the possible exception of what Amartya Sen refers to as public goods (a livable environment or the absence of epidemics), there is only so much pie.<sup>2</sup> If I take a larger amount of the proceeds, then your share must be diminished. The larger my share becomes, the smaller yours becomes. (Of course we may both take equally large shares but then the portion of someone else’s pie is diminished).

This is especially noticeable in the sale of stocks and bonds. If one person sells a stock and takes a profit, someone else who buys the stock must take a loss. (Of course this is a matter of relative advantage as the buyer may later take a profit on someone else but there is always a win-lose relationship at some point in time.) I cannot win without someone else losing. My profit is comprised of someone else’s loss. Michael Porter’s vaunted “competitive advantage” is

by definition at the same time someone else’s competitive disadvantage.

As I make more and more money, the unethical dimension of profit is magnified. The more money I make, the greater is my competitive advantage as a purchaser. The more money I make, the higher the supplier can raise his prices. My increasing wealth bids up his prices and at the same time makes his goods and services less and less accessible to the less wealthy. There is a direct proportion between my increasing wealth and the increasing disadvantage of the financially disadvantaged. In other words, assuming that the financially disadvantaged remain disadvantaged, the wealthier I become, the poorer they become. Profit making is not only unethical; the more profit one makes, the more unethical the conditions become for some purchasers. Profit making by its very nature must increase the gap between the rich and the poor. Profit making is not only unethical; its immoral effects increase with its own increase. The maximization of individual or corporate profit is directly proportional to its creation of inequity.

The effect of the widening of the gap between the rich and the poor has another unethical effect. The greater my profit in a transaction, the greater the burden that is placed on you to exploit someone else to make up for your loss. If your resources are depleted by buying my product at inflated prices, then you are forced to play the game of inflating your profits to make up for this.

There is worse to come. The greater your need for my product or service, the higher the price I can command which is only limited by your capacity and willingness to pay. Hence, medicine and medical services which are in the greatest demand (read – reflect the most urgent needs of the human being) command excessive pricing and hence limit fair distribution.

There is a great moral lesson here. The greater your human need, the higher the price I can extract for my good or service. My profit in these cases is directly proportional to your state of distress. This is not only unethical; it reveals a degree of immorality that is shocking. One is not only taking advantage of another; one is taking advantage of the other’s disadvantaged position, in this case, illness.

The link between the micro and the macro level becomes clearer in the case of the supply of certain

vital goods and services such as medical goods and services. The more that certain vital goods and services become available only to an elite portion of society, the more unethical the society becomes. The costlier such vital goods and services become or what amounts to the same thing, the wealthier certain individuals become who are the purchasers of such vital goods and services, the larger the disadvantaged class becomes who cannot afford the purchase of such vital goods and services.

Profit making as a major motivation for business institutions is unethical in another way in that it corrupts the ethical spirit of those who participate in a market system. If I can only profit if someone else loses, how can I be proud of the profit I make? How can I call myself an ethical being? If I am proud of my wealth, has my ethical spirit already become corrupted? If I cannot be proud of my wealth, then my self-opinion as a business owner or participant is necessarily low.

### **Is self-interest the source of the ethical problem?**

It has been a commonplace to argue that self-interest, sometimes accompanied with ethical concerns and sometimes not, is the source and even the honorific source of economic behavior. For example, Adam Smith, a professor of Moral Philosophy, thought that a concern for ethics and self-interest as a basis for economic behavior certainly went together. The rightfully esteemed economist Amartya Sen, for whom I have the greatest respect, has argued that, “It is important to see how Smith’s whole tribute to self-interest as a motivation for exchange (best illustrated in the butcher–brewer–baker passage) can co-exist peacefully with Smith’s advocacy of ethical behavior elsewhere.”<sup>3</sup> (The famous passage reads: “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.”)<sup>4</sup> And again from Sen, “The concern of the different parties with their own interests certainly can adequately *motivate* all of them to take part in the exchange from which each benefits.”<sup>5</sup> But the problem, as I see it, is that while self-

interest may be an *adequate* motivation, is it the *best* motivation? Self-interest, however tempered it may be argued that this should be by ethical concerns, once let loose, is not so easily constrained. It is an odd thing how self-interest in many cases seems to lead to greed.

Sen argues that self-interest as a motivation for exchange does not possess any dire effects. Indeed, he argues that a motivation for exchange is separate from other economic concerns such as production and distribution. “The butcher–brewer–baker simplicity does not carry over to problems of production and distribution (and Smith never said that it did), nor to the problem as to how a system of exchange can flourish internationally.”<sup>6</sup>

Regardless of how Smith viewed the matter, it seems to me, however, that if one is motivated by self-interest in the case of exchange, why would one be motivated by other concerns in the areas of production and distribution? Is it really possible to compartmentalize one’s ethical concerns? If one is happy with the profit one makes from exchange, why should one limit one’s profit by ethical concerns about the distribution of one’s goods and services? If one is happy with one’s profit from exchange, why should one limit one’s profit by ethical concerns about *what* one should produce? At the very least, a tension is produced between one’s self-interest and one’s ethics. Self-interest may be an adequate motivation for exchange, but can we do better than this?

One recalls Smith’s famous passage referring to the “invisible hand”, “... every individual ... intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention... By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.”<sup>7</sup>

Was for Smith the invisible hand a built in ethical direction of the market system? Smith of course does not say this. But the market system, if it is an impersonal and abstract system, does not appear to be guided by an ethical pilot. And, if it is manipulated to a large extent by individuals or corporations pursuing their own gain, it also lacks an ethical pilot. For Smith, self-interest, tempered with ethical restraint, was bound to ensue in ethical outcomes. The problem with this theory is that it is precisely that, a

theory. It possesses no empirical proof (indeed Smith did not suggest that it did) and it possesses no rational proof. It is metaphysics pure and simple. Despite that, it has been taken by many to be a shibboleth, an unquestioned and unquestionable truth. But when one thinks about it, there is no inherent or logically necessary connection between the pursuit of self-interest and the good of society as a whole. In fact, there may be a negative correlation. The perfectly legal actions of certain property developers in Hong Kong, for example, have resulted in driving property prices way up. These same actions created such an oversupply that property values crashed, leaving multitudes of home owners with negative equity. The self-interest of the property developer was well served, but the good of society was not served.

There is but a very short step between the notion of self-interest as the motivation for exchange to the concept of the maximization of profit. On the most primitive level, self-interest can be philosophically defined as the satisfaction of the appetite of hunger. Appetites possess the quality of growing with each satisfaction. The more one satisfies the appetites, the more they grow. In addition, a new element enters the picture. One worries about the future. The growth of appetites combined with a fear of the future produces the state of greed.<sup>8</sup> Greed, so it seems in many cases, can never be satisfied. With the advent of greed, the concern for others weakens and business ethics has its work cut out for it. Why begin with a motivation for economic behavior that will make it difficult if not impossible for business ethics to have any effect? Would it not be far better to begin with a motivation for exchange (and production and distribution) that had the concern for others as its motivation in the first place? Would it not be better (and truer of human behavior) for there to be a unity of motivation for action? Does it make sense for self-interest and the profit motive to be the motivation for exchange and a concern for others to be the motivation for production and distribution?

Aristotle thought that the choice of the profit motive as a motivation for economic behavior was unethical. According to the distinguished business ethicist Robert Solomon, "Aristotle despised the financial community and, more generally, all of what we would call profit seeking. He argued that goods should be exchanged for their "real value", their costs, including a "fair wage" for those who pro-

duced them, but he then concluded, mistakenly, that any profit (that is, over and above costs) required some sort of theft (for where else could that "surplus value" come from.) ... All trade, Aristotle believed was a kind of exploitation."<sup>9</sup>

But according to the argument advanced above in, *Is The Market System Inherently Unethical?*, why was Aristotle's conclusion that any profit was theft, mistaken? If profit is made, it must, by definition, be made at someone else's expense. But if we cannot use profit or self-interest as the motivation for economic behavior, what can we use? Profit or self-interest as a motivation, as argued above is the manifestation of the following of the appetite of hunger as the core drive of the human species. The following of the appetite of hunger as the core drive of the human species is to depict the human being fundamentally as a consumer. If the following of the appetite of hunger and the description of the human being as a consumer is the source of the ethical problem, then what is needed is a new description of the human being.

Hunger as a description of the motivation for behavior characterizes humanity at the infant stage of human development. The basic need of the infant is to consume. The primary motivation for behavior in infancy and early childhood is self-interest. Maturation requires social development. This means that self-interest is modulated by a concern for others. To utilize self-interest as the primary motivation for adult economic behavior is to run the risk of producing a society which remains fixated at an infantile stage of social development. To a large degree, this is the problem of today's society. Consumerism is characterized by the production of and the provision of and thereby purchasing of goods and services that are not healthy or economically productive. Such consumerism driven by greed fuels the engine of capitalism. How can a system which is based on fear and greed lead to an ethical outcome? One might well wonder.

Would it not make more sense to model society after the motivation of the adult and not after the motivation of the child? If society is modeled after the motivation of the infant or the child, is it not likely that society will be characterized by infantilism? The infant pursues self-interest to the point of neglecting the interest of others and ultimately, in the absence of good parenting, to the point of her or

his own detriment. When the infant cannot get what he or she wants, he or she throws a tantrum. Can this be likened to the outbreak of war at the level of the nation state? If nation states conduct themselves on the model of an infant wanting more and more without restraint, what is to prevent the ultimate outbreak of war?

### **Macro-economics considered**

How does what has been said above apply to macro-economics? With respect to the situation of the world today it may well be said that the two major understandings of economics that have been attempted on a large scale have both resulted in failures. The first of these systems is that of the market system; the second of these systems is that of the planned economy or the welfare state. The market system, based on the model of profit maximization, has proved itself to be a failure in two major ways. First of all, and most primarily, the market system on a world scale has not ameliorated the way of life for a huge portion of the world's population which lives in woeful economic conditions. Secondly, the market system seems inevitably to result in the business cycle. When the mass of economic agents in the developed countries buy or sell products purely for the sake of making profit without regard to whether such activity produces sound economic conditions, inflation and ultimately a bubble economy is produced. Such a bubble must eventually burst and thus a cycle of depression ensues. A bubble economy is an economy that is the result of inflated profits, wages and prices that are based on conditions of supply and demand which are not grounded on sound, economic fundamentals. The most unfortunate aspect of the business cycle which appears to be the inevitable result of market economics when driven by considerations of self-interest, is that when the market for the goods and services that can be produced is saturated, then either another market must be created for goods and services or different goods and services must be produced which can be bought and sold. Due perhaps to a limitation of imagination and the ready potential to exploit the always available presence of irrationality, violent impulses and dissatisfaction that arises from the inequitable distribution of wealth, the market that is frequently created

is the market for military goods and services and the goods that are produced are weapons. In order to create a market for military goods and services, the condition of the world must be changed from the condition of peace to the condition of war. This is not to say that the market system is the cause of war. But there does seem to be a danger when self-interest is encouraged to develop without any limits.

Both of these problems, the inability to care for the underdeveloped world and the inevitable consequence of the business cycle and its unfortunate corollary of war, are the result of following the model of man as the rational economic animal in which profit is pursued with regard to maximization without regard to whether the goods and services produced are really productive of social value for the world as a whole. The market system based on the motivation of self-interest can thus be said to be a failed system.

The opposite to market economics is the attempt to control supply and set prices, that is a planned economy with a welfare state. This system has also proved to be a failure. When practised on a national scale, an economy cannot be solely planned to achieve social benefits for that nation or the underdeveloped world, because it must participate in the world economy which is a market economy. Thus, there has never been a trial of a world planned economy or a world welfare state. As a result, planned economies such as state socialisms or state capitalisms suffer from the same defects as market economies (the lack of care of undeveloped nations, the business cycle and potential for war). These defects, however, are not due to the defectiveness of planned economies; they are due to the fact that the world is based on a market economy which in turn is motivated by self-interest.

Apart from these defects, however, planned economies and their welfare states have proved to be failures within their national boundaries. It appears as if the planned economies with mixed socialist and capitalist systems result in economies that are inefficient. Unemployment and budget deficits seem to be the ultimate result of the attempt to put planned economies into operation. In the end, even in more heavily weighted capitalist states, the aspects of the states that are planned, e.g., pension systems, eventually are at risk because they become economically unfeasible to support.

The planned economy suffers from the same defect as the unplanned or market economy in that it is also based on the concept that man is a rational economic animal. The only difference is that there is an attempt in the planned economy to decide what goods and services man should produce and more of an attempt to take care of man when man is no longer capable of producing goods and services. But the model of man as a consumer has not fundamentally changed.

It is not completely fair to be as critical of the planned economy as one is of the unplanned economy since the world's economy is not a planned economy in the proper sense. While, with this proviso in mind, it nonetheless could be said that the internal failure of planned economies and welfare states is at least partially due to the lack of an ethical or spiritual component in the expectation of economic behavior. For, if an ethical or spiritual component is included, as in the production of goods and services that enhance the value of all of mankind, then a motivation has been included for the production of goods and services.

The solution to the problem of what kind of macro-economic system to employ cannot be fully realized until the institution of the nation-state has been replaced by a world system. Until such a time, it is appropriate to attempt to function with the market economy system in terms of interacting with a global market, but to work towards the elimination of non-productive markets and to work towards the production of goods and services that fulfill genuine human and constructive human needs or create new genuine and constructive needs to be fulfilled. On the level of a nation-state or a union of nation-states into larger units, the construction of semi-planned economies or partial welfare states must also be contemplated. The failure of such mixed systems in the past is at least in part due to the lack of supply of a sufficiently motivating model of contrasting human behavior to replace the "rational" economic model of human behavior.

### **Man as the guardian or trustee of the planet**

Ultimately, the model of man as the producer of goods and services that benefit all of mankind will be the only model that will be conducive to world

survival. One must utilize this model to underlie existing systems and build new systems that rely upon this model for their motivational support. Rather than the image of man as the Ultimate Consumer or the Maximizer of Profit, the planet can only survive with the model of man as the Guardian or Trustee of the Planet.

### **How can one define economic behavior in terms other than self-interest? from maximizer of profit to caregiver: the birth of ethical institutions**

If consumption is the primary activity of the human infant, then the primary activity of the human adult is that of the provider and the caregiver. If the planet and its inhabitants are one's human family, then the primary motivation for economic activity will be the concern for the other. In economic terms, this concern can be best manifested by the creation and sharing of beneficial goods and services that serve the whole of mankind. In practical terms, this can translate into changing the charter of the corporation in ways which are similar to the charter of the corporation in the 19th century. For example, a certain proportion of the profits of the corporation would be paid out to the communities in the world that the corporation in any way harmed. While originally the charters of corporations required that part of the profits be returned to the community, it seems that a better use of part of the profits would be to go towards restituting any damages the corporation has inflicted on those that it has disadvantaged. Another change in the charter would be to limit the amount of shares that a CEO could own in a corporation. A further change would be to set an upper limit to the salary of the CEO (in Japanese corporations, CEO's make approximately eight times the amount as the lowest paid worker).

### **The birth of ethical institutions: the primacy of production and sharing over consumption**

From the standpoint of economics, production is the primary activity; consumption can only take place after production has occurred. *One must produce first in order to have something to consume.* Production is the

fundamental economic activity. Production is also the fundamental philosophical activity. If one sorts activities in terms of their value for the general meaning of life, it becomes apparent that the depiction of the human being as essentially a consumer is to mistake the means for the end. A penultimate end of the human being is survival. Survival takes precedence over consumption as an end-goal of life since from the standpoint of biology, one consumes in order to survive. One does not survive in order to consume. Such a truth finds its expression in the popular saying, one eats in order to live; one does not live in order to eat. If one lived in order to eat, one would be mistaking the means of life for its end. From a philosophical standpoint, that is, from a standpoint which inquired into the meaning of actions, such an inversion of reality would be pointless and futile. Hence, maximizing consumption cannot be a defining formula of human motivation. One would only need as much consumption as was required to live; there would be no point to maximize consumption indefinitely. In any case, survival itself cannot be a sufficient motivation for living. For survival only entails that life, with all of its pain and suffering, both physical and mental, be preserved. But for what end? To what purpose? With all the suffering and injustice that human beings must undergo, it cannot be that the ultimate purpose of life is to simply continue on to experience and witness birth, sickness, loneliness, meaninglessness, failure, humiliation, betrayal, loss, rejection, aging, infirmity and ultimately, solitary death. A life the end goal of which was simply survival would be totally unconscious, masochistic or absurd. Human beings are meaning craving animals. One's life can be rendered meaningful only if it can serve in some way to ameliorate the suffering that is humankind's lot. Production of means through which the alleviation of the suffering of life can be furthered is the only sufficient motivation that can sustain one throughout one's mortal career. If the human being is made *imago Dei*, and G-d is ultimately the Creator, then the way in which human beings imitate G-d is through creative, productive activity and not through the activity of consumption.

It can be shown that even in the most conventional formulas of economics that underneath the categorization of the human being as a consumer one can discover that the underlying economic

activity of the human being is production and essentially a production of economic values, that is social goods and services. The satisfaction or happiness or fulfillment of the human being lies in the production of satisfying goods and services that contribute to the greater welfare of human beings as a whole.

### **Discovering the latent vision of the production of social value in Samuelson**

In order to show that ultimately human beings are producers and producers of social value, one may examine some standard definitions of economics that appear in arguably the most famous and influential textbook of economics in the United States. For the purposes of this examination, one may make reference to the work of Paul A. Samuelson, the economist who revolutionized economics at MIT and together with Robert Solow, turned MIT into the institution that best embodied mainstream economic thought for some three decades. The gifted Samuelson, though firmly in the Keynesian camp was able to unite a century's worth of economic insights into a single, coherent theory – the neo-classical synthesis – that dominated economic discourse from the 1950s through the 1980s. His textbook provided the basic education in economics of the present author among many others. Samuelson offers six definitions of economics all of which are considered by him to be representative and thus presumably satisfactory. The first definition of economics that is given by Samuelson is the following, "Economics is the study of those activities that involve production and exchange among people."<sup>10</sup>

The first definition possesses the comparative advantage of listing production as one of the primary economic activities rather than consumption. Exchange is listed as the other primary economic activity. The listing of exchange does take into account that any individual person is finite and needs to exchange what she or he produces in order to gain a more complete set of goods and services. In the opinion of the present author, it would be preferable to conceive of economic relations with others under the concept of sharing rather than exchange. The first definition possesses the comparative advantage of referring to people as the obvious

agents of economic transactions without whom economic transactions would make no sense as there would be no one to produce goods or services and no one to exchange them and no one to receive them. It all but comes out and states that economics cannot be defined without a reference to social values or needs. However, without an explicit reference to the filling of social needs or the creation of social value, it is incomplete as a definition of economics since it does not refer to the motivation or end-purpose of economic behavior. By referring to production and exchange, a glimmer of the mechanisms of economic activity is offered. It lacks a reference to a motivation for the production and the exchange of goods and services and an argument that the motivation is to enable the human being to fulfil his or her role as a caregiver and to enhance the quality of life of the other.

The second definition offered is: "Economics analyzes movements in the overall economy – trends in prices, output, and unemployment. Once such phenomena are understood, economics helps develop the policies by which governments can affect the overall economy."<sup>11</sup> This definition loses some of the advantages of the first definition by making the reference to the producers of goods and services and the recipients of economic transactions nearly non-existent. However, its reference to unemployment is unwittingly people oriented. Everyone psychologically fears unemployment and the use of this word in a sentence makes it strikingly apparent that it is people who would be unemployed. It also possesses the unique advantage of referring to the behavior of government since government monetary policy, for example, obviously effects human economic behavior. However, how and why movements in economy take place remains shrouded in mystery and hence this definition is perhaps even less adequate than the first definition which at least makes reference to production and exchange.

The third definition offered is: "Economics is the science of choice. It studies how people choose to use *scarce* or *limited* productive resources (land, labor, equipment, technical knowledge) to produce various commodities (such as wheat, beef, overcoats, concerts, roads, missiles) and distribute these goods to various members of society for their consumption."<sup>12</sup> This definition is without doubt the best so far. Like the first definition, an explicit reference is

made to *people* as both the producers and the distributors of economic actions. The mentioning of specific commodities such as overcoats makes it very obvious that economics is involved in providing value for people and by extension possesses social value and for the same reason is involved in fulfilling social needs without which it would serve no purpose whatsoever and in fact would not possess any reason for being in the first place. By making explicit reference to the example of concerts this definition of economics makes it very clear that economics cannot be defined without reference to higher values, that is, values that are not simply survival values. It only lacks an explicit reference to the function of economics as a provider of social needs and a creator of social value to be more complete on the ethical side of economic activity and an explicit reference to the basic forms of economic activity such as capital investment, labour, rent and trade to be more complete on the business side of economic activity.

The fourth definition of economics that is given is the following: "Economics is the study of how human beings go about the business of organizing consumption and production activities."<sup>13</sup> This definition possesses the advantages of the first and the third definitions of explicitly referring to people or human beings. It also possesses the distinct advantage of referring to business, thus displaying the important feature of economics that economics cannot be defined without reference to buying and selling, renting or trading. The mention of consumption and production is advantageous because it only requires a moment's thought to realize that it is human beings who need to consume and benefit from consumption and that consumption cannot take place without production (of either goods, services or labour). It is incomplete on the business side since the mere mention of production does not offer a hint as to the mechanisms of production.

The fifth definition that is given is the following: "Economics is the study of money, interest rates, capital, and wealth."<sup>14</sup> While this would seem to be the most technically correct definition so far and resembles in this way the technical though limited correctness of the fourth definition while possessing the obvious advantage of economy of expression, it possesses the disadvantage of concealing that it is people who set pay scales or interest rates and people who risk or lose capital and people who accrue



wealth. The reference to wealth, however, does possess the advantage of making it very obvious that economics is concerned with the creation of value. In this case it is monetary value which is indicated. Again, some of the main instruments of the production of revenue such as manufacturing, trade, labour, rent, and sales are omitted from the definition.

The sixth and last definition offered appears to be an effort to summarize the variations of definitions that can be offered: "Economics is the study of how people and society choose to employ scarce resources that could have alternative uses in order to produce various commodities and distribute them for consumption, now or in the future, among various persons and groups in society."<sup>15</sup>

This summary definition possesses the advantages of comparative comprehensiveness and economy while making explicit reference to people and society, thus displaying that it is people and society who are the producers, distributors and the ultimate recipients of economic activities. It also possesses the advantage of explicitly stating that the purpose of economic activity is the production of commodities for people thus making it abundantly evident that people are the end users of economic activities and that it is thus social needs and social values that are being filled. While none of the above definitions explicitly refer to social needs or social values, social needs and social values are implied by all the definitions of economics that are offered thus suggesting that it is impossible in principle to define economics without taking into account social needs or social values in the first place. The means of production are not referred to in this definition and thus how production and distribution take place and why they take place is not indicated.

It is interesting to note that in the third and in the sixth definition offered a reference to *scarce* or *limited* resources is indicated. This most likely is the influence of the tradition of economic thought which can be traced back to such figures as Malthus. Theoretically, one could approach economics as the study of *abundant* or *over abundant* resources. This would appear to be a question of circumstance, not principle. However, the reference to scarcity does seem to presuppose an ethical value which is either thrift or the value of distributive justice. The question, which is left unstated is, how does one manage

production and distribution when the resources are limited? The question seems to imply that some attention in economics must be paid to making sure that resources either do not completely run out or that they are equitably distributed. Some concern is being shown for either the future of economic pursuit or the equity of its distribution or both. In either case, the reference to scarcity seems to suggest that some ethical value is at stake even if it is only meant that the ethical value is one's egoistic survival.

It is of interest to dwell for a moment on the concept that in the past, economics has been an economics of *scarcity* rather than an economics of *abundance*. (Take note for example of Samuelson's third definition of economics above.) It must be kept in mind that a resource may be abundant but unequally distributed, e.g., oil. In an economics of abundance, one must consider carefully the concept of what to produce and how to distribute what is produced. The basic concept of an economics of scarcity is that goods and resources are scarce and therefore one must garner more and more of them for oneself. The basic concept of an economics of abundance is that goods and resources are abundant and therefore one must consider both how to distribute them more equally and to consider if they should be produced at all. For example, if the advance of technology and the mechanization of production have now made it possible to produce an enormous quantity of soft drinks, is it appropriate to produce such a product on such a vast scale and distribute it to consumers unable to make educated choices? With such means of production and both the quality and the quantity of nutrients now available, is it appropriate to continue to produce more and more soft beverages? Is it appropriate to continue to produce more and more automobiles? An economics of abundance creates a different set of questions than an economics of scarcity. If automobiles are to be produced, then where should they be distributed? If automobiles are produced, one result of that production is the increase in carbon dioxide. If wooden houses are built, then one result of that production is the decrease of natural forests. With an increase of carbon dioxide and the reduction of the plant life that require carbon dioxide for their survival, the result ultimately is raising of the temperature of the planet, the melting of the ice caps and eventually a possible flooding of the planet. A

contributing cause of the above has been the result of a focus on an economics of scarcity rather than a focus on an economics of abundance.

### **Towards a new definition of economics that is inclusive of social value**

It seems to follow from this analysis that it would make sense to include the idea of social value and or social need in the definition of economics as well as it is important to include the mechanisms of business enterprise in order to provide a complete and accurate definition of economic activity. Any useful definition of economics should include the major forms of the production, transmission and distribution of wealth just as any complete definition of economics should make reference to the major mechanisms of wealth production. One might venture a definition of economics which includes a direct reference to the how of production and consumption (thus satisfying the technical needs of the definition) which at the same time refers directly to the motivation or the end-purpose of economics in the first place. While it is certain that the following definition is by no means problem free, it possesses the advantage of making the concept of social value and the means of creating that social value explicit. *Economics may be defined as the ownership or use of capital investment, labour or land to produce a product, or to provide a service that fills some existent social need, or creates a new need to be filled, or creates some social value without at the same time creating a disvalue which is proportionately of greater harm than the good that is produced. The more that the good or service contributes to the social value of the underdeveloped world, the greater the value of the good or service that is produced.* This definition of economics is more user-friendly than the definitions of economics that appear above because it both explains how products or services are produced and states that such a production fills social needs (whether pre-existent or created) and fills these social needs by creating social value. Unlike all of the previous definitions of economics, it takes into account the extension of the concept of social value to the underdeveloped or the have-not world. At the same time, unlike all of the previous definitions of economics, it takes into account an economics of abundance by specifying that certain kinds

of goods and services, those that represent a disvalue to the planet, *are not* to be produced in addition to specifying what kinds of goods and services *are* to be produced.

### **When profit and ethics collide**

A key determinant of one's economic choices is whether one will in the end contribute to the well being of human beings and the planet, nay, the Universe at large. This is not as strange a position as it might at first appear. One knows, for example, that it is possible to make a great deal of money by selling addictive drugs that will encourage others to acquire an addiction to hard drugs and thus eventually destroy their lives. It is the position of the present author that most human beings would not choose to make money in this way and not simply because it is illegal to do so and that they may be apprehended and sent to prison. It is the position of the present author that most human beings would not choose to make profits in this way because the consequences of such profit would require the sacrifice of ethical values. It is but a short step from this to realize that most economic decisions can take into account the preservation of ethical values. While an abundance of counter examples can be pointed to which include the range of misleading to fraudulent advertising, to taking and giving of bribes, kickbacks, purveying child pornography to the selling of weapons to those who do not intend to utilize these weapons for sport or hunting, all such examples are based on the perceived needs of those engaged in such unethical business activities without recognizing that they do not need to make their profits in these ways. It could also be argued that certain cultures, certain socio-economic systems and inequities in social opportunities make it more likely that such practises arise than that they do not. The existence of such unethical businesses does not mean that it belongs to the nature of human beings to be unethical, but only suggests that social imperfections exist such that it is difficult if not impossible to eradicate all cases of unethical actions. The pointing to the cases of unethical business practises is an indictment both of the poor development of ethics in society and the existence of gross inequities in the natural, social and political distribution of resources,

goods and services. It has been the argument of this paper that business ethics can more easily serve the cause of business if business institutions are constructed not on the motivation of self interest but on the basis of concern for the other. If one begins with the model of business as based on the motivation of self-interest, one rests one's theory of economic motivation on a mistake.

## Notes

<sup>1</sup> Amartya Sen, "Does Business Ethics Make Economic Sense", Thomas Donaldson and Patricia H. Werhane (eds.), *Ethical Issues in Business, A Philosophical Approach*, 5th edition, Upper Saddle River, New Jersey, Prentice Hall: (1996), p. 17. (emphasis mine).

<sup>2</sup> *Ibid.*, p. 17.

<sup>3</sup> *Ibid.*, p. 14.

<sup>4</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*. Reprinted R.H. Campbell and A. S. Skinner (eds). Oxford: Clarendon Press, 1776, pp. 26–27. Cf., Amartya Sen, *On Ethics & Economics*, London: Blackwell Publishers, (1990), p. 23.

<sup>5</sup> *Op. cit.*, p. 15 (emphasis his).

<sup>6</sup> *Ibid.*, p. 14.

<sup>7</sup> Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, (ed.) Edwin Cannan, New York: Modern Library, 1937, p. 423. Patricia Werhane has argued in her *Adam Smith and His Legacy for Modern Capitalism*, New York: Oxford University Press, 1991, p. viii, that even this quotation of Adam Smith's was intended to be understood as applicable only in the context of a level playing field and a well-defined framework of justice. Cf., also, p. 130, *et passim*. Thus, Smith cannot be construed to be the patron of robber barons. In his book, *The Theory of Moral Sentiments*, he states that regarding the rules of justice: "... the most sacred regard is due to them". He also states that "Without this sacred regard to general rules, there is no man whose conduct can be much depended upon. It is this which constitutes the most essential difference between a man of principle and honor and a worthless fellow". Cf., Knud Hakonssen, (ed.), Adam Smith, *The Theory of Moral Sentiments*, Cambridge University Press: Cambridge, 2002, pp. 204, 189. Robert C. Solomon's comments on not misinterpreting Smith are also noteworthy. Cf., Robert C. Solomon, *Ethics and Excellence, Cooperation and Integrity in Business*, New York and Oxford, Oxford University Press, 1992. But it is also true that Smith thought that *given a just society*, the pursuit of

self interest frequently led in the direction of justice for society as a whole. Smith thus conceived of business interests conducted inside the framework of justice as not merely linked with ethical interests but as frequent causes of ethical outcomes. What is true is that Smith thought that given a just society, the pursuit of self interest inevitably led in the direction of justice for society as a whole. Smith thus conceived of business interests as not merely inevitably linked with ethical interests but as causes of ethical outcomes.

<sup>8</sup> For a complete picture of the desires, cf., Robert Elliott Allinson, *Space, Time and the Ethical Foundations*, Part II, The Nature of Ethics and the Bio-Psychological Deduction of the Emotions, Aldershot, Burlington, Vermont: Ashgate Publishers, (2002).

<sup>9</sup> Robert C. Solomon, "Historicism, Communitarianism and Commerce," Peter Koslowski (ed.), *Contemporary Economic Ethics*, Berlin: Springer, (1999), p. 119.

<sup>10</sup> Paul A. Samuelson and William D. Nordhaus, *Economics*, Twelfth Edition, New York: McGraw Hill, (1980), p. 4.

<sup>11</sup> *Ibid.*

<sup>12</sup> *Ibid.*

<sup>13</sup> *Ibid.*

<sup>14</sup> *Ibid.*

<sup>15</sup> *Ibid.*

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