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UNIT 1 CAPITALISM AND THE CORPORATION 1

Issue 1. Can Capitalism Lead to Human Happiness? 2

YES: **Adam Smith**, from *An Inquiry Into the Nature and Causes of the Wealth of Nations*, vols. 1 and 2b (1869) 4

NO: **Karl Marx and Friedrich Engels**, from *The Communist Manifesto* (1848) 12

If we will but leave self-interested people to seek their own advantage, Adam Smith (1723–1790) argues, the result, unintended by any one of them, will be the greater advantage of all. No government interference is necessary to protect the general welfare. Leave people to their own self-interested devices, Karl Marx (1818–1883) and Friedrich Engels (1820–1895) reply, and those who by luck and inheritance own the means of production will rapidly reduce everyone else to virtual slavery. The few may be fabulously happy, but all others will live in misery.

Issue 2. Is Risk the Best Theory for Capitalism? 23

YES: **Simon Johnson and James Kwak**, from “The New World of Financial Risk,” *Financial Executive* (January/February 2009). 25

NO: **Barry Eichengreen**, from “The Last Temptation of Risk,” *The National Interest* (May/June 2009), pp. 8–14 32

Johnson and Kwak argue that risk always has been and always will be a vital ingredient in the making of profits. They explain that when imprudent risks are taken whether in life or in business, the consequences can be harmful for many, not just the risk taker. The consequences of bad risks do not change their views on the value of risk in business. Eichengreen believes that economists have overrated risk as the essential feature for a successful business. He believes much of the economic collapse of 2008 was caused by inappropriate risks that perhaps economic theories sanctioned, but should have never been practiced.

Issue 3. Is Increasing Profits the Only Social Responsibility of Business? 40

YES: **Milton Friedman**, from “The Social Responsibility of Business Is to Increase its Profits,” *New York Times Magazine* (September 13, 1970). 42

NO: Michael E. Porter and Mark R. Kramer, from “Creating Shared Value: How to Reinvent Capitalism—and Unleash a Wave of Innovation and Growth,” *Harvard Business Review* (January/February 2011), pp. 63–70 48

Friedman argues that businesses have neither the right nor the ability to fool around with social responsibility as distinct from profit-making. They serve employees and customers best when they do their work with maximum efficiency. The only restrictions on the pursuit of profit that Friedman accepts are the requirements of law and “the rules of the game” (“open and free competition without deception or fraud”). Porter and Kramer ask that the purpose of the corporation be redefined as one of shared value, which brings the needs and interests of society and business together. By enhancing the needs of society, the supply and demands within business will stabilize for new generations.

Issue 4. Can Individual Virtue Survive Corporate Pressure? 60

YES: Robert C. Solomon, from “Victims of Circumstances? A Defense of Virtue Ethics in Business,” *Business Ethics Quarterly* (January 2003) 62

NO: Gilbert Harman, from “No Character or Personality,” *Business Ethics Quarterly* (January 2003) 77

Joining the long-standing debate on the possibility of free choice and moral agency in the business world, Quincy Lee Centennial Professor of Business and Philosophy at the University of Texas in Austin Robert C. Solomon argues that whatever the structures, the individual’s choice is free, and therefore his character or virtue is of the utmost importance in creating a good moral tone in the life of a business. Stuart Professor of Philosophy at Princeton University Gilbert Harman employs determinist arguments to conclude that no individual can of his own free choice make a difference in a group enterprise.

Issue 5. Can Ethics Codes Build “True” Corporate Ethics? 86

YES: Eric Krell, from “How to Conduct an Ethics Audit: An Ethics Audit Can Reveal Gaps in Your Ethics Policies and Practices,” *HR Magazine* (April 2010), pp. 48–51. 88

NO: Greg Young and David S. Hasler, from “Managing Reputational Risks: Using Risk Management for Business Ethics and Reputational Capital,” *Strategic Finance* (November 2010), pp. 37–46 92

Eric Krell finds that one of the major corporate goals of the human resource office is to build true corporate ethics. He believes this can be done with a code of ethics, through performance reviews, and with ethics audits. Through this process, employees’ good and corporate good can become the same. Greg Young and David Hasler believe that strengthening the role of ethical and reputational capital has been given the short shrift within corporations. It may be that one day ethics audits and ethics codes could be essential in building capital. However, they state that until management understands that poor ethics make for poor profits, business practices will continue to ignore the place of an ethics core within their organization.

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Issue 6. Was the Financial Industry Responsible for the Economic Meltdown of 2008? 106

YES: John C. Bogle, from "A Crisis of Ethic Proportions," *Wall Street Journal* (April 21, 2009) 108

NO: Lloyd C. Blankfein, from *Permanent Senate Subcommittee on Investigations* (June 2010) 110

John Bogle laments the unchecked market forces, particularly in the fields of investment banking, banking, and finance that almost destroyed the global economy. He calls for the firms to make long-term investments, not short-term gains, and create an overall culture of ethics in all practices. Lloyd Blankfein, as the CEO of one of the largest global investment banks, does not believe that his financial firm was responsible for the market collapse of 2008. The blame could be placed on issues of risk management within the field instead.

Issue 7. Should the Government Be Responsible to Bailout Financial Institutions to Avert an Economic Disaster? 114

YES: Roger Lowenstein, from *The End of Wall Street* (Penguin Press, 2010), pp. 273–284 116

NO: Robert J. Samuelson, from "The Perils of Prosperity," *Newsweek* (February 10, 2010), cited in *The Great Inflation and Its Aftermath: The Past and Future of American Affluence* (Random House, 2010) 124

Roger Lowenstein details the collapse of the market of 2008 in a bleak excerpt from his book. The only ethical perspective for the American people to avoid a complete economic calamity was a government bailout. Robert Samuelson explains in an excerpt from his book that economies go boom and bust. He posits that in the future it is a better economic policy to allow an economy to naturally bust than to have government intervention.

Issue 8. Are the Risks of Derivatives Manageable? 128

YES: Justin Welby, from "The Ethics of Derivatives and Risk Management," *Ethical Perspectives* (vol. 4, no. 2, 1997) 130

NO: Thomas A. Bass, from "Derivatives: The Crystal Meth of Finance," *The Huffington Post* (May 5, 2009) 139

In 2008, most of the world watched in horror as the U.S. stock market nearly collapsed, bringing down other monetary world markets with it. Justin Welby contends that derivatives are an important and ethical investment practice, but one that involves risks. He claims that the risks should be understood well before participating in these investment practices. Thomas Bass claims that the market failures were due in large part to mismanagement of these investments he compares to crystal meth. In this 2009 article, he recommends widespread regulation of these instruments or no use of them at all.

Issue 9. Should Price Gouging Be Regulated? 144

YES: Jeremy Snyder, from "What's the Matter with Price Gouging?" *Business Ethics Quarterly* (vol. 19, no. 2, April 2009) 146

NO: Matt Zwolinski, from "Price Gouging, Non-Worseness, and Distributive Justice," *Business Ethics Quarterly* (vol. 19, no. 2, April 2009) 162

Jeremy Snyder contends that price gouging conflicts with the goal of equitable access to goods essential to a minimally flourishing human life. Efficient provision of essential goods is not sufficient to prevent serious inequities. Regulations are needed for equitable access. Matt Zwolinski argues that price gouging can be morally permissible, even though this does not mean that price gougers are morally virtuous. Considerations of the availability of institutional alternatives and distributive justice may render price gouging morally acceptable. In any case, regulations cannot be expected to resolve the moral issues more satisfactorily than the market itself.

UNIT 3 HUMAN RESOURCES: THE CORPORATION AND EMPLOYEES 173

Issue 10. Does Blowing the Whistle Violate Company Loyalty? 174

YES: Sissela Bok, from "Whistleblowing and Professional Responsibility," *New York University Education Quarterly* (Summer 1980) 176

NO: Robert A. Larmer, from "Whistleblowing and Employee Loyalty," *Journal of Business Ethics* (vol. 11, 1992) 184

Philosopher Sissela Bok asserts that although blowing the whistle is often justified, it does involve dissent, accusation, and a breach of loyalty to the employer. Robert A. Larmer argues, on the contrary, that putting a stop to illegal or unethical company activities may be the highest type of loyalty an employee can display.

Issue 11. Is Employer Monitoring of Employee Social Media Justified? 192

YES: Brian Elzweig and Donna K. Peeples, from "Using Social Networking Web Sites in Hiring and Retention Decisions," *SAM Advanced Management Journal* (Autumn 2009), pp. 27–35 194

NO: Eric Krell, from "Privacy Matters: Safeguarding Employees' Privacy Requires an Effective Policy, Sound Practices and Ongoing Communication" *HR Magazine* (February 2010), pp. 43–46 208

Brian Elzweig and Donna K. Peeples write that although an employer does need to be respectful of their employees' privacy, they also have the responsibility to avoid negligent hiring and negligent retention. They find that the monitoring of an employee's, or a potential employee's, social media is a viable way to avoid these potentially serious problems. This is not to say that an employer's monitoring of social media should be without limits. Special care should be taken in respect to state privacy laws regarding expected privacy and laws regarding the protection of employees outside of company time. Eric Krell recognizes the importance of employee privacy and believes that it must be safeguarded. To appropriately do so, he believes that a concrete, written plan needs to be drafted, and often reevaluated, in coordination with each company's human resource department and a VP of employee security. This will ensure not only a uniform policy throughout the company, but will disclose to the employees if and in what ways their social media will be monitored.

Issue 12. Is “Employment-at-Will” Good Social Policy? 213

YES: **Richard A. Epstein**, from “In Defense of the Contract at Will,” *University of Chicago Law Review* (Fall 1984) 215

NO: **John J. McCall**, from “A Defense of Just Cause Dismissal Rules,” *Business Ethics Quarterly* (April 2003) 221

Richard Epstein defends the at-will contract as an appropriate expression of autonomy of contract on the part of both employee and employer and as a means to the most efficient operations of the market. John McCall argues that the defense of the employment-at-will doctrine does not take account of its economic and social consequences and is in derogation of the very moral principles that underlie private property and freedom of contract.

Issue 13. Is CEO Compensation Justified by Performance? 239

YES: **Ira T. Kay**, from “Don’t Mess with CEO Pay,” *Across the Board* (January/February 2006) 241

NO: **Edgar Woolard, Jr.**, from “CEOs Are Being Paid Too Much,” *Across the Board* (January/February 2006) 248

Ira Kay, a consultant on executive compensation for Watson Wyatt Worldwide, argues that in general the pay of the CEO tracks the company’s performance, so in general CEOs are simply paid to do what they were hired to do—bring up the price of the stock to increase shareholder wealth. Edgar Woolard, a former CEO himself, holds that the methods by which CEO compensation is determined are fundamentally flawed, and suggests some significant changes.

UNIT 4 CONSUMER ISSUES 255**Issue 14. Should Advertising Directed at Children be Restricted? 256**

YES: **Stephanie Clifford**, from “A Fine Line When Ads and Children Mix,” *The New York Times* (February 14, 2010) 258

NO: **Patrick Basham and John Luik**, “A Happy Meal Ban is Nothing to Smile About,” *cato.org* (November 9, 2010) 260

Stephanie Clifford cites studies that show that advertising for children is often barely distinguishable from regular programming. She cites harms that can be caused to children through advertising that seems more fact than promotion to the child. Patrick Basham and John Luik find no credence in studies linking harms to child-directed advertising. They cite research that shows that advertising has little effect on the market associated with children.

Issue 15. Should Homeowners Employ Strategic Default Options with Mortgages? 264

YES: **Roger Lowenstein**, from “The Way We Live Now: Walk Away from Your Mortgage,” *The New York Times Magazine* (January 10, 2010) 266

NO: **Rick Moran**, from “The Ethics of ‘Walking Away’ from Your Mortgage,” *The Moderate Voice* (February 4, 2010) 269

Roger Lowenstein explains that often businesses decide to walk away from enterprises that aren't sound investments. He uses this analogy to conclude that it is acceptable for homeowners to walk away from their home investment when the value of the home is much less than the overall loan on the home. Rick Moran explains that just because businesses walk away from poor investments doesn't mean that Americans should also lack ethics. He encourages home buyers to remain true to their ethical obligations with their housing investment even though the economic costs can be high.

Issue 16. Should We Require Labeling for Genetically Modified Food? 274

YES: Philip L. Bereano, from "The Right to Know What We Eat," *Seattle Times* (October 11, 1998) 276

NO: Joseph A. Levitt, from Statement before the Health, Education, Labor, and Pensions Committee, United States Senate (September 26, 2000) 282

The consumer's interest in knowing where his food comes from does not necessarily have to do with the chemical and nutritional properties of the food. Kosher pastrami, for instance, is identical to the nonkosher product, and dolphin-safe tuna is still tuna. But we have a real and important interest in knowing the processes by which our foods arrived on the table, Bereano argues, and the demand for a label for bioengineered foods is entirely legitimate. Levitt points out that as far as the law is concerned, only the nutritional traits and characteristics of foods are subject to safety assessment. Labeling has been required only where health risks exist, or where there is danger that a product's marketing claims may mislead the consumer as to the food's characteristics. Breeding techniques have never been subject to labeling, nor should genetic engineering techniques.

UNIT 5 GLOBAL OBJECTIVES 293

Issue 17. Are Multinational Corporations Free from Moral Obligation? 294

YES: Manuel Velasquez, from "International Business, Morality, and the Common Good," *Business Ethics Quarterly* (January 1992) 296

NO: John E. Fleming, from "Alternative Approaches and Assumptions: Comments on Manuel Velasquez," *Business Ethics Quarterly* (January 1992) 302

In the absence of accepted enforcement agencies, there is little probability that any multinational corporation will suffer for violation of rules restricting business for the sake of the common good. Since any business that tried to conform to moral rules in the absence of enforcement would unjustifiably cease to be competitive, it must be the case, Velasquez argues, that moral strictures are not binding on such companies. Velasquez's logic is impressive, replies Fleming, but conditions on the ground in the multinational corporation are not as he describes. Real corporations tend to deal with long-term customers and suppliers in the goldfish bowl of international media exposure and must adhere to moral standards or lose business.

Issue 18. Are Sweatshops an Inhumane Business Practice? 306

YES: Denis G. Arnold and Norman E. Bowie, from "Respect for Workers in Global Supply Chains: Advancing the Debate over Sweatshops," *Business Ethics Quarterly* (January 2007) 308

NO: Gordon G. Sollars and Fred Englander, from "Sweatshops: Kant and Consequences," *Business Ethics Quarterly* (January 2007) 317

Philosophers Arnold and Bowie argue that managers of multinational enterprises have a duty to ensure that workers in their supply chains are treated with dignity and respect, which includes paying a living wage to those who work in factories with which they contract. Sollars and Englander contend that this work is needed for the very survival of individuals, and the multinational enterprises are not participating directly in the coercion of the workers in sweatshops.

Issue 19. Should Patenting Genes Be Understood as Unethical? 330

YES: Miriam Schulman, from "Of SNPS, TRIPS, and Human Dignity: Ethics and Gene Patenting," *BioProcess International* (January 2003) 332

NO: Annabelle Lever, from "Ethics and the Patenting of Human Genes," *The Journal of Philosophy, Science and Law* (vol. 1, November 2001) 337

Schulman holds that the human genome is a different business enterprise than other patent applications. The genome stands for essential building blocks of the human species and as such questions of ethics and human dignity should be studied. Lever explains that the U.S. Patent Office has issued thousands of patents on genes and believes the legality of this is established. She also believes the moral concerns have been answered on patents, mainly because the genes have been isolated and altered significantly and are part of a scientific bank of genes for overall research.

Issue 20. Should the World Continue to Rely on Oil as a Major Source of Energy? 355

YES: Red Cavaney, from "Global Oil Production about to Peak? A Recurring Myth," *World watch* (January–February 2006) 357

NO: James Howard Kunstler, from *The Long Emergency* (Grove/Atlantic, 2005) 361

Red Cavaney, president and chief executive officer of the American Petroleum Institute, argues that recent revolutionary advances in technology will yield sufficient quantities of available oil for the foreseeable future. James Howard Kunstler contends that the peak of oil production, Hubbert's Peak, was itself the important turning point in our species' relationship to petroleum. Unless strong conservation measures are put in place, the new scarcity will destroy much that we have come to expect in our lives.

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