CASE STUDIES IN MORAL PHILOSOPHY

Putting Ethics Into Everyday Practice

Robert D. Walsh, M.A., Ph.D.

Wisdom begins in wonder.

SOCRATES

CASE STUDIES
IN
MORAL PHILOSOPHY

~

PUTTNG ETHICS INTO EVERYDAY PRACTICE

R. D. WALSH, M.A., Ph.D.

BITTERROOT COLLEGE ~ University of Montana
HAMILTON, MONTANA

[2]

Contents

TOPIC 6 SHOULD QUOTAS FOR WOMEN ON BOARDS BE MANDATED BY LAW?

TOPIC 7 ALGORITHMS, BIG DATA, MORAL AGENCY

INTRODUCTION

CASE STUDIES IN MORAL PHILOSOPHY

Having studied and learned about numerous moral theories, principles, and perspectives in *Intro to Ethics*, we are now ready to turn to the work of evaluating some specific and complex moral issues arising in the world of business. The moral issues and topics contained in *Case Studies in Moral Philosophy* are structured to create specific opportunities to use the conceptual and practical ethical tools you learned about in *Intro to Ethics*. Those tools are used to clarify, analyze, and make judgments regarding the moral issues and problematic moral topics presented in this text.

The ethical topics presented here are meant to activate and enhance your consciousness of your own unique moral value orientation and responsiveness. These exercises that call for a moral response from you will help you to see your moral value orientation more clearly and distinctly. You can then make adjustments to your moral value configuration as you see fit, as if tailoring a garment or sculpting a work of art. The topics are meant to highlight the way in which moral values and perspectives guide our thinking, judgment, and actions regarding everyday moral situations which you are likely to encounter in the world of business.

We will be reading numerous articles by various authors that assert positions on moral issues. Often, the moral values that guide an author's thinking are not clearly specified since moral principles are commonly intuited affectively and unconsciously in the expression of our moral

[9]

judgments, as we have seen. I may feel strongly that something is wrong and be convinced that I am right to feel that way, without knowing why, exactly, I feel that way or what moral principle or moral value is generating that strong feeling. The topics herein are exercises aimed at closing that knowledge gap. **You should work to become aware of the moral values and principles we learned about in the previous text that are guiding the moral judgments you make in relation to the issues presented here.** You can then sift through your responsiveness and reflect on whether you agree with the author's principles, prefer your own moral principles, or think there are other principles that should be considered to arrive at a just and caring solution.

The topics presented in this text are structured differently than the chapters of the previous volume. Each topic presents a specific moral value issue or dilemma arising within the context of business at various levels of everyday practical engagement, always looking at the issue or dilemma pluralistically from two or more opposing points of view. *Thus, the topics call for your reflection, deliberation, and discernment in the service of an evaluation, judgment and clear, coherent articulation of your moral reasoning, moral feelings, and moral position in relation to the issue.* You will be asked to take definitive moral stands on the topical issues using the cognitive and affective tools at your disposal.

After a consideration of the nature and purpose of business in general at the outset, the topics are organized beginning with moral issues that arise within the specific context of particular businesses, such as questions concerning gender diversity, women on boards, codes of ethics, whistleblowing, etc. From there, the topics move out to more general business contexts like those impacted by self-learning algorithms and Big Data. Finally, the topics move to broad moral issues arising in the international and global business arenas, such as whether multinational corporations have any moral responsibility to workers in their supply chains.

Overall, the topics aim to zero in on the kind of moral challenges that you will most certainly encounter. They are intentionally geared toward challenging you to articulate and justify your moral position in your own voice—which is not always easy to do.

Thus, the specific subject matter of individual topics seems less important to me, practically speaking, than your cognitive, affective, and reflective engagement with the moral value challenges raised by the topics. What is important, I think, are the insights or enlightenments produced by your actively working to determine and articulate your moral values in regard to the topic, and what you are able to learn about your moral self from your reflection on your experience of this engagement.

The various topics, then, can be thought of as your personal ethics laboratory. You can use this lab for the exploration and possible upgrade of your personal moral value orientation. Make an effort to determine where you stand in regard to these issues, or where you think you should stand.

Topics Overview

Topics 1, 2, and 3 are concerned with various reflections on the nature of business within a capitalist framework and the demands of Corporate Social Responsibility (CSR). The neoliberal perspective is presented along with a critique of neoliberalism. A socialist economic view is presented along with an argument for why we should give socialism a fair hearing. A shareholder view of capitalism is contrasted with the stakeholder model.

The neoliberal capitalist view argues that social justice issues are primarily, if not exclusively, the responsibility of government, not business. The stakeholder view takes a broader view of the firm which includes all those persons who are in any way affected by the activity of the firm. The socialist view argues that it is capitalism itself that causes the social justice problems, and so it is capitalism itself that must be replaced with a socialist framework.

In order to avoid black or white judgments, you should think of these perspectives—neoliberal capitalism, shareholder and stakeholder theory, and socialism—as forming a continuum of many possible capitalist/socialist economic organizational patterns in reference to questions of social justice and corporate social responsibility. Which is best? Where is the right balance of justice and care to be found?

Following from the questions about corporate social responsibility (CSR) raised in Topic 1, Topic 2 presents an alternative view of business within a capitalist framework that is growing in popularity these days called "Shared Value." The shared value approach argues that it is possible to solve social justice issues while simultaneously making a profit through the critical restructuring of the company's supply chain and value proposition, looking for ways to solve social justice issues, especially in untapped markets among the poorest of the poor, and make a profit doing it. Yet the people at the bottom of the global economic pyramid—a huge, potential market, to be sure—are also the most vulnerable to exploitation. Are safeguards needed? Is Shared Value just a new way of talking about business-as-usual while avoiding the demands of CSR? Should you be skeptical of this idea? Or is this the way business in the 21st century should be heading?

As if responding to these questions and looking more to the *person* of the business owner or manager rather than merely tweaking the supply chain, Topic 3 presents the approach to business called Conscious Capitalism (CC). CC is an approach to enlightened business practice guided by a commitment to a higher purpose, stakeholder equity, and a genuine concern for people and community. From the practice of these values, it is argued, profits will inevitably flow, perhaps even greater profits than if you focused on profit-making directly. Sounds good, but can this model work for all businesses? Can any single business model be *the* universally correct

business model? Is CC really a "business model" at all? Or is it, in fact, a description of the moral values that the most enlightened and fully conscious businessperson would naturally embody, especially a businessperson aiming to live the best possible life? What do *you* think?

The text then turns to a consideration of various specific moral issues arising in the workplace.

I sincerely hope you enjoy learning about and wrangling with these important moral topics.

Robert D. Walsh, Ph.D.
August 19, 2020

Whiskey for furs in the Americas

TOPIC 1
THE MORAL NATURE AND PURPOSE OF BUSINESS

Introduction

One way that you can think about the relation between neoliberal capitalism and socialism—and all the possible variations of economic organization in between—is to think of these as *value contexts* in which business persons interact and work every day. We can interrogate these value contexts in relation to the moral principles of care and social justice.

Although the authors whose works we will consider briefly in this chapter are coming from different directions regarding the value contexts they champion, *all the articles are concerned with the general moral nature, orientation, and purpose of business and industry within the social order today*. That gives rise to the whole idea of **corporate social responsibility** (CSR). And that gives rise to the question about the nature and purpose of business. These essential issues are the focus of this topic.

In the first article, **Milton Friedman**—a staunch believer in free markets—argues that publicly owned corporations do not have any social responsibilities within a capitalist framework. Corporate social responsibility is Socialism in disguise, in Friedman's view. The sole purpose of corporations is to make as much money as possible for the owners of those corporations. Any CEO of a corporation who does not fulfill his or her fiduciary responsibility to shareholders, and instead spends profits on social justice programs, is acting wrongly: on principle (since this is the government's job) and on consequences (since business people are not experts about social justice programs) according to Friedman.

And because Socialism and socialist economic policies *force* companies to contribute legitimately earned profits to the remediation of social justice issues under the banner of 'Corporate Social Responsibility', it is, therefore, morally wrong in Friedman's view. Companies may pretend to be socially conscious to enhance sales, but such a "cloak" of social responsibility simply masks over the bottom-line interest in profitability as the *only* legitimate and *sole* meaningful interest of for-profit corporations.

Friedman's Neoliberal understanding of the nature of business can be understood as a "shareholder approach." The focus here is on creating the maximum economic value for the owners of the business, the shareholders. **F. Edward Freeman**, in the second article of this chapter, presents another way of understanding the nature and purpose of business called a "stakeholder approach." In this view, everyone who is necessary for the successful functioning of a business (and without whom the business would not be able to function) must be taken into account when assessing the value structure of a business organization. The stakeholder model of capitalist business opens up the whole question of corporate social responsibility in a way that is overlooked in Milton Friedman's shareholder model. See what you think.

In a short video, economist **Richard Wolff** presents some interesting arguments contrary to Friedman regarding why we should raise the minimum wage and why capitalists should give socialists a fair hearing. Watch the video.

Friedman's approach to the economy reflects the basic values of Neoliberalism, a loose-knit valu-

orientation to economic organization of which Friedman claimed to be a card-carrying member. In his critical article focusing on the roots of Neoliberalism in Enlightenment thinking and its consequences for society, **George Monbiot** argues that the influential growth of Neoliberalism during the 20th century has resulted in a number of negative social justice outcomes that don't seem to be good for anyone except for a very small number of neoliberal elites who benefit disproportionately to everyone else. These negative social justice outcomes include the continuing disparity of income and wealth; the disappearance of the middle class; the unwillingness to invest in national infrastructure; the diminishment of benefits to the poor and marginalized; and a general attitude that people get what they deserve, so if you are not doing well, the reason is probably because you are lazy, lack ambition and don't want to work. The Neoliberal value orientation has become invisible, but it hasn't disappeared. According to Monbiot's assessment, the Neoliberal zombie still stalks the unsuspecting from the shadows these days....

On the other hand, **Tony Wilsdon**, in the Socialism article, thinks that capitalism itself is the problem. A socialist activist, Wilsdon argues that capitalism is inherently immoral because it is basically a mechanism for concentrating wealth in the hands of the few owners of the means of production while many wage earners who support the capitalist value creation system are left to live in relative poverty, often numb to the cause of their predicament, as the current spiraling rates of income and wealth inequality seem to suggest today.

Thus, capitalism, according to Wilsdon--especially Friedman's instrumental, neoliberal view of capitalism--causes inequality in the distribution of benefits and burdens in society, resulting in poverty and other deprivations for the poor, as can be seen from the hugely disproportionate impact of Hurricane Katrina on the marginalized population of poor black people in New Orleans. Many died, and the government was painfully slow to act.

Because of this, and to bring about a more just distribution of social goods, according to Wilsdon, it is necessary to change the whole economic framework from a capitalist orientation to a socialist orientation. Socialism — a word that strikes terror in the neoliberal heart of Milton Friedman -- would require that workers be paid a living wage, are free to unionize, and share equitably in the distribution of benefits from the production of added value they created. Bedrock industries like banks and utilities should be publicly owned. Massive public works programs should provide jobs and rebuild infrastructure. And more. Think Bernie Sanders' platform in the 2016 presidential election cycle pushed as far to the left as it can go. Socialism and egalitarian distributive justice orientations go hand-in-hand.

Who has the 'correct' perspective on the nature and consequences of capitalism from a moral point of view, Friedman's neoliberal view, Monbiot's corrected neoliberal view, or Wilsdon's socialist view? Or, is it somewhere in between? Which view has the nature of business correct, the shareholder model or the stakeholder model? Where do *your* views fall on the continuum of economic organizational possibilities between the 'bookends' of Friedman and Wilsdon, neoliberal capitalism on the one end and Socialism on the other? At what point on this social justice continuum do you think the U.S. is at now? Where should it be? Which way is social justice policy in the U.S. moving right now in your view? Is that the best way for it to be going? What do you think?

Corporate Social Responsibility

Milton Friedman

The Social Responsibility of Business is to Increase its Profits[1]
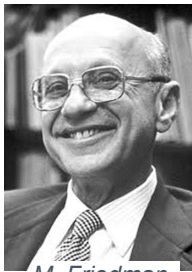
Milton Friedman (1912 - 2006) was an American economist and intellectual who made major contributions to the fields of macroeconomics, microeconomics, economic theory and statistics while advocating laissez-faire capitalism. In 1976, he was awarded the Nobel Memorial Prize for his achievements in the fields of consumption analysis, monetary history, and theory and for his demonstration of the complexity of stabilization policy. Friedman stands as one of the most influential economists of the late twentieth century. In his oft-cited 1970 editorial

M. Friedman

[1] Milton Friedman. "The Social Responsibility of Business is to Increase its Profits." The New York Times Magazine, New York, September 13, 1970.

in the New York Times, excerpted below, he presents a neoliberal view of the nature of capitalism along with an instrumental understanding of the nature and purpose of the firm within a capitalist framework. This view concludes that corporate social responsibility is an unwarranted socialist assault on free enterprise. Businesspersons believe, Friedman asserts, that

> … they are defending free enterprise when they declaim that business is not concerned "merely" with profit but also with promoting desirable "social" ends; that business has a "social conscience" and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers. In fact, they are–or would be if they or anyone else took them seriously–preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades.

> The discussions of the "social responsibilities of business" are notable for their analytical looseness and lack of rigor. What does it mean to say that "business" has responsibilities? Only people can have responsibilities. A corporation is an artificial person and, in this sense, may have artificial responsibilities, but "business" as a whole cannot be said to have responsibilities, even in this vague sense….

> In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom….

> In either case, the key point is that, in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation … and his primary responsibility is to them.

Milton Friedman - Greed is good. Agree???

Persons and social responsibility

> Of course, the corporate executive is also a person in his own right. As a person, he may have many other responsibilities that he recognizes or assumes voluntarily to his family, his conscience, his feelings of charity, his church, his clubs, his city, his country…. If these are "social responsibilities," they are the social responsibilities of individuals, not of business.

'ETHICAL POLICY'

What does it mean to say that the corporate executive has a "social responsibility" in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers. For example, that he is to refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price increase would be in the best interests of the corporation. Or that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment. Or that, at the expense of corporate profits, he is to hire "hardcore" unemployed instead of better qualified available workmen to contribute to the social objective of reducing poverty.

In each of these cases, the corporate executive would be spending someone else's money for a general social interest. Insofar as his actions in accord with his "social responsibility" reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money…. But if he does this, he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other.

M. Friedman - Drugs should be legal. Agree???

This process raises political questions on two levels: principle and consequences.

On the level of political principle, the imposition of taxes and the expenditure of tax proceeds are governmental functions…. Here the businessman–self-selected or appointed directly or indirectly by stockholders–is to be simultaneously legislator, executive and, jurist. He is to decide whom to tax by how much and for what purpose, and he is to spend the proceeds…. This is the basic reason why the doctrine of "social responsibility" involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses.

On the grounds of consequences, can the corporate executive in fact discharge his alleged "social responsibilities?" …. suppose he could get away with spending the stockholders' or customers' or employees' money. How is he to know how to spend it? …. And, whether he wants to or not, can he get away with spending his stockholders', customers', or employees' money? Will not the stockholders fire him?

The cloak of social responsibility

Of course, in practice the doctrine of social responsibility is frequently a cloak for actions that are justified falsely on social responsibility grounds rather than admitting that the actions are aimed at creating profit or other benefit for the company….

To illustrate, it may well be in the long run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees, it

may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects….

In each of these–and many similar cases, there is a strong temptation to rationalize these actions as an exercise of "social responsibility." In the present climate of opinion, with its wide spread aversion to "capitalism," "profits," the "soulless corporation" and so on, this is one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified by its own self-interest and should not have to hide behind a cloak. It would be inconsistent of me to call on corporate executives to refrain from this hypocritical window-dressing because it harms the foundations of a free society. That would be to call on them to exercise a "social responsibility"! If our institutions, and the attitudes of the public make it in their self-interest to cloak their actions in this way, I cannot summon much indignation to denounce them. At the same time, I can express admiration for those individual proprietors or owners of closely held corporations or stockholders of more broadly held corporations who disdain such tactics as approaching fraud.

Whether blameworthy or not, the use of the cloak of social responsibility, and the nonsense spoken in its name by influential and prestigious businessmen, does clearly harm the foundations of a free society. I have been impressed time and again by the schizophrenic character of many businessmen. They are capable of being extremely farsighted and clearheaded in matters that are internal to their businesses. They are incredibly shortsighted and muddleheaded in matters that are outside their businesses but affect the possible survival of business in general.

The shortsightedness is also exemplified in speeches by businessmen on social responsibility. This may gain them kudos in the short run. But it helps to strengthen the already too prevalent view that the pursuit of profits is wicked and immoral and must be curbed and controlled by external forces. Once this view is adopted, the external forces that curb the market will not be the social consciences, however highly developed, of the pontificating executives; it will be the iron fist of Government bureaucrats….
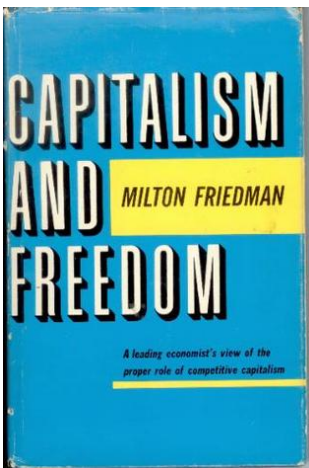
That is why, in my book *Capitalism and Freedom*, I have called it a "fundamentally subversive doctrine" in a free society, and have said that in such a society, "there is one and only one social responsibility of business–to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.

[21]

Richard Wolff

Richard Wolff – Why we should raise the minimum wage. Why capitalists (like Friedman) should listen to socialists.

Richard Wolff argues for raising the minimum wage.

Shareholders and Stakeholders

F. Edward Freeman

Stakeholders - Those without whom a firm would not be

Adapted from Smartsheet

There are several ways to consider who and what are stakeholders in both an organization and an organization's projects. The "shareholder theory," posited in the early 20th century by economist Milton Friedman, says that a company is beholden only to shareholders - that is, the company must make a profit for its shareholders.

Stakeholder theory was first described by F. Edward Freeman, a professor at the University of Virginia, in his landmark book, "Strategic Management: A Stakeholder Approach." It suggests that shareholders are merely one of many stakeholders in a company. The stakeholder ecosystem, this theory says, involves anyone invested and involved in, or affected by, the company: employees, environmentalists near the company's plants, vendors, governmental agencies, and more. Freeman's theory

suggests that a company's real success lies in satisfying all its stakeholders, not just those who might profit from its stock.

What Is Stakeholder Theory?

Edward Freeman's stakeholder theory holds that a company's stakeholders include just about anyone affected by the company and its workings. That view is in opposition to the long-held shareholder theory proposed by economist Milton Friedman that in capitalism, the only stakeholders a company should care about are its shareholders - and thus, its bottom line. Friedman's view is that companies are compelled to make a profit, to satisfy their shareholders, and to continue positive growth.

By contrast, Freeman suggests that a company's stakeholders are "those groups without whose support the organization would cease to exist." These groups would include customers, employees, suppliers, political action groups, environmental groups, local communities, the media, financial institutions, governmental groups, and more.

This view paints the corporate environment as an ecosystem of related groups, all of whom need to be considered and satisfied to keep the company healthy and successful in the long-term.
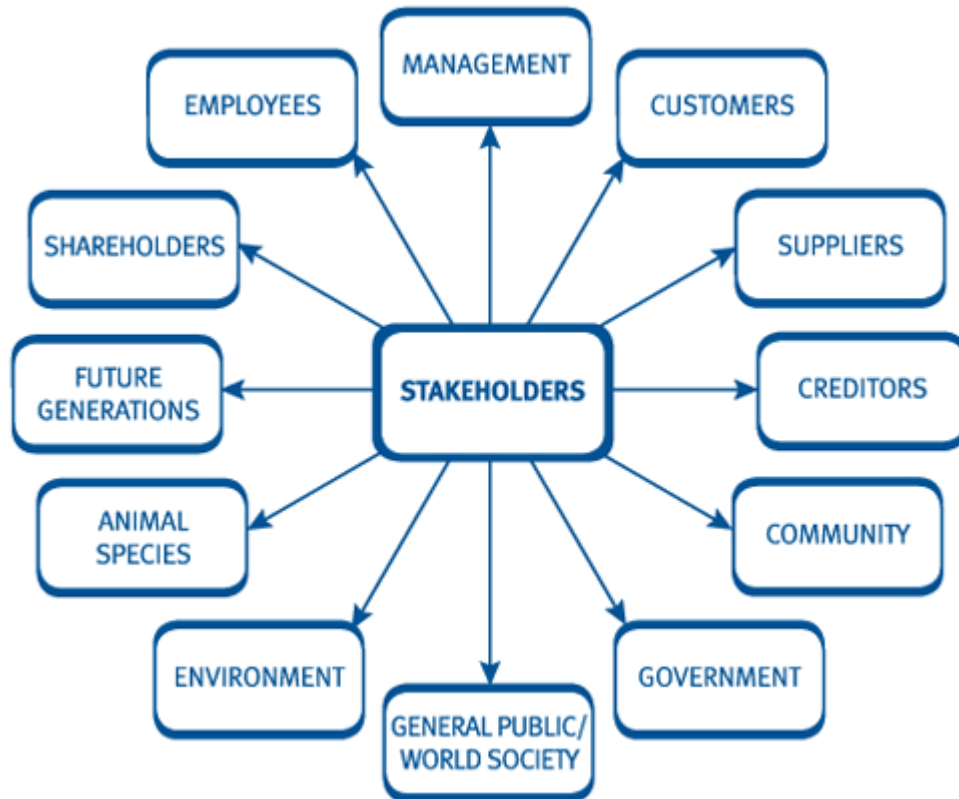
Stakeholder Theory vs. Shareholder Theory

Economist Milton Friedman, whose work shaped much of 20th-century corporate America, was a believer in the free-market system and no government intervention. This belief helped shape his **shareholder theory** of capitalism: that a company's sole responsibility is to make money for its shareholders.

Also called the "Friedman doctrine," shareholder theory, outlined in Friedman's book "Capitalism and Freedom," states that a company has no real "social responsibility" to the public, since its only concern is to increase profits for the shareholders. The shareholders, in turn, would privately shoulder any social responsibility.

When Freeman first published his book about stakeholder theory in 1984, it raised awareness of the relationships and the ripple-effect of a company and its many stakeholders.

It suggests that a company's stakeholders include people like employees, customers, community members, competitors, vendors, contractors, and shareholders. Stakeholders could also be institutions, like banks, governmental bodies, oversight organizations, and others.

"If you think about it, it makes sense," Freeman said in an interview. "All company stakeholders are interdependent. And a company creates value - or should, for its own success - for all of them."

Edward Freeman's View on Stakeholder Theory in the 21st Century

"If you can get all your stakeholders to swim or row in the same direction, you've got a company with momentum and real power," Freeman says. "Saying that profits are the only important thing to a company is like saying, 'Red blood cells are life.' You need red blood cells to have life, but you need so much more."

Edward Freeman

Stakeholder theory is even more important in the new global economy, Freeman notes. An organization needs to be mindful not only of those who hold stock in the company, but also of those who work in its stores, those who work and live near its factories, those who do business with it, and even of competitors, as the company may shape the landscape in its industry.

"Even some older companies like Unilever are re-inventing themselves to use stakeholder theory with very strong results," Freeman says. And the results if a company doesn't subscribe to stakeholder theory? "Enron," he says, of the energy company that was brought down by corruption and other scandals in the early 2000s.

Ed Freeman - What is stakeholder theory? (2:57)

How to Assess a Company's Stakeholders under Stakeholder Theory

Let's consider a hypothetical company that builds condos in an American city. That company has gone public, so its shareholders are eager to see a rise in the value of their stock. Under stakeholder theory, however, those shareholders could be joined by several other types of stakeholders, each with its own interests relative to the company. Here are a few possible stakeholders with interest in this company and its projects:

Employees: The employees want to be treated and compensated fairly and work reasonable hours. If the company underpays the employees, or gives them lengthy and difficult work shifts, the employee attitude and buy-in in the company is going to erode. There will be turnover, bad word-of-mouth among the potential workforce in the area, and a weakened company.

1. **Suppliers:** Suppliers for this condo project also want to be treated and compensated fairly, or similar results as those with employees could be seen. However, under stakeholder theory, suppliers should also be operating their own businesses ethically, fairly, and equitably. If the condo company truly wants long-term success, stakeholder theory holds, it should treat suppliers and vendors well, but also do due diligence on how the supplier companies themselves do business.

2. **Manufacturers:** In a global economy, sometimes parts or even whole products are manufactured in other countries, far away from the main marketplace or the location of the project. But for this condo company to do well, it must think of its manufacturers - and their employees - as stakeholders too. So, working conditions and wages must be fair and equitable for them as well.

3. **Environmentalists:** People who live in the city and neighborhood where the housing development is being constructed want to be assured that the environment, water system, power sources, and other things potentially affected by the project, are protected in as transparent a way as possible. These people who care about the local ecology would, under stakeholder theory, be considered stakeholders in the project,

and should be kept apprised of plans and developments so they can have a chance to review them and weigh in with their thoughts.

4. **Housing activists:** As more and more housing projects are built in increasingly dense cities, many local activists have a political voice and stake in how new developments are handled. Will there be enough parking for every resident? What kind of services will the residents need and have these been taken into account? Does the project displace long-time residents of the area, and, if so, would they be considered as tenants in the new structure? If the construction company is truly subscribing to stakeholder theory, it will want to get buy-in from these activists. It's good public relations, but more than that, it's truly satisfying real stakeholders.

5. **Governmental bodies:** The city, county, and state likely have density, environmental, and other concerns. Even with governmental approval, a construction project needs regular check-ins with governmental bodies, regulated agencies like gas and electric companies, and more. For instance, there may be design restrictions in a historic part of town, or height restrictions in a mostly single-family-home area. All of the aforementioned are valid concerns to these stakeholders.

6. **Neighbors:** These stakeholders are going to be stakeholders for a long time, living alongside the new condo development. If the construction company wants to please these stakeholders, it should consider parking, greenspace and parks, and perhaps create a space that can be used and shared by all the neighbors (not just the condo residents). Neighbors should feel as though their quality of life is being maintained or enhanced - but not reduced because of the project.

This is by no means a complete list, but as you start to think of your company and its projects in terms of the full ecosystem of potential stakeholders, you can see how far-reaching your impact can be. Some will have a financial interest in your project. Some will have an emotional interest. Many may have both. And stakeholder theory holds that all these stakeholders, as well as their interests, are critical to your project's success.

Neoliberalism

George Monbiot
Neoliberalism: The zombie still walks[2]

George Monbiot is a British writer known for his environmental and political activism. He writes a weekly column for *The Guardian*, and is the author of a number of books, including *Captive State: The Corporate Takeover of Britain* (2000) and *Feral: Searching for Enchantment on the Frontiers of Rewilding* (2013), a beautifully written text that reconsiders human immersion in the natural world. He is the founder of 'The Land is Ours', a peaceful campaign for the right of access to the countryside and its resources in the United Kingdom.

George Monbiot

What follows below are some excerpts from Monbiot's article entitled "Neoliberalism," which you can read as a critical evaluation of Milton Friedman's view regarding the social responsibility of business. I highlighted the article to expedite your perusal of Monbiot's insightful perspective.

…. Neoliberalism is a term that has been used by various scholars, critics and analysts, to refer to an upspring of 19th century ideas connected to a species of economic liberalism that began in the 1970s and 1980s. These ideals advocate for extensive economic liberalization and policies that extend the rights and abilities of the private sector over the public sector, specifically the shutting down of state and government power over the economy. Neoliberalism supports fiscal austerity, deregulation, free trade, privatization and greatly reduced government spending. As an economic influence it's dead … and not dead.

George Monbiot – Neoliberalism (16:54)

The popularity and support of neoliberalism is divided. This approach has most famously been connected to various economic policies introduced in the United

---

Kingdom by Margaret Thatcher and in the United States by Ronald Reagan. Some academics and analysts, however, attribute the resurgence of neoliberal economic theories in the 1970s and 1980s to 'financialization' and indicate that the financial crisis of 2008 is ultimately a result of such an approach to the economy. This ideology is invisible to most folks although it has impacted everyone's life. What is it all about?

… Neoliberalism sees competition as the defining characteristic of human relations. It redefines citizens as consumers, whose democratic choices are best exercised by buying and selling--a process that rewards merit and punishes inefficiency. It maintains that "the market" delivers benefits that could never be achieved by planning.

Attempts to limit competition are treated as inimical to liberty. Tax and regulation should be minimized, public services should be privatized. The organization of labor and collective bargaining by trade unions are portrayed as market distortions that impede the formation of a natural hierarchy of winners and losers. Inequality is recast as virtuous: a reward for utility and being a generator of wealth, which supposedly trickles down to enrich everyone. Efforts to create a more equal society are both counterproductive and morally corrosive. The market ensures that everyone gets what they deserve.

We internalize and unconsciously reproduce its creeds. The rich persuade themselves that they acquired their wealth through merit, ignoring the advantages – such as education, inheritance and class – that may have helped to secure it. The poor begin to blame themselves for their failures, even when they can do little to change their circumstances.

Never mind structural unemployment: if you don't have a job it's because you are unenterprising. Never mind the impossible costs of housing: if your credit card is maxed out, you're feckless and improvident. Never mind that your children no longer have a school playing field: if they get fat, it's your fault. In a world governed by competition, those who fall behind become defined and self-defined as 'losers'.

Among the results of neoliberal policies, as Paul Verhaeghe documents in his book *What About Me?—The Struggle for Identity in a Market-based Society*[3] are epidemics of self-harm, eating disorders, depression, loneliness, performance anxiety and social phobia. The pressure to achieve and be happy is taking a heavy toll, resulting in a warped view of the self, disorientation, and despair. Today's pay-for-performance mentality is turning institutions such as schools, universities, and hospitals into businesses, while individuals are being made to think of themselves as one-person enterprises. Love is increasingly hard to find, and we struggle to lead meaningful lives. In *What about Me?*, Paul Verhaeghe's main concern is how social change has led to this psychic crisis and altered the way we think about ourselves. He investigates the effects of 30 years' acceptance of neoliberalism, free-market forces, and privatization, and the resulting relationship between our engineered society and individual identity. We are all neoliberals now.

It was strange how the neoliberal movement lost its name recognition. In 1951, Friedman was happy to describe himself as a neoliberal. But soon after that, the term began to disappear. Stranger still, even as the ideology became crisper and the movement more coherent, the lost name was not replaced by any common alternative.

At first, despite its lavish funding, neoliberalism remained at the margins. The postwar [WWII] consensus was almost universal: John Maynard Keynes's (1883-1946) demand-side economic prescriptions (which are contrary to neoliberal policy) were

---

[3] Verhaeghe, Paul. *What About Me?—The Struggle for Identity in a Market-based Society*. Scribe Publications: London, 2014.

widely applied in the 1950s and 60s. Full employment and the relief of poverty were common goals in the US and much of western Europe, top rates of tax were high and governments sought social outcomes without embarrassment, developing new public services and safety nets. Unions grew strong.

But in the 1970s, when Keynesian policies began to fall apart and economic crises struck on both sides of the Atlantic, neoliberal ideas began to enter the mainstream. As Friedman remarked, "when the time came that you had to change … there was an alternative ready there to be picked up". With the help of sympathetic journalists and political advisers, elements of neoliberalism, especially its prescriptions for monetary policy, were adopted by Jimmy Carter's administration in the US and Jim Callaghan's government in Britain.

After Margaret Thatcher and Ronald Reagan took power, the rest of the package soon followed: massive tax cuts for the rich, the crushing of trade unions, deregulation, privatization, outsourcing and competition in public services. Through the IMF, the World Bank, the Maastricht treaty and the World Trade Organization, neoliberal policies were imposed – often without democratic consent – on much of the world. Most remarkable was its adoption among parties that once belonged to the left.

***

It may seem strange that a doctrine promising choice and freedom should have been promoted with the slogan "there is no alternative"…. The freedom that neoliberalism offers, which sounds so beguiling when expressed in general terms, turns out to mean freedom for the big fish, not for the minnows.

Freedom from trade unions and collective bargaining means the freedom to suppress wages. Freedom from regulation means the freedom to poison rivers, endanger workers, charge iniquitous rates of interest and design exotic financial instruments. Freedom from tax means freedom from the distribution of wealth that lifts people out of poverty….

Neoliberalism was not conceived as a self-serving racket, but it rapidly became one. Economic growth has been markedly slower in the neoliberal era (since 1980 in Britain and the US) than it was in the preceding decades; but not for the very rich. Inequality in the distribution of both income and wealth, after 60 years of decline, rose rapidly in this era, due to the smashing of trade unions, tax reductions, rising rents, privatization and deregulation….

Perhaps the most dangerous impact of neoliberalism is not the economic crises it has caused, but the political crisis. As the domain of the state is reduced, our ability to change the course of our lives through voting also contracts. Instead, neoliberal theory asserts, people can exercise choice through spending. But some have more to spend than others: in the great consumer or shareholder democracy, votes are not equally

distributed. The result is a disempowerment of the poor and middle. As parties of the right and former left adopt similar neoliberal policies, disempowerment turns to disenfranchisement. Large numbers of people have been shed from politics. Is this happening now? What do you think?

<p style="text-align:center">***</p>

The words used by neoliberalism often conceal more than they elucidate. "The market" sounds like a natural system that might bear upon us equally, like gravity or atmospheric pressure. But it is fraught with power relations. What "the market wants" tends to mean what corporations and their bosses want. "Investment" means two quite different things, depending on your perspective. One is the funding of productive and socially useful activities; the other is the purchase of existing assets to milk them for rent, interest, dividends and capital gains. Using the same word for different activities "camouflages the sources of wealth," leading us to confuse wealth extraction with wealth creation.

A century ago, the nouveau riche were disparaged by those who had inherited their money. Entrepreneurs sought social acceptance by passing themselves off as rentiers. Today, the relationship has been reversed: the rentiers and inheritors style themselves entrepreneurs. They claim to have earned their unearned income.

These anonymities and confusions mesh with the namelessness and placeless-ness of modern capitalism: the franchise model which ensures that workers do not know for whom they toil; the companies registered through a network of offshore secrecy regimes so complex that even the police cannot discover the beneficial owners; the tax arrangements that bamboozle governments; the financial products no one understands.

<p style="text-align:center">***</p>

For all that, there is something admirable about the neoliberal project, at least in its early stages. It was a distinctive, innovative philosophy promoted by a coherent network of thinkers and activists with a clear plan of action. It was patient and persistent.

Neoliberalism's triumph also reflects the failure of the left. When laissez-faire economics led to catastrophe in 1929, Keynes devised a comprehensive economic theory to replace it. When Keynesian demand management hit the buffers in the 70s, there was an alternative ready. But when neoliberalism fell apart in 2008 there was ... nothing. This is why the zombie walks. The left and center have produced no new general framework of economic thought for 80 years.

Every invocation of Keynes nowadays is an admission of failure. To propose Keynesian solutions to the crises of the 21st century is to ignore three obvious problems. It is hard to mobilize people around old ideas; the flaws exposed in the 70s have not gone away; and, most importantly, they have nothing to say about our gravest

<p style="text-align:center">[32]</p>

predicament: the environmental crisis. Keynesianism works by stimulating consumer demand to promote economic growth. But, consumer demand and economic growth are also the motors of environmental destruction.

What the history of both Keynesianism and neoliberalism show is that it's not enough to oppose a broken system. A coherent alternative has to be proposed. For Labor, the Democrats and the wider left, the central task should be to develop an economic Apollo program, a conscious attempt to design a whole new system, tailored to the demands of the 21st century, that will have the silver bullet needed to put the zombie out of its misery.

Socialism

[Lies about socialism debunked (video 7:08)](#)

Tony Wilsdon

Capitalism Causes Poverty[4]

The horrific spectacle of tens of thousands of people stranded, and effectively abandoned, for days in New Orleans in the wake of Hurricane Katrina [in 2005] has shocked the nation and the world. With the death toll estimated to be in the thousands, the fact that class and race discriminated against the victims poses important questions about our society.

---

[4] "How capitalism breeds poverty: the brutal logic of neo-liberalism," *Socialist Alternative*, September 18, 2005. https://www.socialistalternative.org/poor-black-and-left-to-die/how-capitalism-breeds-poverty Tony Wilsdon is a labor organizer and community activist who frequently writes for the Socialist Alternative, a national socialist organization.

News commentators and politicians have been at a loss to explain away these disturbing facts. The public is left to ask: How could such levels of poverty and desperation exist in the richest country in the world? How could the supposed 'model for the free world' have created such poverty and despair?

New Orleans after Hurricane Katrina in 2005

The simple fact is, the creation of poverty is a product of our economic system. It is a necessary by-product of capitalism. It flows from the internal workings of the system, which allows a few rich owners of vast capital to extract the labor of its workers for a pittance.

The extreme polarization of wealth in the U.S. has been accelerated and exacerbated by the neo-liberal policies pursued by both major parties during the 1970s, 1980s, 1990s, and so far this decade. The fact that the presidential candidates for both the Democratic and Republican parties in 2004 never focused on the conditions in the inner cities is an expression of this.

The creation of poverty is a product of our economic system.

Cuts in Public Spending

The guiding philosophy of both political parties is rooted in the idea that making conditions good for corporate owners (investors) will provide for all Americans. Under this philosophy, called neo-liberalism, removing all laws that constrain business profits is considered beneficial to the economy and to the U.S. public. In other words, that means slashing government programs and laws which do not directly benefit owners of capital (i.e. the richest 0.1% of the public)….

The refusal of the [George W.] Bush administration to spend money to repair the levees [in New Orleans] is only a very sharp example of the complete abandonment of infrastructure spending flowing from the neo-liberal model….

Funding has been slashed for education at the federal and state level. As a result, the literacy rate of the U.S. has dropped from 18th to 49th place among the world's nations. In a massive study conducted by the National Adult Literacy Survey, over 90 million adult Americans, nearly one out of two, were found to be functionally illiterate, without the minimum literacy skills required in a modern society. Forty-four million adults were found to be unable [to] read a newspaper or fill out a job application, while a further 50 million could not read or comprehend above the eighth grade level.

Cuts to Taxes and Regulations

City, state, and federal politicians have gone on an orgy of cuts to taxes and regulations on the corporations and their rich owners. A big handout has been privatizing public services. This reduces taxes for the rich and allows them to directly profit from those services, resulting in demands for lower wages and cost cutting. This results in lowering the quality of services—that is few public hospitals, poorer quality public housing, further unemployment and lower wages for those in the community. All these are recipes for further inner-city poverty.

The policies of neo-liberalism have hit African Americans and Latinos the hardest. The consequences can be seen in New Orleans with the recent removal of housing projects under the program Hope VI. This resulted in 7,000 poor people, mainly African Americans, being thrown in the street to join the countless others looking for work, without even a roof over their heads….

An essential weapon in the neo-liberal assault has been the demand for free trade. Corporate owners want to be 'free' to operate in any community they want, based on who can guarantee them cheaper labor and less restrictions on profit-making. If that means abandoning whole communities and moving operations to a different region or country, so be it.

Low Wages

To boost their profits, employers have ruthlessly attacked wages, benefits, and working conditions. Both political parties collaborated in refusing to raise the minimum wage, resulting in tens of millions of workers seeing their living standards drop below the poverty line. Restrictions have been increased on eligibility for unemployment benefits. Fewer and fewer workers now qualify for any unemployment benefits, resulting in tens of millions dropping off the rolls and forced to live without any income.

Inherent in capitalism has been the maintenance of a sizeable pool of unemployed workers living on the edge of poverty who are desperate for jobs. It keeps workers competing with each other to get jobs, allowing corporate owners to keep

wages low. Thus, there has been a massive shift in wealth from the working class to the capitalist class.

Former Wall Street executive David Driver summed it up well: "The United States is the most capitalistic of major industrialized nations. This is not because America is a leader in per-capita gross domestic product, per-capita income, or productivity growth, for it is not. America does, however, have one of the most pro-business, inequitable, and inhumane socioeconomic systems in the industrialized world ... It certainly does not benefit the average citizen, nor does it benefit the country as a whole."

Time for a Radical Change

The class and race issues brought up by this tragedy [Hurricane Katrina] show the desperate need for a radical change in U.S. society. The hundreds of thousands left abandoned in the poor areas of New Orleans without jobs, with crumbling schools, lack of public hospitals, and without any hope of getting help have given Americans a glimpse of the ugly underbelly of this system.

As an immediate first step, we need to enact a massive public works program to rebuild the region of New Orleans and other devastated areas of Louisiana and Mississippi. This should be done by offering jobs and, if needed, training to those who have been displaced. The millions of unemployed and underemployed in the region should also be hired. This work should all be done at a living wage, and with full union rights and benefits….

Such a rebuilding of the economy could ensure every person in the country had decent housing, a guaranteed living wage, access to quality healthcare and child care, and security in their old age. Funding must also be made available to clean up environmental pollution, and to reallocate scientists to address the massive environmental problems related to global warming and work out a plan to reverse them.

An Alternative to Capitalism

… Today, we see a world economic slowdown, with U.S. corporations shutting down production here in search of areas that produce higher rates of profit. The economic engine of jobs, which helped some workers in previous generations to get out of the ghettos, will not be reoccurring. The vast majority of jobs created under Clinton and Bush have been low-wage jobs, which have replaced higher-wage jobs. Under the rule of capitalism, the majority of the public faces further sharp attacks on their living standards and quality of life, with a growing number being forced into dire poverty, homelessness, and destitution.

Capitalism is a system designed to produce for private profit, not for public need. It is only by taking decision-making out of the corporate boardrooms and placing them under the democratic control of the majority that the economy can provide for our needs. To do that, we need to bring into public ownership the largest 500 corporations and financial institutions.

If the assets of these giant companies were under our democratic control, then investment and resources could be democratically controlled by working-class people. Resources would be available to address our most pressing social problems and allocated to areas of most need.

To achieve this means breaking from giving any support to the two big-business political parties—the Republicans and Democrats. They are both fully implicated in creating the present mess we are in. We need to build a new political party to represent our interests as workers, the poor, and young people, which points a finger at the real villains, the super-rich and the capitalist system.

Freed from control by corporate sponsors, this workers' party could put forward a program that addresses our needs. It would be able to end this system of capitalism, which has been responsible for enriching a tiny group of billionaires at a time of massive need and poverty. We could then create a new democratic socialist society, where the working-class majority would have the power rather than the 1% who are rewarded under this system.

Topic 1 Summary

Milton Friedman is against Socialism as a system of economic organization because it forces people to conform to markets controlled by government decree rather than being able to act freely in a market, or not, and thus let the market, not the government, call the shots. He thinks markets should be free and unregulated (although how unregulated markets could ever stay within the realm of 'ethical custom' I don't know). A socialist economic orientation, or any hint of such, is tantamount, in Friedman's neoliberal view, to some dictator who thinks he or she knows best

what people need, and so forces them to conform to laws the dictator creates and that are supposedly in their best interest. Nothing worse than a sincere, well-intentioned (but deluded) dictator.

According to Friedman, Corporate Social Responsibility (CSR) is a kind of socialist doctrine that should be shot on sight. Friedman understands CSR to entail a moral obligation that is forced on a corporation to resolve social justice problems that would benefit everyone in the social contract by taking some lawfully earned profit and giving it away to solve those problems, like fixing levees in New Orleans, for example, or upgrading school programs, etc. Exactly what the city of Seattle is attempting to do right now with its recently passed "rich tax" aimed solely at wealthy Seattle city-dwellers. Friedman would certainly condemn such a move. He claims that since only persons can have moral responsibilities, and since corporations are not really persons but merely created, legal instruments for making money, corporations cannot have moral responsibilities. Thus, the term "corporate social responsibility" is a misnomer in Friedman's eyes and makes no sense when applied to businesses operating in a free, capitalist framework.

And when a business person—*as* a business person--claims to be acting out of CSR, they are being hypocritical, according to Friedman, and hiding behind a cloak of false pretense, since businesses could have no other motive than the production of profit, made, of course, legally and within the bounds of "ethical custom"—whatever Friedman might have in mind when he uses that term. At any rate, this is the gist of Friedman's argument based on the ultimate value of "freedom."

The moral nature of business

But, is the corporation really as Friedman describes it? Is his bare concept of "business for the sake of profit" sufficiently precise to construct a meaningful argument? Does Friedman's argument survive Monibot's neoliberal critique and Wilsdon's socialist assault? A lot of this

depends on how you understand the nature of the corporate enterprise, something we will be focusing on in the next few chapters of this text.

As long as you consider the "corporation" to be merely a legal mechanism or instrument for producing profit, disconnected by a wall of rational, legal objectivity from human interaction and human purpose, both within and without, it is inconceivable how such a lifeless, dehumanized instrument for making profit could itself have any moral responsibility. That seems obvious. But, if a corporation is nothing but a lifeless instrument without the people who populate it, then it must be actual persons who bring a corporation to life and make it real and give it the sense of an actual existential presence and force in the world, something it could not do on its own.

We will explore the view that a corporation is constituted precisely by the everyday inter-relationships and interactions of the moral human beings whose various professional practices (within the more general framework of their personal lives in the social world) brings the business to life every day from day one onward, as if out of nothing. Friedman has it wrong. These actual persons *are* the business. And whether they are at home or on the job, they have moral responsibilities.

No Friedmanesque, people-less, purely instrumental corporation ever made a single moral decision. Instruments, mechanisms, even algorithms do not have moral agency on their own. As I said, we will need to investigate this question of the extent of moral agency further, especially in the context of new technological developments like Big Data mining, robots and autonomous weapons.

Legal instruments cannot make moral judgments for persons; but persons do make moral judgments 'for' and 'as' corporations. And so perhaps those persons, who 'are' the head of the corporation, the decision makers, should be held responsible for the moral judgments they make from this perspective, since they *are* the corporation. Perhaps John Stumpf should have gone to jail in addition to being fired and fined. I believe there is a general movement in the direction of this personal view of business world today, which is reflected in the continuing influence of Stakeholder theory.

Since the 2008 financial crisis there is more of an interest in holding corporate individuals morally responsible for the decisions they make as corporate actors. This is perhaps due to a changing understanding of the corporation from the forces at play that we have investigated in this chapter, viewing it less as being solely a lifeless instrument for creating profit and more as a community of collaborators capable of caring.

What do you think?

Topic 1 Practice

TERMS TO KNOW

- Capitalism
- Socialism
- George Monbiot
- Tony Wilsdon
- Corporate Social Responsibility
- Neoliberal
- Milton Friedman
- laissez-faire capitalism
- The cloak of social responsibility
- Keynesian economic policies
- Demand-side economics
- IMF
- the World Bank,
- World Trade Organization
- Hurricane Katrina
- massive public works program
- guaranteed living wage
- corporations, instrumental view of
- corporations, people-oriented view of

TEST YOUR UNDERSTANDING

1. Give a brief summary of Milton Friedman's reasons for condemning corporate social responsibility.
2. What is neoliberalism? What is your opinion of this?
3. How would you describe George Monibot's critical assessment of neoliberalism?
4. What does Friedman mean by the cloak of social responsibility?
5. Describe Friedman's instrumental view of business. Do you agree with this view?
6. What is Socialism?
7. How does Tony Wilsdon think that Hurricane Katrina and its impact on New Orleans reflects and illustrates the way neoliberal capitalism—exactly the kind that Friedman is advocating—discriminates against the poor and benefits the rich?
8. How do you think that the economic policies of the current administration in Washington, D.C. will impact where the country is at now on the Capitalism/Socialism continuum? Say Capitalism is 1 and Socialism is 10. Where is the U.S. now? Where are we headed? Where do you think we should be?
9. Do you think capitalism should be regulated? More? Or

TOPIC 2
CREATING SHARED VALUE

Introduction

In the article "Creating Shared Value," Harvard Business professors and entrepreneurs Mike Porter and Mark Kramer argue that it is possible for a company to solve social justice problems *and* make a profit simultaneously by reworking its business model. Sounds like a fantastic win-win proposition to me! But I must admit that I am always a little skeptical about claims that a new idea is going to solve all the world's problems.

We should also take Steve Denning's critical questions and concerns into account as he presents these in his brief article "Why 'Shared Value' Can't Fix Capitalism." Denning questions whether the Shared Value approach can live up to the extravagant claims of its proponents. But, heck, even if business could solve *some* of the world's social justice problems while making a buck doing it, it would be a good thing. Right? See what you think after you consider what Porter and Kramer have to say.

Porter and Kramer call their new way of thinking about the purpose of business within a capitalist framework "shared value" because two different value propositions are involved. Think of shared value as a way of approaching the intersection of classical profit-oriented capitalism on

SOCIETAL VALUE

SHARED VALUE

ECONOMIC VALUE

the one hand, and progressive ideas about the social responsibility of business on the other. Not a very busy intersection these days, I'm afraid, but maybe that is exactly why it is worth looking at.

Porter and Kramer believe that many companies have been overlooking money-making opportunities by ignoring some underserved markets, especially marginalized groups like the millions of people around the world at the *bottom of the pyramid*. They think that from the perspective of shared value, companies should look to their products and their entire value chain, as well as their organizational and distribution structure, to see where shared value can be created, making a profit while solving social problems like poverty and pollution .

It is worth noting that Porter & Kramer have organized a non-profit consulting business around the concept of shared value called FSG and have a long list of multinational companies as clients; a good example of entrepreneurship, don't you think? Check out FSG's "Reimagining Social Change" website at www.fsg.org to see their Shared Value global consulting startup. It's impressive.

As you read the assigned article, "Creating Shared Value" you should think about the way in which Porter & Kramer wish to rebrand business within a capitalist framework. Why are they against the traditional idea of corporate social responsibility? What is the value of rebranding the purpose of business as shared value? Does this idea help to expand the horizon of commercial and social justice possibility, or is it just another clever way of talking about business-as-usual? Consider carefully the examples they use where they think Shared Value has proven to be a particularly effective business approach. What sets these examples apart from any normal expansion of business operations in a capitalist system?

If thinking about business through the lens of shared value can help a company achieve greater financial success while it simultaneously solves social problems--without exploitation and without creating more social problems down the line or behind the scenes (like pollution or harm to the poorest of the poor)--then I say go for it!

But before you jump too fast at the restructuring of your value chain, you should check out Steve Denning's questions about the limits of what Shared Value might accomplish in his article "Why Shared Value Can't Fix Capitalism"—also included below. As he points out, business reforms like Shared Value have been tried before, such as "business process re-engineering" in the 90s, with only moderate benefit. Is Shared Value really something revolutionary or is it merely a new way of talking about business-as-usual?

Also, Denning points out, tweaking the value chain is an outdated "inside-out" model since marketing now must focus on "delighting the customer" (as Apple does so well), an "outside-in" approach. Besides, Shared Value focuses on objective business functions and processes and doesn't call on managers personally to change the way they go about doing business.

What do YOU think?

Porter & Kramer - Creating Shared Value (5:29)

Shared Value

[Michael Porter](#) and [Mark Kramer](#)

Creating Shared Value:
How to reinvent capitalism—and unleash a wave of innovation and growth[5]

The capitalist system is under siege. In recent years business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the expense of the broader community.

Mark Kramer

Even worse, the more business has begun to embrace corporate responsibility, the more it has been blamed for society's failures. The legitimacy of business has fallen to levels not seen in recent history. This diminished trust in business leads political leaders to set policies that undermine competitiveness and sap economic growth. Business is caught in a vicious circle.

Michael Porter

A big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades. They continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success. How else could companies overlook the wellbeing of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, or the economic distress of the communities in which they produce and sell? How else could companies think that simply shifting activities to locations with ever lower wages was a sustainable "solution" to competitive challenges? Government and civil society have often exacerbated the problem by attempting to address social weaknesses at the expense of business. The presumed trade-offs between economic efficiency and social progress have been institutionalized in decades of policy choices.

---

[5] Porter, Michael E., and Kramer, Mark R. "*Creating Shared Value: How to reinvent capitalism—and unleash a wave of innovation and growth*" Harvard Business Review. Jan-Feb, 2011.

Companies must take the lead in bringing business and society back together. The recognition is there among sophisticated business and thought leaders, and promising elements of a new model are emerging. Yet we still lack an overall framework for guiding these efforts, and most companies remain stuck in a "social responsibility" mind-set in which societal issues are at the periphery, not the core.

The solution lies in the principle of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Businesses must reconnect company success with social progress. Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center. We believe that it can give rise to the next major transformation of business thinking.

A growing number of companies known for their hard-nosed approach to business-such as GE, Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, and Wal-Mart-have already embarked on important efforts to create shared value by reconceiving the intersection between society and corporate performance. Yet our recognition of the transformative power of shared value is still in its genesis. Realizing it will require leaders and managers to develop new skills and knowledge-such as a far deeper appreciation of societal needs, a greater understanding of the true bases of company productivity, and the ability to collaborate across profit/nonprofit boundaries. And government must learn how to regulate in ways that enable shared value rather than work against it.

> **Capitalism is an unparalleled vehicle for meeting human needs, improving efficiency, creating jobs, and building wealth. But a narrow conception of capitalism has prevented business from harnessing its full potential to meet society's broader challenges.**

The opportunities have been there all along but have been overlooked. Businesses acting as businesses, not as charitable donors, are the most powerful force for addressing the pressing issues we face. The moment for a new conception of

capitalism is now; society's needs are large and growing, while customers, employees, and a new generation of young people are asking business to step up.

Levels of Shared Value
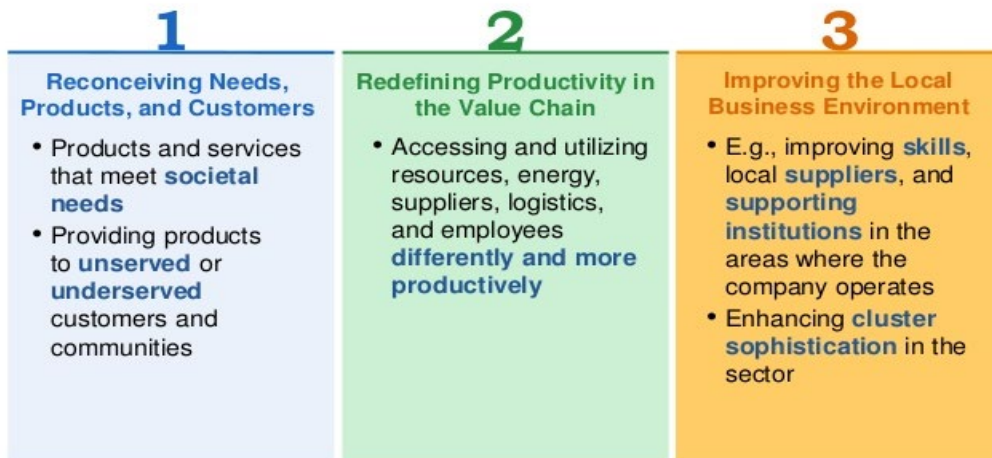
The purpose of the corporation must be redefined as creating shared value, not just profit per se. This will drive the next wave of innovation and productivity growth in the global economy. It will also reshape capitalism and its relationship to society. Perhaps most important of all, learning how to create shared value is our best chance to legitimize business again.

Moving Beyond Trade-Offs

Business and society have been pitted against each other for too long. That is in part because economists have legitimized the idea that to provide societal benefits, companies must temper their economic success. In neoclassical thinking, a requirement for social improvement-such as safety or hiring the disabled-imposes a constraint on the corporation. Adding a constraint to a firm that is already maximizing profits, says the theory, will inevitably raise costs and reduce those profits.

A related concept, with the same conclusion, is the notion of externalities. Externalities arise when firms create social costs that they do not have to bear, such as pollution. Thus, society must impose taxes, regulations, and penalties so that firms "internalize" these externalities—a belief influencing many government policy decisions.

This perspective has also shaped the strategies of firms themselves, which have largely excluded social and environmental considerations from their economic thinking. Firms have taken the broader context in which they do business as a given and resisted

regulatory standards as invariably contrary to their interests. Solving social problems has been ceded to governments and to NGOs. Corporate responsibility programs—a
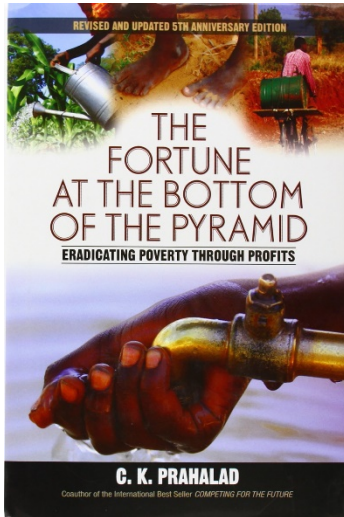
> "The purpose of this book … is to illustrate that the typical pictures of (global) poverty mask the fact that the very poor represent resilient entrepreneurs and value-conscious consumers. What is needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win–win scenarios where the poor are actively engaged and, at the same time, the companies providing products and services to them are profitable."
>
> C.K. Prahalad   Wharton School Publishing, 2006

reaction to external pressure—have emerged largely to improve firms' reputations and are treated as a necessary expense. Anything more is seen by many as an irresponsible use of shareholders' money. Governments, for their part, have often regulated in a way that makes shared value more difficult to achieve. Implicitly, each side has assumed that the other is an obstacle to pursuing its goals and acted accordingly.

The concept of shared value, in contrast, recognizes that societal needs, not just conventional economic needs, define markets. It also recognizes that social harms or weaknesses frequently create internal costs for firms—such as wasted energy or raw materials, costly accidents, and the need for remedial training to compensate for inadequacies in education. And addressing societal harms and constraints does not necessarily raise costs for firms, because they can innovate through using new technologies, operating methods, and management approaches—and as a result, increase their productivity and expand their markets.

Shared value, then, is not about personal values. Nor is it about "sharing" the value already created by firms—a redistribution approach. Instead, it is about expanding the total pool of economic and social value. A good example of this difference in perspective is the fair trade movement in purchasing. Fair trade aims to increase the proportion of revenue that goes to poor farmers by paying them higher prices for the same crops. Though this may be a noble sentiment, fair trade is mostly about redistribution rather than expanding the overall amount of value created. A shared

value perspective, instead, focuses on improving growing techniques and strengthening the local cluster of supporting suppliers and other institutions in order to increase farmers' efficiency, yields, product quality, and sustainability. This leads to a bigger pie of revenue and profits that benefits both farmers and the companies that buy from them. Early studies of cocoa farmers in the Côte d'Ivoire, for instance, suggest that while fair trade can increase farmers' incomes by 10% to 20%, shared value investments can raise their incomes by more than 300%. Initial investment and time may be required to implement new procurement practices and develop the supporting cluster, but the return will be greater economic value and broader strategic benefits for all participants.

At a very basic level, the competitiveness of a company and the health of the communities around it are closely intertwined.

The Roots of Shared Value

A business needs a successful community, not only to create demand for its products but also to provide critical public assets and a supportive environment. A community needs successful businesses to provide jobs and wealth creation opportunities for its citizens. This interdependence means that public policies that undermine the productivity and competitiveness of businesses are self-defeating, especially in a global economy where facilities and jobs can easily move elsewhere. NGOs and governments have not always appreciated this connection.

In the old, narrow view of capitalism, business contributes to society by making a profit, which supports employment, wages, purchases, investments, and taxes. Conducting business as usual is sufficient social benefit. A firm is largely a self-contained entity, and social or community issues fall outside its proper scope. (This is the argument advanced persuasively by Milton Friedman in his critique of the whole notion of corporate social responsibility.)

This perspective has permeated management thinking for the past two decades. Firms focused on enticing consumers to buy more and more of their products. Facing growing competition and shorter- term performance pressures from shareholders, managers resorted to waves of restructuring, personnel reductions, and relocation to lower-cost regions, while leveraging balance sheets to return capital to investors. The results were often commoditization, price competition, little true innovation, slow organic growth, and no clear competitive advantage.

In this kind of competition, the communities in which companies operate perceive little benefit even as profits rise. Instead, they perceive that profits come at their expense, an impression that has become even stronger in the current economic recovery, in which rising earnings have done little to offset high unemployment, local business distress, and severe pressures on community services.

It was not always this way. The best companies once took on a broad range of roles in meeting the needs of workers, communities, and supporting businesses. As other social institutions appeared on the scene, however, these roles fell away or were delegated. Shortening investor time horizons began to narrow thinking about appropriate investments. As the vertically integrated firm gave way to greater reliance on outside vendors, outsourcing and offshoring weakened the connection between firms and their communities. As firms moved disparate activities to more and more locations, they often lost touch with any location. Indeed, many companies no longer recognize a home—but see themselves as "global" companies.

These transformations drove major progress in economic efficiency. However, something profoundly important was lost in the process, as more fundamental opportunities for value creation were missed. The scope of strategic thinking contracted.

Strategy theory holds that to be successful, a company must create a distinctive value proposition that meets the needs of a chosen set of customers. The firm gains competitive advantage from how it configures the value chain, or the set of activities involved in creating, producing, selling, delivering, and supporting its products or services. For decades businesspeople have studied positioning and the best ways to design activities and integrate them.

Companies have overlooked opportunities to meet fundamental societal needs and misunderstood how societal harms and weaknesses affect value chains. Our field of vision has simply been too narrow.

In understanding the business environment, managers have focused most of their attention on the industry, or the particular business in which the firm competes. This is because industry structure has a decisive impact on a firm's profitability. What has been missed, however, is the profound effect that location can have on productivity

and innovation. Companies have failed to grasp the importance of the broader business environment surrounding their major operations.

How Shared Value Is Created

Companies can create economic value by creating societal value. There are three distinct ways to do this: by reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company's locations. Each of these is part of the virtuous circle of shared value; improving value in one area gives rise to opportunities in the others.

The concept of shared value resets the boundaries of capitalism. By better connecting companies' success with societal improvement, it opens up many ways to serve new needs, gain efficiency, create differentiation, and expand markets.

The ability to create shared value applies equally to advanced economies and developing countries, though the specific opportunities will differ. The opportunities will also differ markedly across industries and companies—but every company has them. And their range and scope is far broader than has been recognized.

Reconceiving Products and Markets

Society's needs are huge—health, better housing, improved nutrition, help for the aging, greater financial security, less environmental damage. Arguably, they are the greatest unmet needs in the global economy. In business we have spent decades learning how to parse and manufacture demand while missing the most important demand of all. Too many companies have lost sight of that most basic of questions: Is our product good for our customers? Or for our customers' customers?

In advanced economies, demand for products and services that meet societal needs is rapidly growing. Food companies that traditionally concentrated on taste and quantity to drive more and more consumption are refocusing on the fundamental need for better nutrition. Intel and IBM are both devising ways to help utilities harness digital intelligence in order to economize on power usage. Wells Fargo has developed a line of products and tools that help customers budget, manage credit, and pay down debt. Sales of GE's Ecomagination products reached $18 billion in 2009—the size of a Fortune 150 company. GE now predicts that revenues of Ecomagination products will grow at twice the rate of total company revenues over the next five years.

In these and many other ways, whole new avenues for innovation open up, and shared value is created. Society's gains are even greater, because businesses will often be far more effective than governments and nonprofits are at marketing that motivates customers to embrace products and services that create societal benefits, like healthier food or environmentally friendly products.

Equal or greater opportunities arise from serving disadvantaged communities and developing countries. Though societal needs are even more pressing there, these communities have not been recognized as viable markets. Today attention is riveted on India, China, and increasingly, Brazil, which offer firms the prospect of reaching billions of new customers at the bottom of the pyramid—a notion persuasively articulated by C.K. Prahalad. Yet these countries have always had huge needs, as do many developing countries.

Similar opportunities await in nontraditional communities in advanced countries. We have learned, for example, that poor urban areas are America's most underserved market; their substantial concentrated purchasing power has often been overlooked. (See the research of the Initiative for a Competitive Inner City, at icic.org.)

The societal benefits of providing appropriate products to lower-income and disadvantaged consumers can be profound, while the profits for companies can be substantial. For example, low-priced cell phones that provide mobile banking services are helping the poor save money securely and transforming the ability of small farmers to produce and market their crops. In Kenya, Vodafone's M-PESA mobile banking service signed up 10 million customers in three years; the funds it handles now represent 11% of that country's GDP. In India, Thomson Reuters has developed a promising monthly service for farmers who earn an average of $2,000 a year. For a fee of $5 a quarter, it provides weather and crop pricing information and agricultural advice. The service reaches an estimated 2 million farmers, and early research indicates that it has helped increase the incomes of more than 60% of them—in some cases even tripling incomes. As capitalism begins to work in poorer communities, new opportunities for economic development and social progress increase exponentially.

For a company, the starting point for creating this kind of shared value is to identify all the societal needs, benefits, and harms that are or could be embodied in the firm's products. The opportunities are not static; they change constantly as technology evolves, economies develop, and societal priorities shift. An ongoing exploration of societal needs will lead companies to discover new opportunities for differentiation and repositioning in traditional markets, and to recognize the potential of new markets they previously overlooked.

Meeting needs in underserved markets often requires redesigned products or different distribution methods. These requirements can trigger fundamental innovations that also have application in traditional markets. Microfinance, for example,

was invented to serve unmet financing needs in developing countries. N ow it is growing rapidly in the United States, where it is filling an important gap that was unrecognized.

Redefining Productivity In the Value Chain

A company's value chain inevitably affects—and is affected by—numerous societal issues, such as natural resource and water use, health and safety, working conditions, and equal treatment in the workplace. Opportunities to create shared value arise because societal problems can create economic costs in the firm's value chain. Many so-called externalities actually inflict internal costs on the firm, even in the absence of regulation or resource taxes. Excess packaging of products and greenhouse gases are not just costly to the environment but costly to the business. Wal-Mart, for example, was able to address both issues by reducing its packaging and rerouting its trucks to cut 100 million miles from its delivery routes in 2009, saving $200 million even as it shipped more products. Innovation in disposing of plastic used in stores has saved millions in lower disposal costs to landfills.

The new thinking reveals that the congruence between societal progress and productivity in the value chain is far greater than traditionally believed (see the exhibit "The Connection Between Competitive Advantage and Social Issues"). The synergy increases when firms approach societal issues from a shared value perspective and invent new ways of operating to address them. So far, however, few companies have reaped the full productivity benefits in areas such as health, safety, environmental performance, and employee retention and capability.

But there are unmistakable signs of change. Efforts to minimize pollution were once thought to inevitably increase business costs—and to occur only because of regulation and taxes. Today there is a growing consensus that major improvements in environmental performance can often be achieved with better technology at nominal incremental cost and can even yield net cost savings through enhanced resource utilization, process efficiency, and quality.

In each of the areas in the exhibit, a deeper understanding of productivity and a growing awareness of the fallacy of short-term cost reductions (which often actually lower productivity or make it unsustainable) are giving rise to new approaches. The following are some of the most important ways in which shared value thinking is transforming the value chain, which are not independent but often mutually reinforcing. Efforts in these and other areas are still works in process, whose implications will be felt for years to come.

a. Energy use and logistics

The use of energy throughout the value chain is being reexamined, whether it be in processes, transportation, buildings, supply chains, distribution channels, or support services. Triggered by energy price spikes and a new awareness of opportunities for energy efficiency, this reexamination was under way even before carbon emissions became a global focus. The result has been striking improvements in energy utilization through better technology, recycling, cogeneration, and numerous other practices—all of which create shared value.

We are learning that shipping is expensive, not just because of energy costs and emissions but because it adds time, complexity, inventory costs, and management costs. Logistical systems are beginning to be redesigned to reduce shipping distances, streamline handling, improve vehicle routing, and the like. All of these steps create shared value. The British retailer Marks & Spencer's ambitious overhaul of its supply chain, for example, which involves steps as simple as stopping the purchase of supplies from one hemisphere to ship to another, is expected to save the retailer £175 million annually by fiscal 2016, while hugely reducing carbon emissions. In the process of reexamining logistics, thinking about outsourcing and location will also be revised (as we will discuss below).

b. Resource use

Heightened environmental awareness and advances in technology are catalyzing new approaches in areas such as utilization of water, raw materials, and packaging, as well as expanding recycling and reuse. The opportunities apply to all resources, not just those that have been identified by environmentalists. Better resource utilization—enabled by improving technology—will permeate all parts of the value chain and will spread to suppliers and channels. Landfills will fill more slowly.

For example, Coca-Cola has already reduced its worldwide water consumption by 9% from a 2004 baseline—nearly halfway to its goal of a 20% reduction by 2012. Dow Chemical managed to reduce consumption of fresh water at its largest production site by one billion gallons—enough water to supply nearly 40,000 people in the U.S. for a year—resulting in savings of $4 million. The demand for water saving technology has allowed India's Jain Irrigation, a leading global manufacturer of complete drip irrigation systems for water conservation, to achieve a 41% compound annual growth rate in revenue over the past five years.

c. Procurement

The traditional playbook calls for companies to commoditize and exert maximum bargaining power on suppliers to drive down prices— even when purchasing from small businesses or subsistence-level farmers. More recently, firms have been rapidly outsourcing to suppliers in lower-wage locations.

Today some companies are beginning to understand that marginalized suppliers cannot remain productive or sustain, much less improve, their quality. By increasing access to inputs, sharing technology, and providing financing, companies can improve supplier quality and productivity while ensuring access to growing volume. Improving productivity will often trump lower prices. As suppliers get stronger, their environmental impact often falls dramatically, which further improves their efficiency. Shared value is created.

A good example of such new procurement thinking can be found at Nespresso, one of Nestle's fastest- growing divisions, which has enjoyed annual growth of 30% since 2000. Nespresso combines a sophisticated espresso machine with single-cup aluminum capsules containing ground coffees from around the world. Offering quality and convenience, Nespresso has expanded the market for premium coffee.

Obtaining a reliable supply of specialized coffees is extremely challenging, however. Most coffees are grown by small farmers in impoverished rural areas of Africa and Latin America, who are trapped in a cycle of low productivity, poor quality, and environmental degradation that limits production volume. To address these issues, Nestlé redesigned procurement. It worked intensively with its growers, providing advice on farming practices, guaranteeing bank loans, and helping secure inputs such as plant stock, pesticides, and fertilizers. Nestlé established local facilities to measure the quality of the coffee at the point of purchase, which allowed it to pay a premium for better beans directly to the growers and thus improve their incentives. Greater yield per hectare and higher production quality increased growers' incomes, and the environmental impact of farms shrank. Meanwhile, Nestlé's reliable supply of good coffee grew significantly. Shared value was created.

Embedded in the Nestlé example is a far broader insight, which is the advantage of buying from capable local suppliers. Outsourcing to other locations and countries creates transaction costs and inefficiencies that can offset lower wage and input costs. Capable local suppliers help firms avoid these costs and can reduce cycle time, increase flexibility, foster faster learning, and enable innovation. Buying local includes not only local companies but also local units of national or international companies. When firms buy locally, their suppliers can get stronger, increase their profits, hire more people, and pay better wages—all of which will benefit other businesses in the community. Shared value is created.

d. Distribution

Companies are beginning to reexamine distribution practices from a shared value perspective. As ==iTunes, Kindle, and Google Scholar== (which offers texts of scholarly literature online) demonstrate, profitable new distribution models can also dramatically reduce paper and plastic usage. Similarly, microfinance has created a cost-efficient new model of distributing financial services to small businesses.

Opportunities for new distribution models can be even greater in nontraditional markets. For example, ==Hindustan Unilever== is creating a new direct- to-home distribution system, run by underprivileged female entrepreneurs, in Indian villages of fewer than 2,000 people. Unilever provides microcredit and training and now has more than 45,000 entrepreneurs covering some 100,000 villages across 15 Indian states. ==Project Shakti==, as this distribution system is called, benefits communities not only by giving women skills that often double their household income but also by reducing the spread of communicable diseases through increased access to hygiene products. This is a good example of how the unique ability of business to market to hard- to-reach consumers can benefit society by getting life-altering products into the hands of people that need them. Project Shakti now accounts for 5% of Unilever's total revenues in India and has extended the company's reach into rural areas and built its brand in media-dark regions, creating major economic value for the company.

e. Employee productivity

The focus on holding down wage levels, reducing benefits, and offshoring is beginning to give way to an awareness of the positive effects that a living wage, safety, wellness, training, and opportunities for advancement for employees have on productivity. Many companies, for example, traditionally sought to minimize the cost of "expensive" employee health care coverage or even eliminate health coverage altogether. Today leading companies have learned that because of lost workdays and diminished employee productivity, poor health costs them more than health benefits do. Take ==Johnson & Johnson==. By helping employees stop smoking (a two-thirds reduction in the past 15 years) and implementing numerous other wellness programs, the company has saved $250 million on health care costs, a return of $2.71 for every dollar spent on wellness from 2002 to 2008. Moreover, Johnson & Johnson has benefited from a more present and productive workforce. If labor unions focused more on shared value, too, these kinds of employee approaches would spread even faster.

f. Location

Business thinking has embraced the myth that location no longer matters, because logistics are inexpensive, information flows rapidly, and markets are global. The cheaper the location, then, the better. Concern about the local communities in which a company operates has faded.

That oversimplified thinking is now being challenged, partly by the rising costs of energy and carbon emissions but also by a greater recognition of the productivity cost of highly dispersed production systems and the hidden costs of distant procurement discussed earlier. Wal-Mart, for example, is increasingly sourcing produce for its food sections from local farms near its warehouses. It has discovered that the savings on transportation costs and the ability to restock in smaller quantities more than offset the lower prices of industrial farms farther away. Nestlé is establishing smaller plants closer to its markets and stepping up efforts to maximize the use of locally available materials.

The calculus of locating activities in developing countries is also changing. Olam International, a leading cashew producer, traditionally shipped its nuts from Africa to Asia for processing at facilities staffed by productive Asian workers. But by opening local processing plants and training workers in Tanzania, Mozambique, Nigeria, and Côte d'Ivoire, Olam has cut processing and shipping costs by as much as 25%—not to mention, greatly reduced carbon emissions. In making this move, Olam also built preferred relationships with local farmers. And it has provided direct employment to 17,000 people—95% of whom are women—and indirect employment to an equal number of people, in rural areas where jobs otherwise were not available.

These trends may well lead companies to remake their value chains by moving some activities closer to home and having fewer major production locations. Until now, many companies have thought that being global meant moving production to locations with the lowest labor costs and designing their supply chains to achieve the most immediate impact on expenses. In reality, the strongest international competitors will often be those that can establish deeper roots in important communities. Companies that can embrace this new locational thinking will create shared value.

As these examples illustrate, reimagining value chains from the perspective of shared value will offer significant new ways to innovate and unlock new economic value that most businesses have missed.

Creating Shared Value in Practice

Not all profit is equal—an idea that has been lost in the narrow, short-term focus of

financial markets and in much management thinking. Profits involving a social purpose represent a higher form of capitalism—one that will enable society to advance more rapidly while allowing companies to grow even more. The result is a positive cycle of company and community prosperity, which leads to profits that endure.

Creating shared value presumes compliance with the law and ethical standards, as well as mitigating any harm caused by the business, but goes far beyond that. The opportunity to create economic value through creating societal value will be one of the most powerful forces driving growth in the global economy. This thinking represents a new way of understanding customers, productivity, and the extremal influences on corporate success. It highlights the immense human needs to be met, the large new markets to serve, and the internal costs of social and community deficits—as well as the competitive advantages available from addressing them. Until recently, companies have simply not approached their businesses this way.

Creating shared value will be more effective and far more sustainable than the majority of today's corporate efforts in the social arena. Companies will make real strides on the environment, for example, when they treat it as a productivity driver rather than a feel-good response to external pressure….

Inevitably, the most fertile opportunities for creating shared value will be closely related to a company's particular business, and in areas most important to the business. Here a company can benefit the most economically and hence sustain its commitment over time. Here is also where a company brings the most resources to bear, and where its scale and market presence equip it to have a meaningful impact on a societal problem.

Ironically, many of the shared value pioneers have been those with more-limited resources—social entrepreneurs and companies in developing countries. These outsiders have been able to see the opportunities more clearly. In the process, the distinction between for-profits and nonprofits is blurring.

Shared value is defining a whole new set of best practices that all companies must embrace. It will also become an integral part of strategy. The essence of strategy is choosing a unique positioning and a distinctive value chain to deliver on it. Shared value opens up many new needs to meet, new products to offer, new customers to serve, and new ways to configure the value chain. And the competitive advantages that arise from creating shared value will often be more sustainable than conventional cost and quality improvements. The cycle of imitation and zero-sum competition can be broken.

Shared value holds the key to unlocking the next wave of business innovation and growth. It will also reconnect company success and community success in ways that

have been lost in an age of narrow management approaches, short-term thinking, and deepening divides among society's institutions.

Shared value focuses companies on the right kind of profits—profits that create societal benefits rather than diminish them. Capital markets will undoubtedly continue to pressure companies to generate short-term profits, and some companies will surely continue to reap profits at the expense of societal needs. But such profits will often prove to be short lived, and far greater opportunities will be missed.

The moment for an expanded view of value creation has come. A host of factors, such as the growing social awareness of employees and citizens and the increased scarcity of natural resources, will drive unprecedented opportunities to create shared value.

We need a more sophisticated form of capitalism, one imbued with a social purpose. But that purpose should arise not out of charity but out of a deeper understanding of competition and economic value creation. This next evolution in the capitalist model recognizes new and better ways to develop products, serve markets, and build productive enterprises.

Creating shared value represents a broader conception of Adam Smith's invisible hand. It opens the doors of the pin factory to a wider set of influences. It is not philanthropy but self-interested behavior to create economic value by creating societal value. If all companies individually pursued shared value connected to their particular businesses, society's overall interests would be served. And companies would acquire legitimacy in the eyes of the communities in which they operated, which would allow democracy to work as governments set policies that fostered and supported business. Survival of the fittest would still prevail, but market competition would benefit society in ways we have lost.

Creating shared value represents a new approach to managing that cuts across disciplines. Because of the traditional divide between economic concerns and social ones, people in the public and private sectors have often followed very different educational and career paths. As a result, few managers have the understanding of social and environmental issues required to move beyond today's CSR approaches, and few social sector leaders have the managerial training and entrepreneurial mind-set needed to design and implement shared value models. Most business schools still teach the narrow view of capitalism, even though more and more of their graduates hunger for a greater sense of purpose and a growing number are drawn to social entrepreneurship. The results have been missed opportunity and public cynicism.

Business school curricula will need to broaden in a number of areas. For example, the efficient use and stewardship of all forms of resources will define the next-generation thinking on value chains. Customer behavior and marketing courses will have to move beyond persuasion and demand creation to the study of deeper human needs and how to serve nontraditional customer groups. Business and government courses will examine the economic impact of societal factors on enterprises, moving beyond the effects of regulation and macroeconomics. And finance will need to rethink how capital markets can actually support true value creation in companies—their fundamental purpose—not just benefit financial market participants.
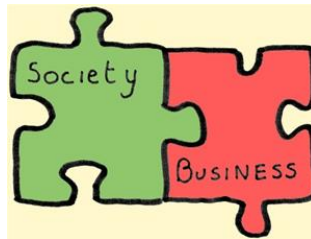
There is nothing soft about the concept of shared value. These proposed changes in business school curricula are not qualitative and do not depart from economic value creation. Instead, they represent the next stage in our understanding of markets, competition, and business management.

Not all societal problems can be solved through shared value solutions. But shared value offers corporations the opportunity to utilize their skills, resources, and management capability to lead social progress in ways that even the best-intentioned governmental and social sector organizations can rarely match. In the process, businesses can earn the respect of society again.

Same old thing in new wineskins?

Steve Denning

Steve Denning is the author of six successful business books on leadership, leadership storytelling, and management, as well as a novel and a volume of poems. Since 2011, he has been writing a popular Leadership column for Forbes.com and has published more than 600 articles on the Creative Economy, with more than 6 million visitors and more than 15 million page views.

Steve Denning

Why 'shared value' can't fix capitalism

"Shared value" is presented as the antidote to Corporate Social Responsibility (CSR) programs, which, Porter says, typically involve making random donations to

charity. His approach, he says, is an improvement on those programs, although one is tempted to think that he has offered a caricature of CSR programs so as to make his "new approach" look like a clear improvement.

The real problem with the argument is that "shared value" and "expanded value chains" that include socially worthwhile opportunities have yet to come to terms with the problems afflicting capitalism.

In the marketplace, there has been an epochal shift in the power from seller to buyer. As a result, the "inside-out" perspective of value chains ("we make it and you take it") is failing fast and needs to be replaced by an outside-in perspective ("we want to understand the customers and their problems and find ways to solve those problems").

Thus, the "shared value" argument has yet to come to terms with the fact that we are now entering "the age of customer capitalism" as defined in Roger Martin's landmark article of that name in *Harvard Business Review* of January 2010 and further elaborated in his book, *Fixing the Game* (2011). Following periods of "managerial capitalism" and "shareholder capitalism", which one might call respectively "Capitalism 1.0" and "Capitalism 2.0" we are entering a new and very different third era of capitalism - "customer capitalism" or "Capitalism 3.0". "Shared value" is still mired in Capitalism 2.0….

A real fix to capitalism

A real fix to capitalism entails the embrace of Capitalism 3.0 and the profound revolution in management thinking focused on "delighting customers" and redefining managerial roles, coordination mechanisms, values and communications so that everyone and everything in the firm is oriented towards accomplishing this goal.

It means reversing the mental framework implicit in the value chain and starting from what would delight the client and focusing the entire organization on that goal.

When this is done, as Apple has shown, the returns can be extraordinary. Compare that to GE and Walmart, firms that doggedly work on tweaking their supply chains: Wal-Mart's' share price is roughly what it was a decade ago and GE's is less than half. There's a big difference between Capitalism 2.0 and Capitalism 3.0. [6]

THE TRIPLE BOTTOM LINE

The phrase "the triple bottom line" was first coined in 1994 by John Elkington, the founder of a British consultancy called SustainAbility. His argument was that companies should be preparing three different (and quite separate) bottom lines. One is the traditional measure of corporate profit—the "bottom line" of the profit and loss account. The second is the bottom line of a company's "people account"—a measure in some shape of form of how socially responsible an organization has been throughout its operations. The third is the bottom line of the company's "planet account"—a measure of how environmentally responsible it has been. The triple bottom line thus consists of the three P's: **Profit**, **People**, and **Planet**.

---

[6] Denning, Steve. "Why 'Shared Value' Can't Fix Capitalism." *Forbes / Leadership.* December 20, 2011 https://www.forbes.com/sites/stevedenning/2011/12/20/why-shared-value-cant-fix-capitalism/#6e36b8cd44d1

TOPIC 3
CONSCIOUS CAPITALISM

Introduction: Re-purposing the Corporation

A business could only become a "conscious" business in the way that [John Mackey](), CEO of Whole Foods (now a subsidiary of Amazon), uses this term, if you understand the term "business" to be an organically 'structured' and interwoven set of practices engaged in by an inter-dependent community of persons oriented to a common goal or goals, rather than envisioning it as a legal instrument or profit-making machine. Only *persons* can properly be said to have subjective consciousness and, thus, moral power and moral responsibility.

To become "conscious," in an enlightened sense, means more than achieving the normal waking consciousness that is necessary for putting your shoes on and getting through the practical requirements of your day. That is merely a baseline type of awareness and attention. But Mackey certainly means something more than normal waking half-conscious awareness by the idea of "consciousness" that he has in mind behind his idea of Conscious Capitalism.

One of the things we learned from Social Psychology in previous chapters is that untrained, everyday conventional consciousness has a lot of situational and contextual holes or blind spots in it in the form of biases, prejudices, misconceptions, misinformed ideas and beliefs, and other unconscious, non-rational influences on the perception of yourself and the world around you. All of which, especially if you are unaware of it, can impede you on your path to success. But you can avoid these traps by 'expanding' your consciousness, thus increasing your chances of success in all areas of your life.

The kind of turned-on "consciousness" Mackey is talking about is something beyond a merely practical or useful consciousness. It is an enlightened entrepreneurial business consciousness that is geared to some Higher Purpose rather than merely profit, with an ecologically organic or interdependent view of *stakeholder* mutuality. He seems to have in mind a higher or deeper enlightened personal consciousness; a broader perspective about possibilities in any given situation; a greater insightfulness overall; an enlightened attitude in general; a more inclusive, responsive and responsible, flexible, expansive, resourceful, resilient, and success-oriented way of understanding the purpose of business in a capitalist framework--the kind of consciousness the study of Entrepreneurial Ethics should produce for you; a broader "reflectivity horizon," as Anders Poulsen put it at the very beginning of our course of studies. This would be a self-actualizing kind of consciousness that is pushing toward what Abraham Maslow means by self-transcendence at the top of the need pyramid … and over the top!

The profit motive as the sole motive of business looks a little value-anemic from the perspective of the passionate, "follow your bliss" motivation of an enlightened consciousness aiming at a higher purpose such as Mackey is proposing.

What Mackey is talking about also sounds curiously like the goal of the Stoic wise person or Sage. Epictetus certainly intended to raise the consciousness of his students in order to be successful at discerning what is under your control and focusing on that, while becoming indifferent to and letting go of what is not under your control. I suspect Epictetus would applaud Mackey's consciousness-raising approach. What would business look like if it were driven by an enlightened consciousness? Listen to Mackey's vision in the following video.

John Mackey on Conscious Capitalism (7:30)

John Mackey's vision

Conscious Capitalism (CC) is an approach to doing business that is built around four basic principles, but the most important of these would seem to be the first: having a higher purpose. According to Mackey, business persons should be motivated by a ***higher purpose*** than merely earning profit. Profit is definitely a good thing, of course, but it should flow in a secondary manner from the pursuit of a higher purpose. According to CC, while making money is essential for the vitality and sustainability of a business, it is not the only or even the most important reason a business exists. Conscious Businesses focus on their *higher purpose* beyond profit.

We all need meaning and purpose in our lives. It is one of the things that separates us from other animals. Purpose activates us and motivates us. It moves us to get up in the morning, sustains us when times get tough and serves as a guiding star when we stray off course. Conscious Businesses provide us with this sense of meaning and purpose.

By focusing on its *deeper purpose*, a conscious business inspires, engages and energizes its stakeholders. Employees, customers and others trust and even love companies that have an inspiring purpose.

Mackey goes on to distinguish three other characteristics of the "conscious" business person in the areas of leadership, company culture, and stakeholder interdependence. How does he understand these characteristics?

Regarding *leadership* values, Mackey asserts that conscious leaders focus on "we," rather than "me." They inspire, foster transformation and bring out the best in those around them. They understand that their role is to serve the purpose of the organization, to support the people within the organization and to create value for all of the organization's stakeholders. They recognize the integral role of culture and purposefully cultivate a conscious culture of trust and care.

Regarding *company culture*, Mackey is in agreement with management guru Peter Drucker who famously declared: "Culture eats strategy for lunch." Company culture is the embodied values, principles and practices underlying the social fabric of a business, which permeate its actions and connects the stakeholders to each other and to the company's purpose, people and processes. A conscious culture fosters love and care and builds trust between a company's team members and its other stakeholders. Conscious culture is an energizing and unifying force that truly brings a conscious business to life.

Regarding *stakeholder interdependence* within a Conscious Capitalism framework, Mackey argues that unlike some businesses that believe they only exist to maximize return on investment for their shareholders, Conscious Capitalist businesses focus on their whole business ecosystem, creating and optimizing value for all of their stakeholders, understanding that strong and engaged stakeholders lead to a healthy, sustainable, resilient business. They recognize that, without employees, customers, suppliers, funders, supportive communities and a life-sustaining ecosystem, there is no business. Conscious Business is a win-win-win proposition, *which includes a healthy return to shareholders*.

A critical response

In response to Mackey, **James O'toole** and **David Vogel**, in their article "Two and a Half Cheers for Conscious Capitalism," think there are a lot of good things to be said about Conscious Capitalism, but it is not going to be a business model that solves every business organizational problem. There is no one-size-fits-all solution when it comes to business models, O'toole and Vogel argue, and therefore they are only willing to give CC "two and a half cheers." Mackey is creating false expectations for business, they assert, and thus diverting attention away from the need for government to solve most social problems.

Mackey's retort to O'toole and Vogel is that they have misunderstood CC entirely. They are interpreting it as a kind of Corporate Social Responsibility which, Mackey claims, is not what CC is about at all. O'toole and Vogel completely miss the mark, according to Mackey.

According to Mackey, it is not a matter of doing well (profit) and also doing good (CSR) separately, but rather of infusing your whole understanding of the purpose and enterprise of business with a higher, more sensitive, more enlightened, more *entrepreneurial*

consciousness—something O'toole and Vogel apparently have not achieved in Mackey's estimation, although their criticism of CC brings up some good points. For example, can an open-pit coal mining company really operate according to the principles of CC? O'toole and Vogel don't think so. What do you think?

In Mackey's rejoinder to O'toole and Vogel, he makes the somewhat astounding yet interesting claim that all business transactions are fundamentally free, fair by agreement, and, thus, *virtuous in that value is produced for both parties!* I wonder what you think of that idea. Is it an enlightened idea from a conscious mind or just another cool way of talking about business-as-usual?

Overall, it sounds a lot like the two value propositions (profit and social responsibility) that merely share a single origin in Porter and Kramer's "shared value" model, get thoroughly fused into a single metaphysical mass of enlightened managerial consciousness in the CC approach. No wonder O'toole and Vogel refer to it tongue-in-cheek as "getting religion." Yet, maybe this kind of consciousness-raising and moral value awareness at the heart of the profit function is just what business needs.

What might have been different at Wells Fargo Bank, for example, if ex-CEO John Stumpf had been someone who embraced the principles of Conscious Capitalism? It staggers the mind. Wells Fargo certainly would not be in the fiscal and reputational mess in which it currently finds itself, don't you think?

First watch the above video where Mackey explains what CC is all about, if you haven't already done so. Then read the critical article by O'toole and Vogel below, and then Mackey's rejoinder to O'toole and Vogel which follows. If you want to see what I think a conscious capitalist looks like, check out the two videos below—"Employing the full spectrum" and "Mary Kay Ash."

A critique of Conscious Capitalism

James O'Toole and David Vogel

Two and a Half Cheers for Conscious Capitalism [7]

In recent years, the idea of conscious capitalism has emerged as an important alternative approach to the problems confronting American capitalism. Embraced by a number of corporations and prominent business leaders, it represents a new strategy for reconciling business and social and environmental objectives. While this movement is an inspiring one and worthy of admiration, we believe the assumptions that underlie it suffer from

David Vogel

James O'Toole

---

[7] O'Toole, James and Vogel, David. "Two and a half cheers for Conscious Capitalism." *California Management Review,* Vol. 53 No. 3, Spring 2011; (pp. 60-76).

a number of important limitations that make it unlikely for the movement to achieve the ambitious promises of its proponents. In fact, it is often difficult to do well by doing good and few firms have been able to sustain superior social performance over the long run. Moreover, reconciling the interests of all the firm's stakeholders is often hard to achieve in practice. Most importantly, the adherents of conscious capitalism overlook the critical role that governments must play in reconciling corporate interests with broader public objectives….

Why Not Three Cheers?

In 1979, Irving Kristol published a volume of essays entitled *Two Cheers for Capitalism*. Even as fervent a champion of economic freedom as Kristol could not give capitalism a third hip-hooray because, as he admitted, *the system is, by nature, imperfect*. He thus implicitly acknowledged the obvious: despite all its advantages over a centrally planned economy, an unregulated market is prone to boom and bust cycles, rewards short-termism, does not internalize environmental costs nor provide for public goods, and can lead to grossly uneven distributions of wealth both between nations and, internally, among the populations of capitalist countries.

…It is claimed that the business practices associated with Conscious Capitalism promise to address such shortcomings of corporate capitalism as currently practiced. Hence, it is not surprising that Conscious Capitalism has been widely embraced by many business leaders, academics, and MBA students who have become enticed by the prospect of integrating greater social responsibility into mainstream business practices. Unfortunately, however, we only can give Conscious Capitalism two and a half cheers.

We applaud the pioneering efforts of many business leaders to create a new model for business behavior and admire what their firms have accomplished; hence our two and a half cheers. Yet, we also are skeptical of their claims that their practices will, or can, be more widely adopted, let alone bring about the kind of social and environmental transformation of American business (and world society) that its advocates and adherents envision. Just because some business firms can survive, and even prosper, by behaving more virtuously does not mean that most, or even many, other firms can or will do likewise. We also can't give the movement three cheers because we are concerned that the Conscious Capitalism movement is creating unrealistic expectations for corporate performance that could serve to undermine other strategies that are needed to reconcile corporate practices and social needs.

Doing Well by Doing Good

While the term Conscious Capitalism is new, its underlying claim that firms can do well, or even better, by doing good is not. Between 1992 and 2003, Howard

Rothman and Mary Scott published three editions of *Companies with a Conscience*, each of which featured profiles of a dozen profitable companies that exemplified the values of "caring capitalism." A steady stream of recently published books have advised managers how to: make "doing good an integral part of doing well," "deliver value with values," "build value through values," and "profit from passion and purpose."

The claim that virtue pays has recently been given even wider currency under the rubric of "sustainability." Many advocates of corporate "greening" claim that, according to the title of a recent article published in the *Harvard Business Review*, "sustainability is now the key driver of innovation." This theme is echoed in a steady stream of recently published books on sustainability…. These books extol the imperative for firms to incorporate sustainability into their core business practices and strategies and to demonstrate the business benefits of doing so….

The Promises of Conscious Capitalism

The Conscious Capitalism movement goes a step further. For example, a recently published book of essays is titled *Be the Solution: How Entrepreneurs and Conscious Capitalists Can Solve All the World's Problems*. It contains an essay by John Mackey, the CEO of highly successful Whole Foods Market, who has become the leading business advocate of Conscious Capitalism. Mackey argues that Conscious Capitalism represents a "new paradigm" for business:

> Business needs to become holistic and integral with deeper comprehensives purposes. Corporations must rethink why they exist. If business owners/entrepreneurs begin to view business as a complex and evolving interdependent system and manage their business more consciously for the well-being of all their major stakeholders, while fulfilling their highest business purposes, then I believe that we would begin to see the hostility towards capitalism and business disappear.

According to two other business proponents of Conscious Capitalism, "the profit motive, not government or charity, will create the kind of socially responsible world we want our kids and grandkids to grow up in." They add that "creating a win-win business model—with the wins being what benefits the company, its stakeholders, and the environment/society in general—*is the only way to optimize value.*"

Competing Business Models

… Another source of our skepticism is the limited applicability of the business model that underlines Conscious Capitalism to many other firms and industries. The problem is not that Conscious Capitalism isn't a viable business model; it clearly is. Rather, it is *not* the *only* viable business model. Scores of business books claim to have discovered *the* key to business success, but none has actually discovered this holy grail

for the simple reason that no one business strategy or model is always, or continually, superior to every other one. The same holds true for Conscious Capitalism's business models. As the experience of American financial institutions demonstrates, firms may prosper by offering highly inflated compensation to their senior managers. Many industrial firms in the United States have delivered high returns to their shareholders precisely by laying off large numbers of employees. Firms may also flourish by marketing highly attractive products or services—for example, Apple, E-Bay, Microsoft, Facebook, Verizon, and H&M—without practicing any of the tenets of Conscious Capitalism.

Because the number of successful business strategies and models is infinite, no one is, or can always be, superior to all the others. The business world is highly complex and the sources of business success are diverse and constantly changing. Why, then, should we expect all, or even most, firms to follow the Conscious Capitalist route when there are so many others readily available that are at least, if not even more, profitable? The reality is that many firms have and will continue to prosper that do not subscribe to the principles and practices of Conscious Capitalism. That is why we are not convinced that Mackey and others will be any more successful than Owen was two hundred years ago in convincing other executives to "get religion" and change the way they conduct their businesses….

The Shortcomings of Stakeholder Management

We also are skeptical of the commitment of Conscious Capitalism firms to treat all their stakeholders equally and fairly. This goal is laudable, but often difficult to realize in practice. Without doubt, there are some—even many—business decisions that benefit multiple stakeholders, and Conscious Capitalists make an important contribution by developing and implementing those. Nonetheless, it strains credulity to believe that *all* business decisions fall into this category. At publicly traded corporations, in particular, meeting investor expectations is critical, and mangers have no choice but to put the interests of shareholders first. While Conscious Capitalists are correct in claiming that meeting the interests of other stakeholders is ideally the best strategy for creating profits for owners, it is also the case that the interests of stakeholders can and often do diverge.

The Limited Potential of Firms to Do Good

The Conscious Capitalism movement also exaggerates the potential of business firms to "do good." An important insight and contribution of Conscious Capitalism, and the corporate social responsibility and sustainability movements in general, has been to show that firms have more potential to make positive social and environmental contributions than many managers and owners, as well as critics of corporate capitalism, have recognized. Most companies, for example, have found profitable ways to treat their employees better or to reduce their environmental

footprints. In addition, some companies have discovered profitable ways to address the needs of the world's poorest citizens. The list of such activities is large, and growing….

The number of such "win-win" business opportunities is also limited. It is unrealistic to suggest that even the most socially conscious and committed business managers can "solve the world's problems." Many of those problems are simply beyond the scale, scope, and competencies of business firms to address. Some of those problems may require governmental action, while others are better addressed by non-profits or by social enterprises not required to deliver a market rate of return. Capitalism, as Kristol noted, is a wonderful system whose ability to improve public welfare is indeed extraordinary—but there are many laudable goals that the market is simply incapable of accomplishing—however commendable the intentions and actions of Conscious Capitalists.

Ethics and Profits

A useful way of thinking about the complex relationship between virtue and profits is to view business activities as falling into one of four categories:

Cell One **Profitable/Virtuous**	Cell Two **Not Profitable/Virtuous**
Cell Three **Profitable/Not Virtuous**	Cell Four **Not Profitable/Not Virtuous**

Categories of Business Activities

Cell One represents the "zone of opportunity" for Conscious Capitalism, corporate social responsibility, and sustainable business practices. Many of the businesses created by the new, so-called "social entrepreneurs" fall into this category. These entrepreneurs (profiled regularly in *Business Week* and *Fast Company)* have developed business models that make money by doing good—for example, by creating an inexpensive product for sale in the developing world that simply and quickly purifies water, or by marketing healthy, environmentally friendly products domestically. There are, literally, thousands of examples of business activities that fall into this first category. Indeed, almost all of virtuous activities typically associated with the policies and practices heralded by Conscious Capitalists are found in Cell One. Such activities—running the gamut from recyclable shopping bags to employee stock ownership programs—are desirable economically, socially, environmentally, and ethically….

Indeed, if all business activities were to potentially fit into Cell One, then advocates of Conscious Capitalism would have a strong, even compelling, case.

Unfortunately, most do not. In fact, Cells Two and Three are now, and are likely to remain, much larger….

The extent to which American businesses can be said to have become "more sustainable" over the last decade is due largely to their increasing adoption of Cell One environmental practices that are both profitable and virtuous. Unlike some critics, we do not question the motives of those who make money from their good deeds. Instead, our concern is that business students, corporate managers, entrepreneurs, and the general public are confusing those profitable activities with the unprofitable ones found in Cell Two.

To be sure, the distinction between which virtuous practices fall into Cell One and which belong in Cell Two is not always obvious. As we note above, one of the contributions of Conscious Capitalism has been to broaden the scope of Cell One by encouraging many managers to recognize that the number of virtuous activities that are, in fact, financially viable is both large and growing. Moreover, the economic benefits of many business programs or policies associated with corporate social responsibility can be difficult to quantify and, thus, managers enjoy a considerable degree of discretion in deciding which responsible activities make business sense.

The Need for Government

… In the business press, the halls of Congress, the classroom and, ironically, even in the writings of the harshest critics of corporations, publicly stated expectations concerning the social and environmental benefits of marketplace behavior are becoming wildly inflated. Thus, for example, we now hear that the market can "solve" the problem of making economic growth sustainable and also eradicate global poverty.

Business students are particularly susceptible to such hyperbole: caught up in the rhetoric of Conscious Capitalism, one enthusiastic team of MBA students competing in a global case competition recently claimed that the progressive policies of India's Tata Corporation would "solve the problem of poverty in the developing world." Now, Tata may be one of the world's most socially conscious global companies, but its business decisions are highly unlikely to end, or even significantly ameliorate, third-world poverty. The fact is that some problems are so large, or systemic, that they cannot be solved solely by the actions of individual businesses—even if all or most of those actions somehow could be "voluntarily" channeled in the same direction. That is why, for example, many corporate executives and entrepreneurs understand that government support is needed to fund high-risk activities for which there is no short-term payoff, such as research and development grants for renewable and clean energy as well as pharmaceuticals for which there is a very small market,

The Limits of Conscious Capitalism

Conscious Capitalists neither discovered the business benefits of corporate virtue, nor were they the first to practice enlightened business behavior. The singular fresh contribution of Conscious Capitalism is its philosophical squaring of free-market principles with progressive business practices by stressing the profit-making potential of responsible, ethical, and sustainable corporate behavior. Since no corporate managers want to be accused of taking advantage of shareholders, this re-branding is significant because it legitimates a wide range of more responsible corporate practices. The creation of a common ground for progressives and libertarians is no mean feat (although it is easier to do at the micro, firm level, than the macro, national level). Indeed, we believe this creative squaring of the circle is why the movement is increasingly seen as so attractive.

Yet, at the same time we need to recognize that because markets have limits, various kinds of government intervention, along with the activities of non-profit organizations, remain essential to address many world problems. Clearly, Conscious Capitalism can inspire the improvement of many corporate practices, which is an objective we applaud and wish to encourage. However, its adherents need to develop a more realistic understanding of what even the most socially conscious capitalists can and cannot accomplish. By promising more than it can deliver, the Conscious Capitalism movement is in danger of impeding rather than promoting the kinds of social and environmental goals it seeks to achieve, most notably by ignoring the necessary role for government….

"Employing the Full Spectrum" -- This short video from Starbucks' awesome 'Upstanders' series is a good illustration of Conscious Capitalism in action. What is the 'higher purpose' illustrated here? (6:18)

Mackey responds to O'toole and Vogel

John Mackey: What Conscious Capitalism Really Is

A Response to O'Toole and Vogel's "Two and a Half Cheers for Conscious Capitalism"[8]

James O'Toole and David Vogel have written a critique of Conscious Capitalism (CC) titled "Two and a Half Cheers for Conscious Capitalism." While they offer interesting insights in their critique I believe that overall their critique falls short for several reasons. Their primary mistake is to fail to understand what CC really is. In so far as their critique is valid, it is not actually referring to Conscious Capitalism, but rather to Corporate Social Responsibility (CSR). As I will explain, these are not synonyms, but represent distinct philosophies of business.

Unfortunately, I don't have the space here to give a detailed explanation of Conscious Capitalism. I have done so numerous times in other places, however. However, I believe it is important to summarize here the four key principles of Conscious Business in order to provide just a bit of context for the discussion

Higher Purpose

Just as all other professions in our society have purposes besides maximizing profits—doctors heal the sick, teachers help educate people, architects design buildings, and lawyers promote justice—so too should business. In my experience, most entrepreneurs who create businesses do so for reasons beyond just trying to make money. While there is nothing wrong with making money, indeed it is absolutely necessary for the enterprise to flourish; it is not by itself a very inspiring purpose for the enterprise. The single most important requirement for the creation of the highest levels of trust and performance for any enterprise is to discover or rediscover the higher purpose of the enterprise. Why does the business exist? What is it trying to accomplish? What core values will inspire the enterprise and create greater trust and commitment from all of its stakeholders?

While there are potentially as many different purposes as there are enterprises, I believe that great enterprises usually have great purposes. The highest

---

ideals that humans aspire to should be the same ideals that our enterprises also have as their highest purposes. These include such timeless ideals as:

- *The Good:* Service to others—improving health, education, communication, and the quality of life.
- *The True:* Discovery and furthering human knowledge.
- *The Beautiful:* Excellence and the creation of beauty.
- *The Heroic:* Courage to do what is right to change and improve the world.

Enterprises that place such higher purposes at the very core of their business model tend to inspire trust from all of their major stakeholders: customers, employees, investors, suppliers, and the larger communities in which they exist. Higher purpose and shared core values tend to unify the enterprise behind their fulfillment and usually act to pull the overall enterprise upwards to a higher degree of ethical commitment as well.

Mary Kay Ash is one of my favorite Conscious Capitalist entrepreneurs. What was her 'higher purpose'? What moral values connected to business practices drove her success? Check out Mary Kay's amazing and heart-warming biography in this brief video. (3:59)

Conscious Capitalism Is Not Primarily About Virtue or "Doing Good"

I don't believe that O'Toole and Vogel fundamentally understand what CC really is. They seem to believe it is primarily about "doing good" in business. They spend quite a bit of their critique discussing the merits and problems of "virtue in business." I believe that this interpretation of CC is fundamentally incomplete and flawed. I am not certain which sources they have drawn upon for their interpretation of CC as striving for virtue, but this has never been my belief. While of course many Conscious Businesses are motivated by the higher purpose of seeking to realize "The Good," this higher purpose is only appropriate for a minority of Conscious Businesses. Many other purposes motivate Conscious Businesses besides the pursuit of virtue or "Doing Good." The pursuit of excellence, furthering human knowledge, creating beauty, and solving problems and creating various kinds of human value are common with many Conscious Businesses.

O'Toole and Vogel create an interesting matrix to classify business activities based on two variables—profitability and virtuous behavior. Pairing these two variables together results in four categories: Profitable/Virtuous, Not Profitable/Virtuous, Profitable/Not Virtuous, Not Profitable/Not Virtuous. While this classification system can be a useful tool for thinking about business, it is also highly misleading. It creates the inaccurate impression that 100% of business activities are roughly divided between the four categories with approximately 25% in each.

O'Toole and Vogel seem to believe that ordinary business exchanges are not inherently "virtuous," but that something additional needs to done to make them virtuous. However, I believe that a comprehensive appraisal of business activities would allocate over 99% of them into the first category—Profitable/Virtuous. This is based on the cardinal principle of capitalism expressed as voluntary exchange for mutual benefit. No one is coerced to trade with the firm, and stakeholders do so for mutual benefit. Such exchanges are almost always both profitable for the stakeholder (or they wouldn't be made) and virtuous (since they are beneficial to both the firm and the stakeholder). While it is possible to think of examples of business activities that fall into the other three categories it is important to realize that these other three categories are in no way typical of most business activities.

Business doesn't need to do anything special to be virtuous! It doesn't need to be philanthropic and give large sums of money away to non-profit organizations (although such generosity is certainly a good thing most of the time). It doesn't need to engage in Corporate Social Responsibility (CSR) in order to atone for its "crimes" of being a business and making money. It doesn't need to try to solve social or environmental problems to be virtuous. Ordinary business exchanges are inherently virtuous. Business creates value for all of its major stakeholders that are exchanging with it and these acts of value creation are "good." Business creates products and services that its customers

want and value. It creates employment and provides wages and benefits that its employees want and value. It trades with numerous suppliers and such exchanges create mutually beneficial value or the exchanges wouldn't be made. The successful business creates profits for its investors and therefore wealth for the larger society through savings and taxes. Many businesses do feel a sense of "social responsibility" and provide donations and support for the not-for-profit sector, and while such philanthropy is certainly commendable it is not the essence of "business virtue." Instead, I believe the argument can be successfully made that ordinary business exchanges aggregated collectively are the greatest creator of value in the entire world and that this value creation is the source of "business virtue."

This voluntary exchange for mutual benefit creates the ethical foundation of business and that is why business is ultimately justified to rightfully exist within a society. This ethical foundation of business doesn't necessarily mean that everything any particular business does is always ethical, but only that voluntary exchange for mutual benefit is itself an ethical process. A business is still expected to behave ethically in its voluntary exchanges (not lie, steal, or cheat) and to be responsible for any negative impacts it may create (for example, environmental pollution). The reality that some voluntary exchanges in business may create some negative impacts for the larger society or the environment lessens, but doesn't negate, the overall virtue of business.

Conscious Capitalism versus Corporate Social Responsibility

O'Toole and Vogel see CC as a synonym for Corporate Social Responsibility (CSR). In contrast, I will argue that CC is quite distinct from CSR. I believe that their critique is fairly accurate when applied to CSR, B-Corporations, "caring capitalism," "virtuous capitalism," "creative capitalism," but has been misapplied to Conscious Capitalism. In their critique, O'Toole and Vogel draw no distinctions between any of the above models, but simply equate them all as interchangeable. This is both inaccurate and unfair to Conscious Capitalism, which has a well-articulated philosophy that is both unique and valuable. The emphasis in CC on higher purpose, stakeholder interdependence, conscious leadership, and conscious culture set CC apart from CSR and their "cousins" listed above. CSR and its cousins all attempt to "graft" social and environmental responsibility onto what in many cases is just a traditional corporate business model. Corporate Social Responsibility is not Conscious Capitalism

A Defense of Stakeholder Management

In their section on stakeholder management, O'Toole and Vogel make several claims that I believe are inaccurate. "We also are skeptical of the commitment of Conscious Capitalism firms to treat all their stakeholders equally and fairly." I am not aware of any claims by the CC movement to treat all stakeholders "equally." Indeed, such a goal would be difficult to impossible to achieve and I have never advocated this.

[79]

Most Conscious Businesses tend to put their highest priority on either their customers (Whole Foods Market, for example) or their employees (Southwest Airlines and The Container Store, as examples). Conscious Businesses understand the interdependent relationships that exist between stakeholders and seek strategies that can create value for all of them simultaneously. While conflicts may sometimes exist, it is important to realize that a "harmony of interests" is actually the normal state of most business activities. The existence of "tradeoffs" in business is usually the exception, and not the rule.

O'Toole and Vogel go on to say: "Nonetheless, it strains credulity to believe that *all* business decisions fall into this category. At publicly traded corporations, in particular, meeting investor expectations is critical, and managers have no choice but to put the interests of shareholders first. … For example, when a company lowers its costs by outsourcing production to developing countries, what is good for its customers is not necessarily beneficial for its employees, and when sales decline, firms often have no alternative but to layoff employees to the benefit of shareholders…. Conscious Capitalism provides no guide to help managers recognize, let alone manage, the kinds of painful trade-offs all firms must periodically be prepared to make in order to survive. Moreover, absent that guidance, it is realistic to assume that when making such necessary trade-offs, the interests of investors are likely to be paramount, especially if the firm is publically traded."

The primary mistake O'Toole and Vogel make here is to assume that when a company makes difficult business decisions that benefit the firm over the long-term that these decisions are benefitting the investors, but not necessarily the other stakeholders. However, once one is able to see the firm through the lens of the interdependent stakeholder model, one sees that this assumption is not necessarily true. All the interdependent stakeholders have a stake in the flourishing of the business, not just the investors.

In the example they use, outsourcing production to developing countries, they see that customers and investors might benefit, but not necessarily the employees who might lose their jobs. It is quite possible that a CB might choose to outsource some of its production, but this is not necessarily a bad thing—even for the employees. It would likely lower prices to customers, increase profits for investors, create new supplier relationships, and create new jobs in the poor developing world (which would help alleviate poverty). Since this would possibly make the firm more successful and sustainable, this is a good strategy for the employees as well, who would all suffer were the firm to become structurally unprofitable and need to resort to massive layoffs. The CB firm would approach outsourcing in a conscious way, valuing their employees and the morale of their organization, and it would seek to manage the transition in such a way as to minimize the loss of jobs through staging the outsourcing over time, while

retraining their employees for other jobs with the firm. My company, Whole Foods Market, has undergone such transitions many times through integrating 20+ acquisitions and evolving many of our structures to become more efficient and productive. We have dedicated ourselves to retraining our Team Members for new jobs within the company and giving them a great deal of assistance in finding jobs outside of the company if they wish to leave. Over time, normal attrition of jobs allows a CB to adjust their payrolls, while evolving their structures to become more productive.

Are there special pressures that fall upon the public firm to benefit the investors at the expense of other stakeholders as O'Toole and Vogel indicate? That hasn't been my experience as a CEO of both a CB and a public firm. All stakeholders, not just investors, are seeking more from the firm. In my experience, pressures from customers are the greatest, followed by employees, and then the investors. What is important to understand is that all of the major stakeholders have an interest in the firm flourishing, not just the investors.

Can Conscious Capitalism Solve All the World's Problems?

O'Toole and Vogel mistakenly believe a claim has been made that Conscious Capitalism can "solve all of the world's problems" and then define Conscious Capitalism narrowly to mean only socially conscious business managers. Such a claim has not been made by the Conscious Capitalism movement in such a narrow way. Rather, creative entrepreneurs of all types are essential to create the innovations necessary to solve the world's problems. These include not just business entrepreneurs, but also social entrepreneurs, educational entrepreneurs, medical entrepreneurs, environmental entrepreneurs, and political entrepreneurs. In addition, some problems will likely only be solved through international government cooperation. Nevertheless, I do believe that Conscious Capitalism has the potential to make substantial contributions over time to solving many of the world's problems.

Response to Personal Criticisms

O'Toole and Vogel compare me to the 19th century social reformer, Robert Owen. This is a highly unflattering comparison to me since Owen was a Utopian Socialist who disapproved of capitalism, while I consider myself highly pro-capitalism with strong libertarian convictions. I believe Owen's projects were intrinsically doomed to failure due to a flawed philosophy and strategy. In contrast, Whole Foods Market is now over 30 years old with $10 billion in sales, millions of customers, 60,000+ team members, and over $10 billion in market capitalization. We have created tremendous value for our customers, team members, suppliers, investors, and communities; and, unlike Owen, our philosophy and strategy have both proven to be very resilient. The comparison with Robert Owen is both inaccurate and inappropriate.

Conclusion

O'Toole and Vogel have written an excellent critique concerning the limitations of Corporate Social Responsibility. However, their critique has far less applicability to Conscious Capitalism or Conscious Business as I have described them in my writings and talks. Conscious Capitalism won't solve all the world's problems by itself, but I believe it is a better way to do business and it can solve many problems. Both capitalism and corporations have negative brands around the world. They are often seen as greedy, selfish, exploitative, and not trustworthy. By focusing on the higher purpose of business and understanding the importance of creating value for all of the major interdependent stakeholders, Conscious Capitalism has the potential over time to appropriately upgrade and improve the reputation of business around the world. I believe it deserves a full three cheers!

---

4 key principles of Conscious Capitalism

1. Higher purpose than maximizing profits

– Good, True, Beautiful, Heroic

– video (2:33)

2. Stakeholder Interdependence

– Customer, employees, suppliers, society, environment

– video (2:19)

3. Conscious Leadership

– Importance of CEO and senior leadership

– video (1:51)

4. Conscious culture

– self-managing teams, empowerment, transparency, authenticity, a commitment to fairness, personal growth, and love and care

– video (1:48)

R. D. Walsh
How to get good grades without trying:
wei wu wei and a Higher Purpose

The Sage is occupied with the unspoken
and acts without effort (*wei wu wei*).
Teaching without verbosity,
producing without possessing,
creating without regard to result,
claiming nothing,
the Sage has nothing to lose.

From *Tao Te Ching*

All through elementary and high school I was a 'problem' student. I didn't like being told what to do and had a negative attitude toward authority figures. Consequently, it seemed like I was always 'in trouble' at school. This rebellious attitude came to a climax in my freshman year at college.

I left home and moved into an off-campus apartment with a couple of high school friends. Much of that first crazy year in college was spent experimenting with newfound freedoms—and cutting a lot of classes to do so! After a bumpy ride, my freshman year ended rather badly. A stormy disagreement erupted with the Dean about the cause of my ultra-low GPA. I was politely but firmly asked to leave school and not come back.

After working in the advertising industry for a year, I was re-accepted and returned to school with a fresh attitude and new determination. There was a different Dean in place and he let me be flexible with the required curriculum. And then a big breakthrough occurred for me in an Introduction to Philosophy course I took.

To my surprise, I felt immediately at home among the ancient philosophers. I could hear their voices as if they were speaking aloud to me. I loved their questioning of authority and exposing of false ideas in a dedicated search for truth, goodness, and beauty. Philosophy helped me to see the joy of pursuing knowledge for the sake of wisdom and living the best possible life. I couldn't get enough of it. But, in contrast, I disliked feeling forced to study for the sake of exams, even though I helplessly fell into that trap. Everyone did. Like mass hypnosis! Your status as a person seemed to rest on your GPA. From this perspective, the whole reason to study was to get good grades. That is *performance consciousness*.

Exam-taking had always been a source of anxiety for me. If I did well, I thought I was smart and felt good about that. But when I did not do well, I felt inept and stupid. I was a victim of the attribution error. I secretly feared that I was not intelligent enough to be a philosopher,

despite the fact that I loved it. Studying so many brilliant thinkers was intellectually intimidating! Grade consciousness added to performance anxiety on top of intellectual self-esteem challenges only made exam-taking worse.

Meanwhile, I had taken a course in Eastern Philosophy where I learned from the Chinese sages about the Taoist principle called *wei wu wei*, often translated as "doing by not doing" or "acting without effort," as in this line from the epigraph above:

The Sage is occupied with the unspoken
and acts without effort (*wei wu wei*).

According to this idea, it is best not to focus on trying to produce outcomes directly, especially when they may be out of your control anyway. This could be disastrous, as Epictetus argues. Better to focus on the meaningfulness of the process itself, to let go of trying to control it directly and let it be what it wants to be…going with the flow. If your focus is good and true, you can be certain that outcomes will be beneficial, without having to *make* them happen.

That sounded good to me, maybe too good to be true, so I decided to practice the *wei wu wei* approach to exam-taking and see what happened. What really mattered to me, I thought, was how much I loved learning about philosophy, psychology, history and other subjects. In the final analysis, I didn't care about how someone else judged this love of mine. So I made an effort to stop caring about grades altogether and focus exclusively on what I loved doing just because I loved doing it. I then found myself feeling much better about studying because I was doing it for the sole sake of learning and cultivating my knowledge, and not for the sake of getting a grade. That is *mastery consciousness*.

This is similar to John Mackey's idea that successful business persons will focus on pursuing a "higher purpose" for their business. From this pursuit of a higher purpose profits will naturally follow—more profits than if the business person had focused directly on making profit itself! I found this to be true. Doing good does seem to result in naturally doing well, and, if not, there is always good in that too.

No sooner did I stop caring about the grades I got for studying what I loved than the good grades came rolling in! I became a straight 'A' student virtually overnight and was consistently on the Dean's List after that. It took some effort not to let that success define me or undermine my love of learning. But … no more test anxiety! Exams worked for me now. They were an opportunity to show off my learning, to see what I could do, to get feedback about where I was at. I learned to enjoy them and have fun with them and see them as desirable and interesting challenges. Now *I* was in charge of the test-taking rather than being victimized by it.

This success as an undergraduate student would stay with me through two masters' degrees and a Ph.D. where I was consistently at the top of my class, without really caring too much about that competitive success. It simply followed organically from the fact that I passionately loved what I was doing. And that love is under my control to some extent, so I can nurture and cultivate it. Thus, *wei wu wei* became a life principle for me that has consistently resulted in success without trying too hard to make success happen.

Doing something because you love doing it, are passionate about it and believe it is worthwhile is focusing on *mastery* rather than *performance*; focusing more on the process itself than the outcome. Being motivated by a higher purpose, such as the mastery of your craft and the good it can accomplish for others in the world, will bring you success more certainly than if you focus on trying to make that success happen directly.

That is the lesson I learned from the idea of *wei wu wei*.

TOPIC 4
GENDER DIVERSITY AND BIAS IN THE WORKPLACE

Biological determinism and social constructivism

There has been a flood of stories in the news this past summer about the lack of gender diversity in the tech industry at companies such as Facebook, Uber, and Amazon. Google was dragged into the heart of that debate recently from two separate directions. First, Google is dealing with a prolonged Department of Labor investigation into unfair compensation practices and a possible gender wage gap at the firm; and, secondly, the company is dealing with fallout from an internal memo written by ex-Google software engineer, **James Damore**. In his memo, Damore suggested, citing well-known research, that *biological factors may be contributing to the lack of women in the tech industry.* Damore's memo re-opened an old and often acrimonious moral debate about human nature, embodiment, social justice and gender.

Damore claimed that the huge amounts of money being spent by Google to recruit women into the tech industry through affirmative-action-type gender diversity programs may be counterproductive and demoralizing. For promulgating such progressive heresies, which somehow violated Google's code of ethics according to Google's CEO Sundar Pichai, Damore was summarily fired. In his memo to Google's 72,000 employees the day after Damore's firing, Pichai acknowledged "the right of Googlers to express themselves," and, he said, "much of what was in that memo is fair to debate…"

"However," he added, "portions of the memo violate our Code of Conduct and cross the line by advancing harmful gender stereotypes in our workplace. Our job is to build great products for users that make a difference in their lives. To suggest a group of our colleagues have traits that make them less biologically suited to that work is offensive and not okay. It is contrary to our basic values and our Code of Conduct."

You should read Damore's memo below and see if you think he says that women at Google are "less biologically suited to that work" or if David Brooks is right when he says that Pichai's assessment "is a blatantly dishonest characterization of the memo" because "Damore wrote nothing like that about his Google colleagues." Fallout from the sore spot Damore uncovered continues today, as you can see here, and here, and here.

Apparently, the question of how **biological determinism** and **social constructivism** contribute to the lack of women in STEM jobs is too hot to debate, despite the fact that Pichai himself confirmed that "The author had a right to express their (sic) views on those topics—we encourage an environment in which people can do this and it remains our policy to not take action against anyone for promoting these discussions." But somehow, Damore crossed a moral red line in Pichai's view, and his memo was deemed immoral or "not OK" in the language of Google's political correctness. And that caused an uproar like other moral uproars being heard these days. David Brooks of the New York Times put it this way:

> The mob that hounded Damore was like the mobs we've seen on a lot of college campuses. We all have our theories about why these moral crazes are suddenly so common. I'd say that radical uncertainty about morality, meaning and life in general is producing intense anxiety. Some people embrace moral absolutism in a desperate effort to find solid ground. They feel a rare and comforting sense of moral certainty when they are purging an evil person who has violated one of their sacred taboos.[9]

---

[9]Brooks, David. "Sundar Pichai Should Resign as Google's C.E.O." New York Times, August 11, 2017. https://www.nytimes.com/2017/08/11/opinion/sundar-pichai-google-memo-diversity.html

At what point does asking critical questions about moral and social issues such as gender diversity become the "advancing of harmful gender stereotypes" and the creation of a "hostile workplace." Is Pichai's assessment of Damore's memo itself stereotypical, biased, or derogatory? Do you think that Damore should have been fired? Is Pichai's decision consistent with the principles of fairness promulgated by Google's code of ethics? There are calls for Pichai to resign. Does *that* seem reasonable?

The fact that there are less women working in the tech industry, particularly in software engineering, is not in dispute. This differential is occurring world-wide at a ratio of about 3 to 1. The big tech companies have been spending a lot of money and exerting a lot of effort to change this, but, so far, these efforts have made only a minor dent in the stubborn ratio.

So, the question remains. If biological traits determine to some extent the kind of work men and women prefer and are good at (in addition to social and cultural influences), then this would account to some degree for the lack of women in tech. But, if the kind of work men and women prefer is solely the result of socially constructed attitudes, beliefs, and values, then something can be done to change the gender disparity in tech.

The question of gender diversity in the workplace is often couched in such black and white terms, reflecting an abject lack of moral pluralism. How would it look through a perspectival, pluralist lens?

There is a third alternative that is often not considered in the popular media due, perhaps, to the conventional way of reducing complex moral situations to binary, black and white terms. This mediating approach to understanding the question of women in tech is proposed by **Alice Eagly** in her article below "Does biology explain why men outnumber women in tech?" As she asserts, could it not be a matter of *both/and* rather than *either/or?* Biological determinants *and* social conditioning combine to produce adult personality traits, according to Eagly, although how this happens is not entirely clear. Research on the development of temperament in children shows the influence of biology, but, Eagly says, "scientists don't fully understand the pathways from these aspects of child temperament to adult personality and abilities."

The short video below summarizes the biological determinism versus the social constructivist understanding of gender.
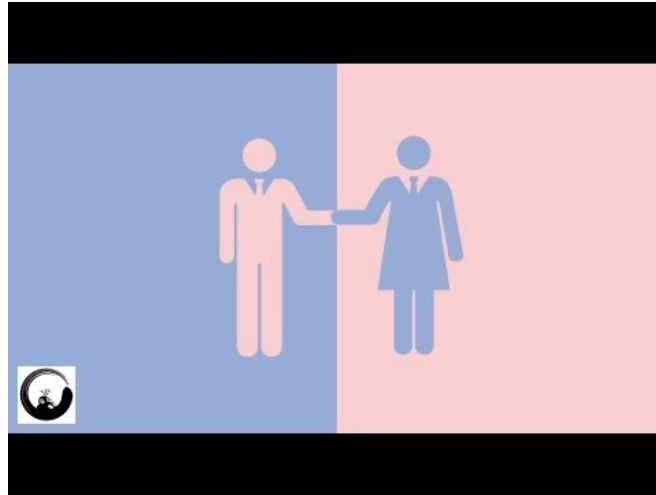
Perhaps, as Eagly suggests, it is *given* biological differences between women and men that are cultivated and constructively configured through 'social engineering' or social reinforcement and conditioning. Social constructivism doesn't start from scratch; *something* is given. Without a contribution from nature, there would be nothing to nurture. Determining exactly how much of any person is influenced by what is 'given' and how much of any person's moral response is 'constructed' would be impossible to determine in real time, given the complexity and dynamism of the 'factors' involved.

Like trying to determine exactly what is under our control, on the one hand, and what is not even within the realm of possibility for us to control, on the other. This is a very important distinction, as we learned from Epictetus, but one that often is not made easily, as can be seen in the present case of gender discrimination in the workplace. Both Nature and Nurture contribute to our being the person we are, what we like and what we don't like, and what kind of work we want to do.

James Damore

Google diversity memo - "The document that got me fired from Google"

James Damore

POSTED ON AUGUST 8, 2017

[The document that got me fired from Google](#)

This is the full document, with internal Google links and preamble removed, and edited purely for formatting purposes. A broader document can be found [here](#).

- Google's political bias has equated the freedom from offense with psychological safety, but shaming into silence is the antithesis of psychological safety.

- This silencing has created an ideological echo chamber where some ideas are too sacred to be honestly discussed.

- The lack of discussion fosters the most extreme and authoritarian elements of this ideology.

    - Extreme: all disparities in representation are due to oppression

    - Authoritarian: we should discriminate to correct for this oppression

- Differences in distributions of traits between men and women (and not "socially constructed oppression") may in part explain why we don't have 50% representation of women in tech and leadership.

- Discrimination to reach equal representation is unfair, divisive, and bad for business.

Background

People generally have good intentions, but we all have biases which are invisible to us. Thankfully, open and honest discussion with those who disagree can highlight our blind spots and help us grow, which is why I wrote this document. Google has several biases and honest discussion about these biases is being silenced by the dominant ideology. What follows is by no means the complete story, but it's a perspective that desperately needs to be told at Google.

Google's biases

At Google, we talk so much about unconscious bias as it applies to race and gender, but we rarely discuss our moral biases. Political orientation is actually a result of deep moral preferences and thus biases. Considering that the overwhelming majority of the social sciences, media, and Google lean left, we should critically examine these prejudices:

Left Biases	**Right Biases**
Compassion for the weak	Respect for the strong/authority
Disparities are due to injustices	Disparities are natural and just
Humans are inherently cooperative	Humans are inherently competitive
Change is good (unstable)	Change is dangerous (stable)
Open	Closed
Idealist	Pragmatic

Neither side is 100% correct and both viewpoints are necessary for a functioning society or, in this case, company. A company too far to the right may be slow to react, overly hierarchical, and untrusting of others. In contrast, a company too far to the left will constantly be changing (deprecating much loved services), over diversify its interests (ignoring or being ashamed of its core business), and overly trust its employees and competitors.

Only facts and reason can shed light on these biases, but when it comes to diversity and inclusion, Google's left bias has created a politically correct monoculture that maintains its hold by shaming dissenters into silence. This silence removes any checks against encroaching extremist and authoritarian policies. For the rest of this document, I'll concentrate on the extreme stance that all differences in outcome are due to differential treatment and the authoritarian element that's required to actually discriminate to create equal representation.

Possible non-bias causes of the gender gap in tech

At Google, we're regularly told that implicit (unconscious) and explicit biases are holding women back in tech and leadership. Of course, men and women experience bias, tech, and the workplace differently and we should be cognizant of this, but it's far from the whole story.

On average, men and women biologically differ in many ways. These differences aren't just socially constructed because:

- They're universal across human cultures
- They often have clear biological causes and links to prenatal testosterone

- Biological males that were castrated at birth and raised as females often still identify and act like males

- The underlying traits are highly heritable

- They're exactly what we would predict from an evolutionary psychology perspective

Note, I'm not saying that all men differ from all women in the following ways or that these differences are "just." I'm simply stating that the distribution of preferences and abilities of men and women differ in part due to biological causes and that these differences may explain why we don't see equal representation of women in tech and leadership. Many of these differences are small and there's significant overlap between men and women, so you can't say anything about an individual given these population level distributions.

Populations have significant overlap

Trait

Reducing people to their group identity and assuming the average is representative ignores this overlap

Trait
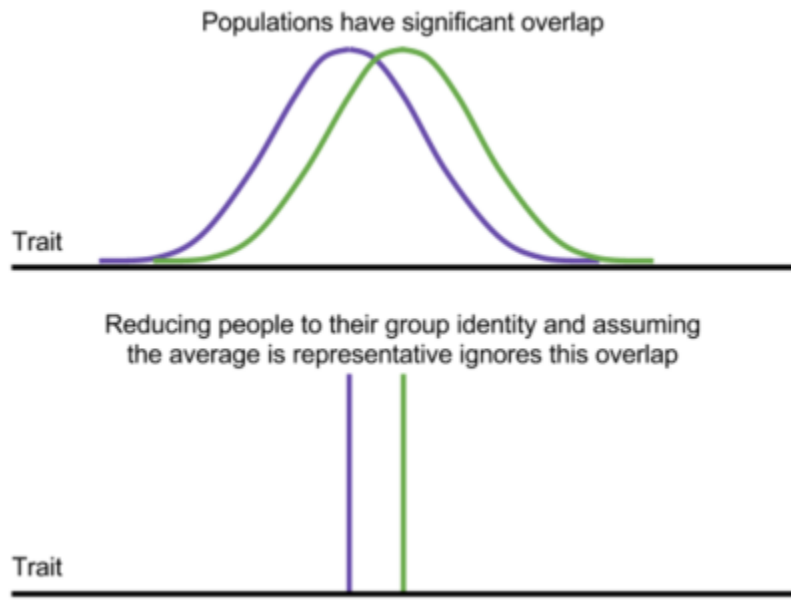
Personality Differences:

Women, on average, have more:

- Openness directed towards feelings and aesthetics rather than ideas. Women generally also have a stronger interest in people rather than things, relative to men (also interpreted as empathizing vs. systemizing).

  - These two differences in part explain why women relatively prefer jobs in social or artistic areas. More men may like coding because it requires systemizing and even within SWEs, comparatively more women work on front end, which deals with both people and aesthetics.

- Extraversion expressed as gregariousness rather than assertiveness. Also, higher agreeableness.

  - This leads to women generally having a harder time negotiating salary, asking for raises, speaking up, and leading. Note that these are just average differences and

there's overlap between men and women, but this is seen solely as a women's issue. This leads to exclusory programs like Stretch and swaths of men without support.

- Neuroticism (higher anxiety, lower stress tolerance).

  - This may contribute to the higher levels of anxiety women report on Googlegeist and to the lower number of women in high stress jobs.

Note that contrary to what a social constructionist would argue, research suggests that "greater nation-level gender equality leads to psychological dissimilarity in men's and women's personality traits." Because as "society becomes more prosperous and more egalitarian, innate dispositional differences between men and women have more space to develop and the gap that exists between men and women in their personality traits becomes wider." We need to stop assuming that gender gaps imply sexism.

Men's higher drive for status

We always ask why we don't see women in top leadership positions, but we never ask why we see so many men in these jobs. These positions often require long, stressful hours that may not be worth it if you want a balanced and fulfilling life.

Status is the primary metric that men are judged on, pushing many men into these higher paying, less satisfying jobs for the status that they entail. Note, the same forces that lead men into high pay/high stress jobs in tech and leadership cause men to take undesirable and dangerous jobs like coal mining, garbage collection, and firefighting, and suffer 93% of work-related deaths.

Higher variance among men

Among most psychological characteristics, including IQ, populations of men have higher variance than women even when the average is the same: there are more men on both the top and the bottom of the curve.

This may lead to more male CEOs and geniuses, but also more homeless males and school dropouts. This has likely evolved because individual males can have many children and are biologically disposable: populations are reproductively constrained by the number of its women, not men. The historically higher variance of outcome can also be seen in our genetics; we have twice as many female ancestors as male ancestors. As a corollary, if Googlers are only from the top of the curve, then this may cause us to have more men than other, less selective, tech companies.

Non-discriminatory ways to reduce the gender gap

Below I'll go over some of the differences in distribution of traits between men and women that I outlined in the previous section and how we can address them to increase women's representation in tech without resorting to discrimination. Google is already making strides in many of these areas, but I think it's still instructive to list them:

- Women show a higher interest in people and men in things

- We can make software engineering more people-oriented with pair programming and more collaboration. Unfortunately, there may be limits to how people-oriented certain roles at Google can be and we shouldn't deceive ourselves or students into thinking otherwise (some of our programs to get female students into coding might be doing this).

- Women are more cooperative

  - Allow those exhibiting cooperative behavior to thrive. Recent updates to Perf may be doing this to an extent, but maybe there's more we can do.

  - This doesn't mean that we should remove all competitiveness from Google. Competitiveness and self reliance can be valuable traits and we shouldn't necessarily disadvantage those that have them, like what's been done in education.

- Women are more prone to anxiety

  - Make tech and leadership less stressful. Google already partly does this with its many stress reduction courses and benefits.

- Women look for more work-life balance while men have a higher drive for status

  - Unfortunately, as long as tech and leadership remain high status, lucrative careers, men will be disproportionately want to be in them. Allowing and truly endorsing part time work though can keep more women in tech.

- The male gender role is currently inflexible

  - Feminism has made great progress in freeing women from the female gender role, but men are still very much tied to the male gender role. If we, as a society, allow men to be more "feminine," then the gender gap will shrink, although probably because men will leave tech and leadership for traditionally "feminine" roles.

Philosophically, I don't think we should do arbitrary social engineering of tech *just* to make it appealing to equal portions of both men and women. For each of these changes, we need principled reasons for why it helps Google; that is, we should be optimizing for Google—with Google's diversity being a component of that. For example, currently those willing to work extra hours or take extra stress will inevitably get ahead and if we try to change that too much, it may have disastrous consequences. Also, when considering the costs and benefits, we should keep in mind that Google's funding is finite so its allocation is more zero-sum than is generally acknowledged.

The harm of Google's biases

To achieve a more equal gender and race representation, Google has created several discriminatory practices:

- Programs, mentoring, and classes only for people with a certain gender or race

- A high priority queue and special treatment for "diversity" candidates

- Hiring practices which can effectively lower the bar for "diversity" candidates by decreasing the false negative rate

- Reconsidering any set of people if it's not "diverse" enough, but not showing that same scrutiny in the reverse direction (clear confirmation bias)

- Setting org level OKRs for increased representation which can incentivize illegal discrimination

These practices are based on false assumptions generated by our biases and can actually increase race and gender tensions. We're told by senior leadership that what we're doing is both the morally and economically correct thing to do, but without evidence this is just veiled neo-Marxist ideology that can irreparably harm Google.

Why we're blind

We all have biases and use motivated reasoning to dismiss ideas that run counter to our internal values. Just as some on the Right deny science that runs counter to the "God > humans > environment" hierarchy (e.g., evolution and climate change), the Left tends to deny science concerning biological differences between people (e.g., IQ and sex differences). Thankfully, climate scientists and evolutionary biologists generally aren't on the right. Unfortunately, the overwhelming majority of humanities and social sciences lean left (about 95%), which creates enormous confirmation bias, changes what's being studied, and maintains myths like social constructionism and the gender wage gap. Google's left leaning makes us blind to this bias and uncritical of its results, which we're using to justify highly politicized programs.

In addition to the Left's affinity for those it sees as weak, humans are generally biased towards protecting females. As mentioned before, this likely evolved because males are biologically disposable and because women are generally more cooperative and agreeable than men. We have extensive government and Google programs, fields of study, and legal and social norms to protect women, but when a man complains about a gender issue affecting men, he's labelled as a misogynist and a whiner. Nearly every difference between men and women is interpreted as a form of women's oppression. As with many things in life, gender differences are often a case of "grass being greener on the other side"; unfortunately, taxpayer and Google money is being spent to water only one side of the lawn.

This same compassion for those seen as weak creates political correctness, which constrains discourse and is complacent to the extremely sensitive PC-authoritarians that use violence and shaming to advance their cause. While Google hasn't harbored the violent leftist protests that we're seeing at universities, the frequent shaming in TGIF and in our culture has created the same silent, psychologically unsafe environment.

James Damore (Video 11:13)

Suggestions

I hope it's clear that I'm not saying that diversity is bad, that Google or society is 100% fair, that we shouldn't try to correct for existing biases, or that minorities have the same experience of those in the majority. My larger point is that we have an intolerance for ideas and evidence that don't fit a certain ideology. I'm also not saying that we should restrict people to certain gender roles; I'm advocating for quite the opposite: treat people as individuals, not as just another member of their group (tribalism).

My concrete suggestions are to:

- De-moralize diversity.

  - As soon as we start to moralize an issue, we stop thinking about it in terms of costs and benefits, dismiss anyone that disagrees as immoral, and harshly punish those we see as villains to protect the "victims."

- Stop alienating conservatives.

  - Viewpoint diversity is arguably the most important type of diversity and political orientation is one of the most fundamental and significant ways in which people view things differently.

  - In highly progressive environments, conservatives are a minority that feel like they need to stay in the closet to avoid open hostility. We should empower those with different ideologies to be able to express themselves.

- Alienating conservatives is both non-inclusive and generally bad business because conservatives tend to be higher in conscientiousness, which is required for much of the drudgery and maintenance work characteristic of a mature company.

- Confront Google's biases.
  - I've mostly concentrated on how our biases cloud our thinking about diversity and inclusion, but our moral biases are farther reaching than that.
  - I would start by breaking down Googlegeist scores by political orientation to give a fuller picture into how our biases are affecting our culture.

- Stop restricting programs and classes to certain genders or races.
  - These discriminatory practices are both unfair and divisive. Instead focus on some of the non-discriminatory practices I outlined.

- Have an open and honest discussion about the costs and benefits of our diversity programs.
  - Discriminating just to increase the representation of women in tech is as misguided and biased as mandating increases for women's representation in the homeless, work-related and violent deaths, prisons, and school dropouts.
  - There's currently very little transparency into the extent of our diversity programs which keeps it immune to criticism from those outside its ideological echo chamber.
  - These programs are highly politicized which further alienates non-progressives.
  - I realize that some of our programs may be precautions against government accusations of discrimination, but that can easily backfire since they incentivize illegal discrimination.

- Focus on psychological safety, not just race/gender diversity.
  - We should focus on psychological safety, which has shown positive effects and should (hopefully) not lead to unfair discrimination.
  - We need psychological safety and shared values to gain the benefits of diversity.
  - Having representative viewpoints is important for those designing and testing our products, but the benefits are less clear for those more removed from UX.

- De-emphasize empathy.

I've heard several calls for increased empathy on diversity issues. While I strongly support trying to understand how and why people think the way they do, relying on affective empathy—feeling another's pain—causes us to focus on individual anecdotes, favor individuals similar to us, and harbor other irrational and dangerous biases. Being emotionally unengaged helps us better reason about the facts.

- Prioritize intention.
  - Our focus on micro-aggressions and other unintentional transgressions increases our sensitivity, which is not universally positive: sensitivity increases both our

tendency to take offence and our self censorship, leading to authoritarian policies. Speaking up without the fear of being harshly judged is central to psychological safety, but these practices can remove that safety by judging unintentional transgressions. (Cf. Giving Voice to Values approach)

- Micro-aggression training incorrectly and dangerously equates speech with violence and isn't backed by evidence.

- Be open about the science of human nature.

  - Once we acknowledge that not all differences are socially constructed or due to discrimination, we open our eyes to a more accurate view of the human condition which is necessary if we actually want to solve problems.

- Reconsider making Unconscious Bias training mandatory for promo committees.

  - We haven't been able to measure any effect of our Unconscious Bias training and it has the potential for overcorrecting or backlash, especially if made mandatory.

  - Some of the suggested methods of the current training (v2.3) are likely useful, but the political bias of the presentation is clear from the factual inaccuracies and the examples shown.

  - Spend more time on the many other types of biases besides stereotypes. Stereotypes are much more accurate and responsive to new information than the training suggests.

---

1. This document is mostly written from the perspective of Google's Mountain View campus, I can't speak about other offices or countries.

2. Of course, I may be biased and only see evidence that supports my viewpoint. In terms of political biases, I consider myself a classical liberal and strongly value individualism and reason. I'd be very happy to discuss any of the document further and provide more citations.

3. Throughout the document, by "tech", I mostly mean software engineering.

4. For heterosexual romantic relationships, men are more strongly judged by status and women by beauty. Again, this has biological origins and is culturally universal.

5. Stretch, BOLD, CSSI, and countless other Google funded internal and external programs are for people with a certain gender or race.

6. Instead set Googlegeist OKRs, potentially for certain demographics. We can increase representation at an org level by either making it a better environment for certain groups (which would be seen in survey scores) or discriminating based on a protected status (which is illegal). Increased representation OKRs can incentivize the latter and create zero-sum struggles between orgs.

7. Communism promised to be both morally and economically superior to capitalism, but every attempt became morally corrupt and an economic failure. As it became clear that the working class of the liberal democracies wasn't going to overthrow their "capitalist oppressors," the Marxist intellectuals transitioned from class warfare to gender and race politics. The core oppressor-oppressed dynamics remained, but now the oppressor is the "white, straight, cis-gendered patriarchy."

8. Ironically, IQ tests were initially championed by the Left when meritocracy meant helping the victims of aristocracy.

9. Yes, in a national aggregate, women have lower salaries than men for a variety of reasons. For the same work though, women get paid just as much as men. Considering women spend more money than men and that salary represents how much the employee sacrifices (e.g. more hours, stress, and danger), we really need to rethink our stereotypes around power.

10. "The traditionalist system of gender does not deal well with the idea of men needing support. Men are expected to be strong, to not complain, and to deal with problems on their own. Men's problems are more often seen as personal failings rather than victimhood, due to our gendered idea of agency. This discourages men from bringing attention to their issues (whether individual or group-wide issues), for fear of being seen as whiners, complainers, or weak."

11. Political correctness is defined as "the avoidance of forms of expression or action that are perceived to exclude, marginalize, or insult groups of people who are socially disadvantaged or discriminated against," which makes it clear why it's a phenomenon of the Left and a tool of authoritarians.

James Damore interviewed by Jordan Peterson (21:37)

Alice Eagly

"Does biology explain why men outnumber women in tech?"
<mark>[Psychologist response]</mark>

August 15, 2017

Alice H. Eagly

Professor of Psychology; Faculty Fellow Institute for Policy Research; Professor of Management and Organizations, Northwestern University

It's no secret that Silicon Valley employs many more men than women in tech jobs. What's much harder to agree on is why.

The recent anti-diversity memo by a now former Google engineer [James Damore, see aboveA] has pushed this topic into the spotlight. The writer argued there are ways to explain the gender gap in tech that don't rely on bias and discrimination – specifically, biological sex differences. Setting aside how this assertion would affect questions about how to move toward greater equity in tech fields, how well does his wrap-up represent what researchers know about the science of sex and gender?
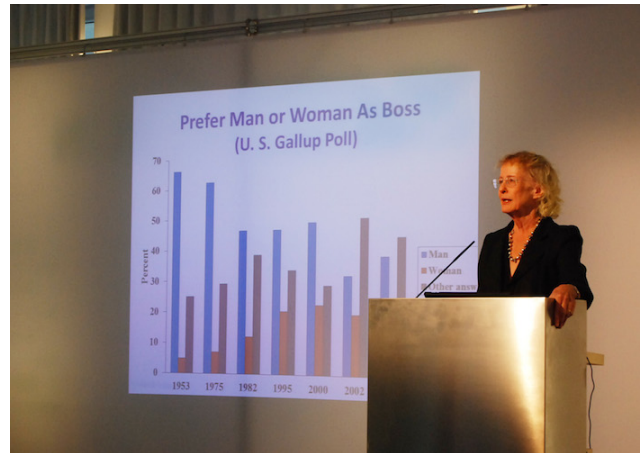
As a social scientist who's been conducting psychological research about sex and gender for almost 50 years, I agree that biological differences between the sexes likely are part of the reason we see fewer women than men in the ranks of Silicon Valley's tech workers. But the road between biology and employment is long and bumpy, and any causal connection does not rule out the relevance of non-biological causes. Here's what the research actually says.

Are girls just born less suited for tech?

<mark>There is no direct causal evidence that biology causes the lack of women in tech jobs. But many, if not most, psychologists do give credence to the general idea that prenatal and early postnatal exposure to hormones such as testosterone and other androgens affect human psychology.</mark> In humans, testosterone is ordinarily elevated in males from about weeks eight to 24 of gestation and also during early postnatal development.

Ethical restraints obviously preclude experimenting on human fetuses and babies to understand the effects of this greater exposure of males to testosterone. Instead, researchers have studied individuals exposed to hormonal environments that are abnormal because of unusual genetic conditions or hormonally active

[100]

drugs prescribed to pregnant women. Such studies have suggested that early androgen exposure does have masculinizing effects on girls' juvenile play preferences and behavior, aggression, sexual orientation and gender identity and possibly on spatial ability and responsiveness to cues that certain behaviors are culturally female-appropriate.

Early hormonal exposure is only one part of a complex of biological processes that contribute to sexual differentiation. Driven by both direct and roundabout messages from the X and Y chromosomes, the effects of these processes on human psychology are largely unknown, given the early stage of the relevant science.

Other studies inform the nature-nurture question by comparing the behaviors of boys and girls who are so young that socialization has not exerted its full influence.

Early sex differences emerge mainly on broad dimensions of temperament. One such dimension is what psychologists call "surgency"; it's greater in boys and manifests in motor activity, impulsivity and experiencing pleasure from high-intensity activities. The other dimension is in what we term "effortful control"; it's greater in girls and emerges in the self-regulatory skills of greater attention span, ability to focus and shift attention and inhibitory control. This aspect of temperament also includes greater perceptual sensitivity and experience of pleasure from low-intensity activities.

This research on temperament does suggest that nature instills some psychological sex differences. But scientists don't fully understand the pathways from these aspects of child temperament to adult personality and abilities.

Is there a gender divide on tech-relevant traits?

Another approach to the women-in-tech question involves comparing the sexes on traits thought most relevant to participation in tech. In this case, it doesn't matter whether these traits follow from nature or nurture. The usual suspects include mathematical and spatial abilities.

The sex difference in average mathematical ability that once favored males has disappeared in the general U.S. population. There is also a decline in the preponderance of males among the very top scorers on demanding math tests. Yet, males tend to score higher on most tests of spatial abilities, especially tests of mentally rotating three-dimensional objects, and these skills appear to be helpful in STEM fields.

Of course people choose occupations based on their interests as well as their abilities. So the robust and large sex difference on measures of people-oriented versus thing-oriented interests deserves consideration.

Research shows that, in general, women are more interested in people compared with men, who are more interested in things. To the extent that tech occupations are

concerned more with things than people, men would on average be more attracted to them. For example, positions such as computer systems engineer and network and database architect require extensive knowledge of electronics, mathematics, engineering principles and telecommunication systems. Success in such work is not as dependent on qualities such as social sensitivity and emotional intelligence as are positions in, for instance, early childhood education and retail sales.

Women and men also differ in their life goals, with women placing a higher priority than men on working with and helping people. Jobs in STEM are in general not viewed as providing much opportunity to satisfy these life goals. But technology does offer specializations that prioritize social and community goals (such as designing healthcare systems) or reward social skills (for instance, optimizing the interaction of people with machines and information). Such positions may, on average, be relatively appealing to women. More generally, women's overall superiority on reading and writing as well as social skills would advantage them in many occupations.

Virtually all sex differences consist of overlapping distributions of women and men. For example, despite the quite large sex difference in average height, some women are taller than most men and some men are shorter than most women. Although psychological sex differences are statistically smaller than this height difference, some of the differences most relevant to tech are substantial, particularly interest in people versus things and spatial ability in mental rotations.

If not biology, then what are the causes?

Given the absence of clear-cut evidence that tech-relevant abilities and interests flow mainly from biology, there's plenty of room to consider socialization and gender stereotyping.

Because humans are born undeveloped, parents and others provide extensive socialization, generally intended to promote personality traits and skills they think will help offspring in their future adult roles. To the extent that women and men have different adult lives, caregivers tend to promote sex-typical activities and interests in children – dolls for girls, toy trucks for boys. Conventional socialization can set children on the route to conventional career choices.

Even very young children form gender stereotypes as they observe women and men enacting their society's division of labor. They automatically learn about gender from what they see adults doing in the home and at work. Eventually, to explain the differences they see in what men and women do and how they do it, children draw the conclusion that the sexes to some extent have different underlying traits. Divided labor thus conveys the message that males and females have different attributes.

These gender stereotypes usually include beliefs that women excel in qualities such as warmth and concern for others, which psychologists label as communal. Stereotypes also suggest men have higher levels of qualities such as assertiveness and dominance, which psychologists label as agentic. These stereotypes are shared in cultures and shape individuals' gender identities as well as societal norms about appropriate female and male behaviors.

Gender stereotypes set the stage for prejudice and discrimination directed toward those who deviate from gender norms. If, for example, people accept the stereotype that women are warm and emotional but not tough and rational, gatekeepers may close out women from many engineering and tech jobs, even those women who are atypical of their sex. In addition, women talented in tech may falter if they themselves internalize societal stereotypes about women's inferiority in tech-relevant attributes. Also, women's anxiety that they may confirm these negative stereotypes can lower their actual performance.

It's therefore not surprising that research provides evidence that women generally have to meet a higher standard to attain jobs and recognition in fields that are culturally masculine and dominated by men. However, there is some recent evidence of preferential hiring of women in STEM at U.S. research-intensive institutions. Qualified women who apply for such positions have a better chance of being interviewed and receiving offers than do male job candidates. Experimental simulation of hiring of STEM faculty yielded similar findings.

Why not both nature and nurture?

Many pundits make the mistake of assuming that scientific evidence favoring sociocultural causes for the dearth of women in tech invalidates biological causes, or vice versa. These assumptions are far too simplistic because most complex human behaviors reflect some mix of nature and nurture.

And the discourse is further compromised as the debate becomes more politicized. Arguing for sociocultural causes seems the more progressive and politically correct stance today. Arguing for biological causes seems the more conservative and reactionary position. Fighting ideological wars distracts from figuring out what changes in organizational practices and cultures would foster the inclusion of women in tech and in the scientific workforce in general.

Politicizing such debates threatens scientific progress and doesn't help unravel what a fair and diverse organization is and how to create one. Unfortunately, well-meaning efforts of organizations to promote diversity and inclusion can be ineffective, often because they are too coercive and restrictive of managers' autonomy. The outrage in James Damore's manifesto suggests that Google might want to take a close look at its diversity initiatives.

At any rate, neither nature-oriented nor nurture-oriented science can fully account for the underrepresentation of women in tech jobs. A coherent and open-minded stance acknowledges the possibility of both biological and social influences on career interests and competencies.

Regardless of whether nature or nurture is more powerful for explaining the lack of women in tech careers, people should guard against acting on the assumption of a gender binary. It makes more sense to treat individuals of both sexes as located somewhere on a continuum of masculine and feminine interests and abilities. Treating people as individuals rather than merely stereotyping them as male or female is difficult, given how quickly our automatic stereotypes kick in. But working toward this goal would foster equity and diversity in tech and other sectors of the economy.

Marie Hicks

"What the Google gender 'manifesto' really says about Silicon Valley" [progressive response]

August 10, 2017 www.TheConversation.com **Republish this article**

Marie Hicks

Assistant Professor of History, University of Wisconsin-Madison

Five years ago, Silicon Valley was rocked by a wave of "brogrammer" bad behavior, when overfunded, highly entitled, mostly white and male startup founders did things that were juvenile, out of line and just plain stupid. Most of these activities – such as putting pornography into PowerPoint slides – revolved around the explicit or implied devaluation and harassment of women and the assumption that heterosexual men's privilege could or should define the workplace. The recent "memo" scandal out of Google shows how far we have yet to go.

It may be that more established and successful companies don't make job applicants deal with "bikini shots" and "gangbang interviews." But even the tech giants foster an environment where heteronormativity and male privilege is so rampant that an engineer could feel comfortable writing and distributing a screed that effectively harassed all of his women co-workers en masse.

This is a pity, because tech companies say they want to change this culture. This summer, I gave a talk at Google UK about my work as a historian of technology and gender. I thought my talk might help change people's minds about women in computing, and might even help women and nonbinary folks working at Google now. Still, the irony was strong: I was visiting a multibillion-dollar tech company to talk about how women are undervalued in tech, for free.

Facing common fears

I went to Google UK with significant trepidation. I was going to talk about the subject of my upcoming book, "Programmed Inequality," about how women got pushed out of computing in the U.K. In the 1940s through the early 1960s, most British computer workers were women, but over the course of the '60's and '70's their numbers dropped as women were subjected to intentional structural discrimination designed to push them out of the field. That didn't just hurt the women, either – it torpedoed the once-promising British computing industry.

In the worst-case scenario, I imagined my talk would end with a question-and-answer period in which I would be asked to face exactly the points the Google manifesto made. It's happened before – and not just to me – so I have years of practice dealing with harsh critics and tough audiences, both in the classroom and outside of it.

As a result of that experience, I know how to handle situations like that. But it's more than just disheartening to have my work misunderstood. I have felt firsthand the damage the phenomenon called "stereotype threat" can wreak on women: Being assumed to be inferior can make a person not only feel inferior, but actually subconsciously do things that confirm their own supposed lesser worth. For instance, women students do measurably worse on math exams after reading articles that suggest women are ill-suited to study math. (A related phenomenon, impostor syndrome, runs rampant through academia.)

A surprising reaction

As it happened, the audience was familiar with, and interested in, my work. I was impressed and delighted with the caliber and thoughtfulness of the questions I got. But one question stood out. It seemed like the perfect example of how the culture of the tech industry is so badly broken today that it destroys or significantly hinders much of its talent pool, inflicting stereotype threat on them in large numbers.

A Google engineer asked if I thought that women's biological differences made them innately less likely to be good engineers. I replied in the negative, firmly stating that this kind of pseudoscientific evolutionary psychology has been proven incorrect at every turn by history, and that biological determinism was a dangerous cudgel that had been used to deprive black people, women and many others of their civil rights – and even their lives – for centuries.

The engineer posing this question was a woman. She said she felt she was unusual because she thought she had less emotional intelligence and more intellectual intelligence than most other women, and those abilities let her do her job better. She wondered if most women were doomed to fail. She spoke with the uncertainty of someone who has been told repeatedly that "normal" women aren't supposed to do what she does, or be who she is.

I tried to empathize with her, and to make my answer firm but not dismissive. This is how structural discrimination works: It seeps into all of us, and we are barely conscious of it. If we do not constantly guard ourselves against its insidious effects – if we do not have the tools to do so, the courage to speak out, and the ability to understand when it is explained to us – it can turn us into ever worse versions of ourselves. We can become the versions that the negative stereotypes expect. But the bigger problem is that it doesn't end at the level of the individual.

A problem of structure

These misapprehensions bleed into every aspect of our institutions, which then in turn nurture and (often unwittingly) propagate them further. That was what happened when the Google manifesto emerged, and in the media frenzy that followed.

That the manifesto was taken as a potentially interesting or illustrative opinion says something not just about Silicon Valley, but about the political moment in which we find ourselves.

The media is complicit too: Some media treated it as noteworthy only for its shock value. And others, rather than identifying the screed as an example of the writer's misogyny, lack of historical understanding, and indeed – as some computer professionals have pointed out – lack of understanding of the field of engineering, handled the document as a think piece deserving consideration and discussion.

The many people who said openly and loudly that it was nothing of the sort are to be commended. But the fact that they had to waste time even addressing it shows how much damage casual, unreflective sexism and misogyny do to every aspect of our society and our economy.

The corporate response

Google, for its part, has now fired the writer, an expected move after the bad publicity he has helped rain down on the company. But Google has also – and in the very same week that I gave my talk there – refused to comply with a U.S. Department of Justice order to provide statistics on how it paid its women workers in comparison to men. The company claims that it might cost an estimated US$100,000 to compile that data, and complains that it's too high a cost for their multibillion dollar corporation to bear.

The company will not expend a pittance – especially in relation to its earnings – to work to correct allegedly egregious gender-biased salary disparities. Is it any surprise that some of its employees – both men and women – view women's contributions, and their very identities, as being somehow less inherently valuable or well suited to tech? Or that many more silently believe it, almost in spite of themselves?

People take cues from our institutions. Our governments, corporations, universities and news media shape our understandings and expectations of ourselves in ways we can only partially understand without intense and sustained self-reflection. For the U.K. in the 20th century, that collective, institutional self-awareness came far too late to save its tech sector. Let's hope the U.S. in the 21st century learns something from that history. At a time when technology and governance are increasingly converging to define who we are as a nation, we are living through a perfect – if terrifying – teachable moment.

Richard Epstein

"Gender @ Google" (conservative response)

Gender@Google
August 14, 2017

A taboo topic

"Google's Ideological Echo Chamber," the memo written by Google's now-fired software engineer James Damore, addresses a taboo topic in modern American life — namely, sex differences that relate to the abilities and occupational choices of men and women.

Damore's critique of diversity and inclusion, which he supports in the abstract, hit the tech industry hard for this very simple reason: firms like Google and Facebook have tech workforces dominated by white and Asian men. As Damore observes, Google has spent millions on programs to recruit and hire more women and non-Asian minorities, with little to show for its efforts. He urges Google: "Stop restricting programs and classes to certain genders and races," and to "de-moralize diversity." In his view, this reverse discrimination drives Google's rigid, ideological conformity, lowers overall production, and undercuts professional morale.

Damore's memo did not sit well with the Google CEO Sundar Pichai, who quickly fired Damore for "advancing harmful gender stereotypes in our workplace." According to Pichai, "To suggest a group of our colleagues have traits that make them less biologically suited to that work is offensive and not OK."

Damore's memo should come as no surprise. Just three months ago, a smaller flap, reported here in the Wall Street Journal, resulted from accusations of gender bias at Facebook. My article, Gender@Facebook, took a view broadly consistent with Damore's by pointing to a wealth of evidence that suggested that biological differences could account for the differences in employment patterns. According to a detailed study by psychologists Richard Lynn and Satoshi Kanazawa, "at the ages of 7 and 11 years girls have an IQ advantage of approximately 1 IQ point, but at the age of 16 years this changes in the same boys and girls to an IQ advantage of 1.8 IQ points for boys." More specifically, they present numbers that for general IQ show a mean of 101.461 for boys with a standard deviation of 15.235, and a mean of 99.681 for girls with a standard deviation 14.085.

Two views of the evidence

There are two different ways to view this kind of evidence. Pichai dismissed the idea of group-wide differences in ability as an improper gender stereotype. But on this point, Damore surely has the better of the argument. As he noted at the outset of his memo, "When addressing the gap in representation in the population, we need to look at population level differences in distributions." Hence it is necessary to draw, as he did, two bell-shaped curves that correspond to

population-level data. The result for mathematical and spatial abilities among men and women will show two overlapping curves with different medians and (a point that Damore does not discuss) different variances as well. For the high-stress demands of tech engineers, the relevant portion of both distributions is the upper (or right) tail. Properly assembled, the data shows how any given person stands against the pool. That upper tail for tech work will be, on the available data, dominated by men. These findings lend support to a biological explanation for some of the observed differences in success rates. It should not be assumed, of course, that only these differences matter, as other factors influence productivity and success.

Populations have significant overlap

Trait

Reducing people to their group identity and assuming the average is representative ignores this overlap (this is bad and I don't endorse that)

Trait
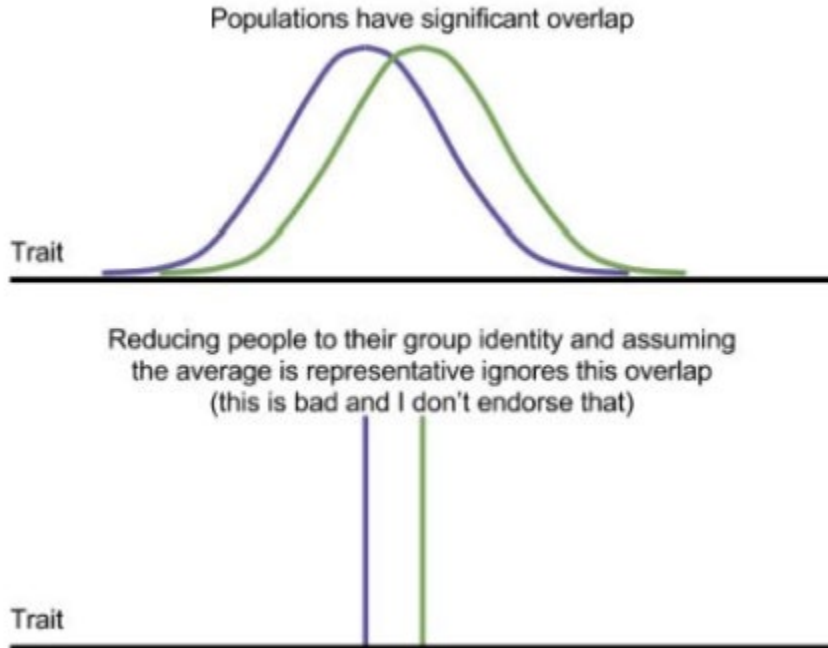
Indeed, recent data show that in all graduate programs women outnumber men by more than a 4-3 ratio, but that field differences matter. Thus men get about 75 percent of the advanced degrees in Engineering, Mathematics and Computer Sciences, while women get slightly more than half the degrees in biological and agricultural sciences. No simple theory of discrimination can begin to account for this data. It is largely *student* selection that tends to drive the outcomes. But these raw numbers in quantitative areas matter far more for the tech jobs in Google than for work in management and sales. The observed distributions thus help explain the gender imbalance in tech jobs.

At this juncture, it is critical to stress that no accurate statistical distribution should ever be dismissed or deprecated as a stereotype. But the label stereotype would properly attach to a proposition that said that every man is better than every woman at tech jobs. As Damore neatly illustrates in the bottom of his two graphs, the graphical representation of that false proposition collapses the underlying distribution of tech skills into two vertical lines, one at the median for male workers and the other for females. Huge amounts of information are necessarily lost when a two-dimensional space (mean and variance) is reduced to a single dimension (mean).

The difference between these two graphical representations highlights a deep ambiguity in the claim, "men are better at tech than women." If it were taken to mean that all men are better than all women, it is an absurd and unforgivable stereotype. But, correctly construed in relation to the full distribution, that proposition means that it is possible to put together a one-to-one correspondence by which, perhaps with rare exceptions, the top male will have higher scores than the top female, and so on down the line. So understood, there is an enormous overlap between the two distributions, with the result that the women in the upper tail on the female distribution are superior to the many men who lie to their left.

This statistical formulation shows that the observed gender *ratios* at Google and Facebook need not be a matter of discrimination, although that lopsided ratio, standing alone, cannot exclude the possibility that some such discrimination takes place. By the same token, if the number of female workers holding these tech jobs were to far exceed the number predicted by accurate statistical information, it would likely indicate some institutional discrimination in favor of women candidates (barring alternative explanations). That is surely the case at both Google and Facebook with their strenuous and explicit efforts to increase female representation in the tech ranks. Indeed, if management at both companies thought that there were no differences in tech abilities in the male and female applicant pools, they would not bother with extensive—and, apparently, still unsuccessful—efforts to increase the fraction of women in their tech workforce.

At this point, it becomes possible to explain the cultural breakdown inside Google. If Google used the same rough hiring standards for its male and female applicants, the differences in performance should be of less importance. But once it is known to all that a diversity program draws its workers from two different pools, the social dynamic changes. Now, the male employees (and the female employees whose hiring precedes these efforts) do not know which new female hires made it into the job on a gender-neutral basis and which did not. The point matters in an industry where merit determines personal advancement, because no strong worker of either sex wants to be caught with weaker coworkers on a joint project. It is easy to see, even if impossible to justify, the backbiting and disrespect towards female employees whose overall contribution to the project is believed by male workers to be lower than their own. And so it is the very existence of the supposed diversity program that generates many of the social tensions that are reported by other male and female employees alike.

The situation gets only worse when the issue is examined in dynamic terms. As economists Edward Lazear and Sherwin Rosen wrote years ago, job promotion resembles a tournament format like those used in chess and tennis. With each successive round, the weaker players are weeded out until only the stronger ones remain. Any initial gaps between the men and women in tech jobs therefore will only increase with each successive round. The explanation is mathematical. In oversimplified style, imagine that the men are evenly distributed from 10 to 20 and the women from 5 to 15. When the first cut is complete, the surviving men will rank between 20 and 15 and the surviving women between 15 and 10, so that the overlap disappears. The gaps only increase thereafter with each successive cut.

What to do

This underlying trend is a problem for Google and Facebook with their sensitivities to gender imbalances. But how best to respond? Unfortunately, there is no simple solution. One possibility is to use somewhat different promotional standards. Another is to promote women into roles where the technical skills matter less. Yet another is to invest more resources, as Google and Facebook have done, to narrow the gap. Unfortunately, the one strategy that will not work in the long run is to heap verbal abuse against foolhardy dissidents like James Damore who failed to grasp the ironic power of the old maxim, "the greater the truth, the greater the libel." Damore's memo provoked such a hostile response because it rang true.

Sundar Pichai

Note to employees from Google CEO

August 8, 2017

A difficult time

This has been a very difficult time. I wanted to provide an update on the memo that was circulated over this past week.

First, let me say that we strongly support the right of Googlers to express themselves, and much of what was in that memo is fair to debate, regardless of whether a vast majority of Googlers disagree with it. However, portions of the memo violate our Code of Conduct and cross the line by advancing harmful gender stereotypes in our workplace. Our job is to build great products for users that make a difference in their lives. To suggest a group of our colleagues have traits that make them less biologically suited to that work is offensive and not OK. It is contrary to our basic values and our Code of Conduct, which expects "each Googler to do their utmost to create a workplace culture that is free of harassment, intimidation, bias and unlawful discrimination."

The memo has clearly impacted our co-workers, some of whom are hurting and feel judged based on their gender. Our co-workers shouldn't have to worry that each time they open their mouths to speak in a meeting, they have to prove that they are not like the memo states, being "agreeable" rather than "assertive," showing a "lower stress tolerance," or being "neurotic."

At the same time, there are co-workers who are questioning whether they can safely express their views in the workplace (especially those with a minority viewpoint). They too feel under threat, and that is also not OK. People must feel free to express dissent. So to be clear again, many points raised in the memo—such as the

portions criticizing Google's trainings, questioning the role of ideology in the workplace, and debating whether programs for women and underserved groups are sufficiently open to all—are important topics. The author had a right to express their views on those topics—we encourage an environment in which people can do this and it remains our policy to not take action against anyone for prompting these discussions.

Google's code of conduct

The past few days have been very difficult for many at the company, and we need to find a way to debate issues on which we might disagree—while doing so in line with our Code of Conduct. I'd encourage each of you to make an effort over the coming days to reach out to those who might have different perspectives from your own. I will be doing the same.

I have been on work related travel in Africa and Europe the past couple of weeks and had just started my family vacation here this week. I have decided to return tomorrow as clearly there's a lot more to discuss as a group—including how we create a more inclusive environment for all.

Further reading

[How Far Has Gender Equality Come? Tech Insiders Share Their Insights](#) 3/10/2020

[REPUBLICAN engineer (Kevin Cernekee) fired by Google says company bullies conservatives](#) 8/1/2019

[Kevin Cernekee slams Google](#) Fox News 8/2/2019

[Google fires conservative engineer (Mike Wacker) who exposed bias against conservatives](#) 6/1/2019

[James Damore's diversity lawsuit against Google comes to quiet end](#) – May 2020

TOPIC 5
CAN CODES OF ETHICS
CREATE MORAL BEHAVIOR?

Introduction

The question we will consider in this section is whether professional codes of ethics (CoE) are effective for producing ethical behavior in practice. If not, what is there value? The answer seems to be that they *can* be effective in shaping employee attitudes and behavior, depending on how they are implemented, embedded in company culture, and practiced in relation to the overall business model of the company. This is particularly true regarding upper management. Research consistently supports the intuition that the "tone at the top" sets the moral value orientation of company culture, and company culture is a crucial factor impacting the effectiveness of codes of ethics. It's a case of having to walk-the-walk as well as talk-the-talk. Otherwise, codes of ethics are pretty much useless, and may be counter-productive. This was the finding of a recent study that looked at the effectiveness of codes of ethics to bring about moral behavior. The authors concluded that

...there is a gap between the stated intention by companies to conduct their business in line with an ethics policy and their ability to ensure that this is happening. Companies with values and ethics codes continue to experience lapses, many of which have been well publicized.

The main reasons for the apparent gap between corporate principles and practice can be summarized as a failure to embed core ethical values in a way that affects decision making at all

[113]
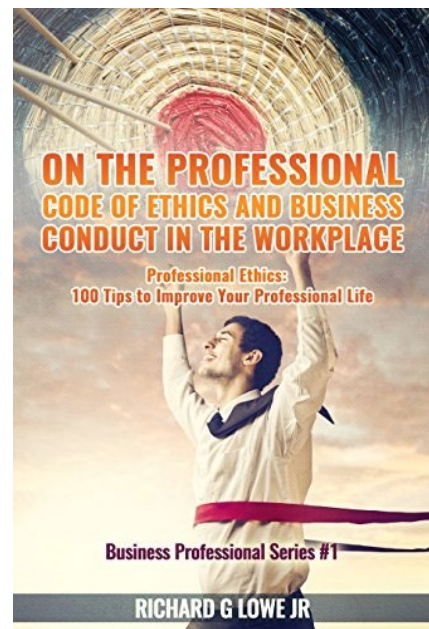
levels throughout the organization. We have proposed that in order to encourage high standards of ethical corporate behavior, organizations should develop and implement formal ethics programs. More importantly, to make those ethics programs effective, they need to nurture an ethical culture on a continuing basis. Indeed, the creation of an ethical culture is crucial for ensuring that a company lives up to its stated ethical values. Ways of achieving and sustaining such a corporate culture include:

- Agreement on explicit core values

- A relevant and 'user friendly' code of ethics

- Continuous training and 'awareness raising' programs

- Means for employees to raise issues without fear of retaliation

- Employee engagement (consultation and feedback)

*- Consistent communication and exemplary behavior from both top and other
        levels of management*

- Regular surveys of stakeholder opinion

Board level oversight and reporting. Without explicit and sustained leadership from the chairman and the board, the apparent gap between policy and practice in many organizations is unlikely to be bridged.[10]

Take a look at the [Code of ethics for Wells Fargo](#), for example, which is easy enough to find online. It is graphically attractive and accessible. No doubt all employees had to read this legal document and sign off on it when they were hired. Wells Fargo's CoE certainly fulfills all the formal requirements for a good CoE as these are presented in the Compliance Action article below--except for a couple of things. It certainly did not reflect an orientation to virtue at the top at Wells Fargo since the bad idea of "Eight is Great" (a policy to push the cross-selling of products to customers) came from the CEO, John Stumpf, who was right there on the first page of the bank's CoE saying what a virtuous company he runs. And, thus, the CoE at Wells Fargo failed to inform the culture with the values as stated in the code due to the hypocrisy of top management. Check out the section entitled "Ethics." It would be humorous were it not tragic.

It is not hard to see how, at Wells Fargo, the CoE would definitely be detrimental to the moral value orientation of employees since what it clearly represents is the hypocrisy of the company and not its orientation to virtue. All employees would be aware of this obvious moral hypocrisy which, together with the toxic culture at Wells Fargo, would contribute to the widespread willingness of Well's employees to act immorally and illegally.

---

[10] Webley, Simon and Werner, Andrea. "Corporate Codes of Ethics: Necessary but not Sufficient." *Business Ethics: A European Review.* *Vol 17/4,* 2008.

You should take note of the fact that the Compliance Action article below presents the traditional elements that should be present in a CoE from the standpoint of how the company should cover its legal butt against rogue employees so that there would be a clear reason for termination of employment of such an employee--which is what happened to the 5400 employees at Wells Fargo who pushed the limit due to a sustained pressure to cross-sell products. So, not only did the CoE encourage immoral actions, but it was then used as a legal document to terminate the offending employees, as well as some who did nothing wrong but try to blow the whistle on the immoral practice.

So, from this perspective, you will see that the reason for having a CoE, which is a legal document that is required by the Sarbanes-Oxley legislation for all publicly traded companies (at least for the moment), is clearly for the compliance protection of the company. This is a perspective drawn from the framework of an ethics of justice.

The second article by Susan Heathfield presents another perspective on morality in the workplace that is informed more by an ethics of care than an ethics of justice. She looks at the situation 'on the ground' among the ranks of the working people at the workplace, a view from the employee's existential, everyday point of view, where formal Codes of Ethics have little bearing in practice since the good don't need them and the 'bad apples' won't heed them. Most people don't really need moral guidance from an authoritative source in their everyday behavior, and those that do, in all likelihood, won't be stopped by a CoE.

Sure, there is the big picture to be considered, like the moral failure that brought down Enron, the financial debacle of 2008, and the scandal at Wells Fargo. But there is also the existential, everyday interaction among coworkers in many different unique and unrepeatable contexts and practices where your moral value orientation can be tested in many small ways and for which a CoE is generally no practical help at all. And, it may be a hindrance.

More importantly for Heathfield is the fact that even the smallest of moral transgressions impacts your sense of self and your whole moral value orientation in relation to a set of integrated social and work practices from which you configure your essence as a human being,

Why anyone working in the tech industry should know about the industry codes of ethics. (Video 6:20)

as she puts it. I like this orientation because it reflects more of the values of the Ethics of Care, whereas the Compliance Action article reflects more of the Ethics of Justice.

The compliance view

Why a Code of ethics is important for business[11]

The Enron case has caused all of us to look closely at business structures and at the ethics of business. Consumers have high expectations for the ethical standards and practices of financial institutions. We recently interviewed Sue Walters of Kraemer and Walters, LLC to get her views on ethics. Kraemer and Walters, LLC, is a firm that specializes in providing compliance and risk management support to mid-size and large institutions. They have dealt frequently with questions of business ethics and the policies and procedures businesses should have in place.

What can we learn from Enron?

While the saga of Enron continues to unfold, a report issued by a special committee of Enron's board makes it clear that an "across-the-board failure of controls and ethics at almost every level of the company" contributed to the organization's failure. The report cites: "a flawed idea, self-enrichment by employees, inadequately designed controls, poor implementation, inattentive oversight, simple (and not so simple) accounting mistakes, and overreaching in a culture that appears to have encouraged "pushing the limits" as causal factors. The report states, "Our review indicates many of these consequences could and should have been avoided."

To protect yourself, and your institution from these pitfalls, a review of your Code of ethics and its administration is timely.

Why is a Code of ethics important?

A Code of ethics is important on many levels. It sets the "tone from the top" of the company's culture. An effective Code of ethics establishes the ethical expectations for employees and management alike, and sets forth the mechanisms for enforcement and consequences of noncompliance. When the Code is perceived as an integral component of the organization's

---

[11] "Why a Code of Ethics is important for business." *Compliance Action*, Vol. 7, No. 6, 5/2002.

culture, is understood, followed and enforced, it can provide protection for the organization from the actions of a "rogue employee" under the Federal Sentencing Guidelines.

What should a Code of ethics contain?

First of all, your institution's Code of ethics must reflect your organization's policies, controls and processes. While it may be tempting to short-cut the process by "borrowing" policies from other institutions under the guise of following "best practices", unless those policies, controls, and processes adequately reflect your institution's unique organization and business practices, the Code will not be effective in providing guidance or offering protection.

Depending on your regulator, there may be specific requirements for contents in a Code of ethics. In general, at a minimum, the Code should contain policies on: conflicts of interest, insider trading, gifts and hospitality, information security and privacy, recordkeeping, cooperation with investigations and audits, and, of course, a "whistleblower" provision. The whistleblower provision establishes procedures whereby employees can report, without fear of reprisal, suspected illegal or unethical activities by others within the organization. And, in light of current events, it would be wise to include in the Code the company's policies regarding political activities, particularly those concerning lobbying and political contributions.

The Code should set forth the process for its administration, including mechanisms to disclose and document any potential conflicts of interest or to obtain waivers from any particular policy or provision. It should also provide guidance to assist employees and ethics program management in evaluating specific circumstances, with the standard for behavior being: if all the facts and circumstances regarding the matter were made public, would the employee involved and the organization be proud to be associated with the activity? Additionally, the Code should provide referrals to resources on where to go for further information or guidance. You may want to consider having a separate Code of ethics for your board of directors. There are many transactional components within an organization's Code that may not have applicability to outside directors, and conversely, there may be additional requirements that pertain only to board activities. Similarly, it may be appropriate to extend certain provisions of the Code beyond employees, to vendors, contract workers, service providers, counter-parties or related organizations.

How should a Code of ethics be administered?

Here again, there is no "one size fits all" solution. In some companies, the general counsel has oversight and administrative responsibility. In others, the responsibility rests with Human Resources, Risk Management, Audit, or Compliance. In other organizations, a special Ethics Committee is empowered specifically for purposes of oversight and enforcement. Regardless, of where the accountability lies organizationally, the important considerations in choosing an administrator are that: (1) accountability is clearly assigned, (2) the designated administrator has the organizational stature necessary to facilitate enforcement, and (3) it is assigned to someone who does not have a propensity to engage in illegal or unethical activities.

Important components of the administration of the Code include initial and on-going training and awareness efforts, with visible executive management participation and support;

employee acknowledgment of receipt, understanding, and compliance with the Code; standards for documentation of exceptions; standards for investigation of suspected or reported wrongdoing; consistent enforcement; and, finally, periodic review of the Code to ensure that it is comprehensive and reflects the current organizational structure and business practices.

Issues to consider for a Code of ethics:

- Employment conflicts and whether employees may work for other companies.

- Relationships of employees with other businesses in the market area. Laws, such as RESPA and Regulation O, give a framework for issues to consider.

- Acceptable types and value of gifts to give and receive.

- Reward and compensation systems.

- Work quality and productivity expectations.

- Representation of the institution (loyalty) outside of work.

ACTION STEPS

- Review your Code of ethics. If you don't have one, take steps immediately to develop a Code of ethics.

- Work from the top down and the bottom up. Find out what the Board of Directors and Senior Management expect from staff. Also find out what staff thinks the prevailing ethics standards are in your institution. If there is a gap, you need to take steps to close it.

- This is an excellent time to brief the Board on ethics and gain their support for a strong Code of ethics. Schedule time for a Board briefing, attach this article to the Board materials. Try to leave time for discussion so that you can find out what the Directors expect.

- Review and compare your institution's marketing materials and sales programs with the stated Code of ethics. Look for stress points. Then find out whether these stress points are managed or result in problems of an ethical nature.

- There is more to ethics than ethics. Consumer protection laws set a standard for customer treatment. Look at your most recent compliance audits and examination reports for issues relating to ethics.

- Review and revise your code of ethics. Use a team whenever possible. Make sure that the management of the Code is ongoing and active.

- Ask the ultimate question: if all the facts and circumstances regarding the matter were made public, would the employee involved and the organization be proud to be associated with the activity? If the answer is yes, you've done a good job.

Codes of Ethics: the existential view

[Susan M. Heathfield](#)

Did You Bring Your Ethics to Work Today?[12]

Think you are a person of integrity and that you bring your highest standards of ethics to your workplace each day? You may reassess your thinking as you explore the topic of workplace ethics in this article.

Despite hundreds of pages of policies, codes of ethics, codes of conduct, organizational values, and carefully defined work environments, company cultures, lapses in workplace ethics occur every day.

Lapses in workplace ethics result from inappropriate officer behavior such as insider stock trading, expense account fraud, sexual harassment, and involvement in conflicts of interest.

Lapses in workplace ethics do not need to rise to that level to impact the workplace environment you provide for employees, though. Lapses in workplace ethics can occur because of simple issues such as toilet paper, copy machines, and lunch signup lists.

In a nationally important workplace ethics case, Hewlett-Packard company's, successful ex-CEO, Mark Hurd, became embroiled in workplace ethics issues. I have no insider knowledge, but the public statement from the company indicated that Mr. Hurd left because he violated the company's expected standards of conduct.

Cathie Lesjak, H-P's chief financial officer, who was appointed interim CEO until the company found a permanent replacement for Mr. Hurd, asked employees "to remain 'focused' and said 'Mark had failed to disclose a close personal relationship he had with the contractor that constituted a conflict of interest, failed to maintain accurate expense reports, and misused company assets.'"

While most of us don't have as far to fall as Mr. Hurd, and unfortunately, he is not the first or only high-profile executive to bite the dust over personal conduct in recent years, lapses in ethics occur in workplaces every day.

You can violate the spoken and unspoken, published and unpublished, code of conduct in your organization without a CEO title.

You can also violate these rules without your actions rising to the level of conflict of interests and questionable expense accounting.

---

[12] Heathfield, Susan. "Did You Bring Your Ethics to Work Today?" Human Resources/The Balance. June 28, 2016. www.thebalance.com

Lapses in Workplace Ethics Drive Policy Development

Policies most frequently exist because some employees are untrustworthy. For example, many in HR debate the effectiveness of a paid time off (PTO) policy versus time off policies that divide available days between personal, sick days, and vacation time off.

The only reason these policies exist at all, to define the relationship between employer and employees, is because a few employees took advantage of the employer's attempts to offer sympathetic time off for legitimate life reasons.

Consequently, employers limited management discretion and decision-making about individual employee situations and instituted policies to govern the many. You can build a similar case for most organizational policies. The failure of some employees to practice principled workplace ethical decision-making results in policies that cover all employees.

Codes of conduct or business ethics exist to guide the expected behavior of honorable employees. But, much of their origination occurred for the same reason as policies. Some employees conducted themselves in ways that were unacceptable to the business.

In today's workplace, potential charges of unfair treatment, discrimination, favoritism, and hostile work environment replace much management discretion. The many suffer for the few and sometimes, your best employees get caught in the equal treatment trap. At best, time off policies, to use just one example, require organization time and energy – hundreds of hours of tracking and accounting.

Everyday Workplace Ethics

Few employees will undergo the challenges experienced by Mr. Hurd and other senior company executives in their practice of workplace ethics. But, all employees have the opportunity daily to demonstrate the core and fiber of who they are as people. Their values, integrity, beliefs, and character speak loudly through the behavior that they engage in at work.

Lapses in the practice of workplace ethics come in all sizes, large and small, far-reaching and close to home.

Some ethical lapses affect individual employees. Other ethical lapses affect whole work groups, and in particularly egregious instances, such as Mr. Hurd's, whole companies and all of the stakeholders in the company suffer as a result.

Some failures to practice everyday workplace ethics are invisible. No one but you will ever know about the decision that you made, but each lapse in ethics affects your essence as an individual, as an employee, and as a human being. Even the smallest lapse in workplace ethics diminishes the quality of the workplace for all employees.

Examples of Lapses in Workplace Ethics

Each failure to practice value-based workplace ethics affects your self-image and what you stand for far more than it affects your coworkers. But the effect of your behavior on your fellow employees is real, tangible, and unpredictable, too.

Following are examples of employees failing to practice fundamental workplace ethics. The solution? Change the behavior, of course. You may never have thought of these actions as problems with ethical behavior - but they are. And, all of them affect your coworkers in negative ways.

What are signs that you know that your actions are substandard? You make up excuses, give yourself reasons, and that little voice of your conscience, that chatters away in your head, tries to convince your ethical self that your lapse in workplace ethics is okay.

Here are sixteen examples of employees failing to practice fundamental workplace ethics.

You are using the company restroom and use up the last roll of toilet paper, or the last piece of paper towel. Without thought for the needs of the next employee, you go back to work rather than addressing the issue.

You call in sick to your supervisor because it's a beautiful day and you decide to go to the beach, or shopping, or…

You engage in an affair with a coworker while married because no one at work will ever know, you think you're in love, you think you can get away with it, your personal matters are your own business, the affair will not impact other employees or the workplace.

You place your dirty cup in the lunchroom sink. With a guilty glance around the room, you find no one watching and quickly leave the lunchroom.

Your company sponsors events, activities, or lunches and you sign up to attend and fail to show. Conversely, you fail to sign up and show up anyway. You make the behavior worse when you say that you took the appropriate action so someone else must have screwed up.

You tell potential customers that you are the vice president in charge of something. When they seek out the company VP at a trade show, you tell your boss that the customers must have made a mistake.

You work in a restaurant in which wait staff tips are shared equally and you withhold a portion of your tips from the common pot before the tips are divided.

You have sex with a reporting staff member and then provide special treatment to your flame.

You take office supplies from work to use at home because you justify, you often engage in company work at home, or you worked extra hours this week, and so on.

You spend several hours a day using your work computer to shop, check out sports scores, pay bills, do online banking, and surf the news headlines for the latest celebrity news and political opinions.

You use up the last paper in the communal printer and you fail to replace paper leaving the task to the next employee who uses the printer.

You hoard supplies in your desk drawer so you won't run out while other employees go without supplies they need to do their work.

You overhear a piece of juicy gossip about another employee and then repeat it to other coworkers. Whether the gossip is true or false is not the issue.

You tell a customer or potential customer that your product will perform a particular action when you don't know if it will and you didn't check with an employee who does.

You allow a part that you know does not meet quality standards leave your work station and hope your supervisor or the quality inspector won't notice.

You claim credit for the work of another employee, or you fail to give public credit to a coworker's contribution, when you share results, make a presentation, turn in a report or in any other way appear to be the sole owner of a work product or results.

This list provides examples of ways in which employees fail to practice workplace ethics. It is not comprehensive as hundreds of additional examples are encountered by employees in workplaces daily. Won't you take a moment to add your own examples of lapses in workplace ethics that you've experienced below?

TOPIC 6
SHOULD QUOTAS FOR WOMEN ON BOARDS BE MANDATED BY LAW?

Introduction

Nobody likes the idea of having mandatory quotas. Quotas are only a last resort when all else has failed. This is the position of Gael O'Brien in her article below. But, according to O'Brien, the problem is that businesses in the United States have not moved fast enough to include more women on their boards, as the statistics show.

In 2015 the percentage of women on Boards of Directors of American companies was 17.5%--still well below the target of 20% set by some advocates. The European Union has set a goal of 40%. And there is the example of Norway's achievement with quotas, although this has

been questioned by the University of Michigan study since the achievement of 40% representation occurred so quickly that readiness may have been compromised.

2018 GENDER DIVERSITY INDEX

O'Brien seems to suggest that the reason for the lack of gender diversity on BoD in the US is the entrenched sexism among the 'old boy' networks of upper management, especially in large, publicly traded companies. Unfortunately, quotas are the only way to break through this sexist, immoral glass ceiling at the top, O'Brien argues.

Nilofer Merchant, on the other hand, herself a director, thinks that quotas simply won't work, as she says in her article listed below, and likely will be counter-productive to the goal of achieving gender parity on boards. Quotas signal tokenism, dilute the qualifications of the board to lead, do a disservice to qualified women board members and will in all likelihood not change the real attitudes of upper management. A pragmatic view from the trenches.

2008	2010	2012	2016	2017
8.65%	9.32%	14.75%	20.1%	22.17%
54 Women	58 Women	90 Women	125 Women	137 Women
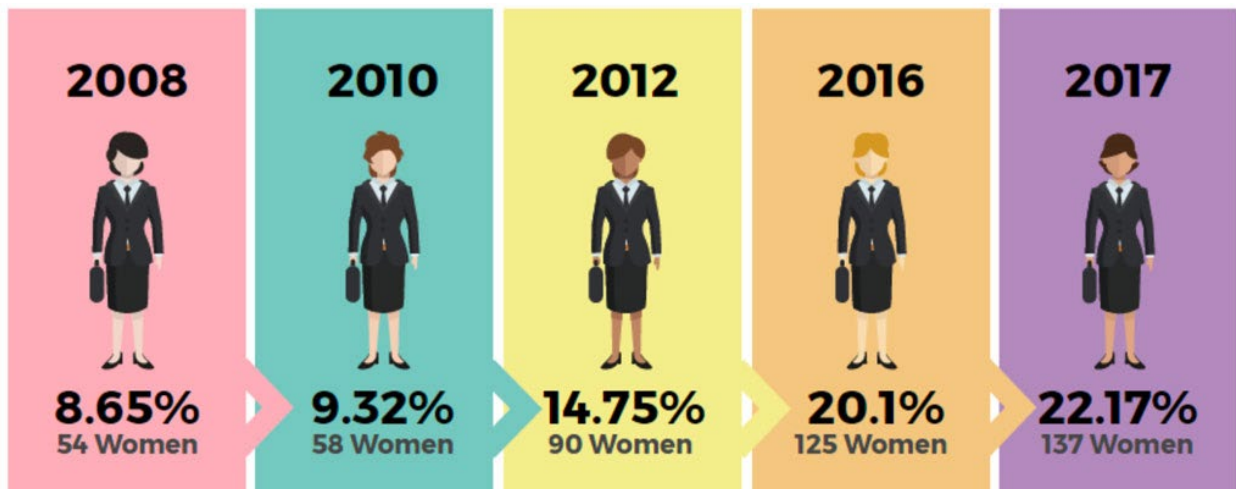
The real problem is that not enough women are moving into executive management and leadership positions where they would get the experience they need to be effective directors, so Merchant thinks that more of these types of opportunities for women need to be created in order to expand the pool of board-ready women. Sounds like a reasonable plan, but does it take into account the actual, existential situation of contemporary women in the workplace?

Gene Marks thinks that in all likelihood Merchant's solution won't work because the real culprit here is the fact that women face much greater socially and situationally reinforced obstacles in the form of gender expectations than men do, which seriously complicates their positioning themselves in the workplace for upper management. The prospect of climbing the corporate ladder, with all the time and energy commitment that requires, is less attractive to women who would like to have a family *and* a career and thus choose other, more flexible career paths, leaving the pool of board-ready women insufficient for the demand and susceptible to the entrenched sexist attitudes at the top. Some things will never change, Marks seems to be saying.

It may be that the net result of why there is an insufficient pool of board-ready women is a combination of these two sources of constraint, a problem at the bottom and a problem at the top.

[124]

Regardless of how you feel about biological determinism and career preferences, it seems as if women are presented with more career constraints 'from below' than men by virtue of being female. And, it is well-known that they are held to a higher standard at the top, get paid disproportionately to men, and must run the gauntlet of entrenched sexism that remains widespread in business from Wall Street to Hollywood to the halls of political power in Washington, D.C. Are quotas sufficient to solve these challenges to women's choice of a business career?

Read the articles. What do YOU think?

Women in the Boardroom: Quotas needed

Gael O'Brien

Women in the Boardroom: Should the U.S. Have Quotas[13]

A recent article in The Economist argues that quotas used by some European countries to increase the numbers of women on corporate boards are the wrong way to promote women.

While I take issue with the article, the subject of quotas stirs up discomfort. Opponents say quotas are a bad idea for companies headquartered in the United States because they would undermine corporate governance, dilute the caliber of board members, and insult woman currently sitting on boards.

Gael O'Brien

However, the gap is addressed, the problem remains that the U.S. is not showing any leadership in gender diversity on boards. This raises questions about what it can learn from other countries.

Gender should never be the only reason someone is nominated to serve on a corporate board. Statistics show a long-established pattern of qualified white males who have defined the province of corporate governance and corporate leadership for generations. How that pattern can be shifted to seek out and include many more qualified women and minority candidates is an urgent priority. Progress has been far too slow.

In 2000, the representation of women on Fortune 500 boards was 11.7 percent. Ten years later that number inched up only four percentage points. This was during a decade of heightened attention to the issue, as well as a proliferation of research by Catalyst, McKinsey and others on the business case for having women on boards. Bottom line: the needle barely moved.

---

[13] O'Brien, Gael. "Women in the Boardroom: Should the U.S. have quotas? Business Ethics Magazine. http://business-ethics.com/2011/08/03/women-in-the-boardroon-should-the-us-have-quotas/ August 2011.

It is hard to see how the recent Securities and Exchange Commission (SEC) diversity disclosure rule will have much impact moving that needle. The new rule leaves it up to companies to explain how they consider diversity in identifying nominees. Gender diversity isn't flagged as something the SEC would like included in what the company explains. They don't send a message that it isn't acceptable to have 15.7 percent women (white and minority) on boards.

Gender diversity is a global problem – 40 percent of the world's largest publicly listed companies don't have any women on their boards; when women do have board seats, they hold less than one in ten.

To address the gap in representation, in the last several years, many countries have been far more aggressive than the U.S. This has included imposing, or threatening to impose, quotas to increase the representation of women on boards to between 20 to 40 percent in companies in Norway, Finland, Denmark, Iceland, Sweden, The Netherlands, France, Italy and Spain.

Norway's quota required that publicly-held companies raise the percentage of women on boards from 9 percent in 2006 to 40 percent by 2008; a very ambitious target in a very short window. A University of Michigan study makes the case that forced diversity in Norway hurt stock price. In the three days following the announcement of the quota, stock prices fell 5 percent for companies that had no women directors. Cited as a reason why quotas don't work, it is too soon to know the full impact of Norway's actions to increase the representation of women on boards. There are also many other ways to create and implement quotas. More study is needed.

In both the United Kingdom and Germany, companies are being asked to voluntarily increase gender diversity on boards with the caveat that government may step in if companies don't succeed. Kuala Lampur's approach has been in two phases: over a five-year period, they increased the percent of women leaders in the public sector to 30 percent; then in May 2011, they passed a requirement that over the next five years, companies will ensure that women make up 30 percent of corporate decision makers.

Quotas to increase gender diversity on corporate boards or in public office have the common denominator of trying to address substantial underrepresentation not resolved in a business-as-usual approach.

"Whether it is women in elective office, women judges, or women on boards, the evidence is overwhelming that increasing the numbers of women in the pipeline is insufficient to overcome women's barriers to office," says Sally J. Kenney, Executive Director, Newcomb College Institute and Professor of Political Science Newcomb College Endowed Chair, Tulane University. According to Kenney:

"That is why, from Rwanda to Egypt to Latin America, nations have adopted electoral quotas to increase the number of women in legislative office. Just as it is no longer defensible to deny women the vote, the right to serve on juries, or the right to practice their profession and participate in the governance of professional associations, so too, do basic principles of democracy, representation, and nondiscrimination require that women serve on corporate boards."

One of the reasons given for the paucity of women and minorities on boards is difficulty in finding them. Agenda developed nearly a year ago a resource for nominating committees called, "A Guide to Board Diversity". The guide includes backgrounds on 100 candidates vetted by a panel of governance experts. Agenda hasn't done a follow-up survey yet to learn whether inclusion in the guide got candidates interviews or invitations for board service. However, if they do, it will be very telling to learn how many Fortune 1000 companies pursued any of the 100 candidates.

I am concerned that there is complacency, even smugness, about how we view corporate governance in the U.S. that lacks urgency in dealing with the under-representation of women and minorities on boards. Without outside pressure from the SEC, a prestigious commission, or even the threat of a quota, I don't see the momentum for change that will put sufficient value on the contributions of talented, qualified women and minorities to aggressively recruit them.

Ten years from now, will our progress be measured in coffee spoons? In 2021 will there be those who rationalize that moving the needle up four more points, to 19.7 percent representation is an achievment?

And for those companies in Europe that have worked to achieve 30 percent or even 40 percent representation of women (white and minorities) by 2021, what will they have discovered about the strength of diversity? About the value of gender, ethnicity, background, perspectives, talent, and experience – and how it impacts financial return and culture – that will be still beyond our reach?

No Quotas for Women on Boards

Nilofer Merchant:

Nilofer Merchant

Quotas for Women on Boards are Wrong[14]

One thing I learned before I became a director is that there are an abundance of board readiness events for newbies like me. Since there are so many, I recently chose to go to one that had four impressive women who had served on a mix of non-profit and corporate boards. About 200 people, mostly women, listened attentively to the discussion. At one point in the discussion, one of the panelists, a director on a Fortune 500 company BoD, shared this insight:

"If a board already has one woman on their board, it is unlikely — actually impossible — to elect another. […] No woman board member can nominate another woman board member…"

---

[14] Merchant, Nilofer. "Quotas for Women on Boards are Wrong." *Harvard Business Review* https://hbr.org/2011/09/quotas-for-women-on-boards-are-wrong September 2011.

I waited for a "but" or even a "when" or perhaps a pause followed by "I'm joking." But no. No one gasped (except, of course, myself) and the moderator did not ask any clarifying questions. The statement was left unchallenged by the other panelists, perhaps accepted as a truth.

I left the event deeply disturbed — not just by her comment, but by the non-response of the rest of her peers, and the audience's silence. Even female board directors, apparently, have accepted that there is such a thing as a "woman's seat" for a corporate board. And, while it's not a legally imposed quota, the room's response suggested that it has become a de facto quota.

I have never believed in quotas; now I started to consider if they made sense, if they would expand the number of women serving on corporate boards.

Women are half of the labor population and 75% of the buying power, yet hold less than 15% of board seats in the US and less than 10% in Europe. There has been research showing that companies with mixed gender boards perform better than those without. Consider the findings of Catalyst's study of Fortune 500 companies:

Return on Equity: On average, companies with the highest percentages of women board directors outperformed those with the least by 53 percent.

Return on Sales: On average, companies with the highest percentages of women board directors outperformed those with the least by 42 percent.

Return on Invested Capital: On average, companies with the highest percentages of women board directors outperformed those with the least by 66 percent.

There is also evidence that women are more effective as board members. Reuters describes this phenomenon: among other things, women do more homework before board meetings and cause higher attendance rates overall. Many have argued it just makes good business sense to create diversity. Sure, there are some counter arguments that this research could be correlation, not causation. Perhaps effective boards just choose to include more women. But who wouldn't want these performance results?

We should not be surprised, then, that some countries and financial stewardship organizations have suggested quotas are the way to go. Governments throughout Europe have especially decided that action is required to increase the number of women in the executive suite. The thinking is that quotas will create a force function to overcome gender gap barriers that have been well documented.

But will mandating change via quotas actually make a difference? I have doubts, for four main reasons:

Quotas signal tokenism. As suggested by what I saw at the panel, some woman currently serving on boards view their seat as a "woman's seat." Quotas would exacerbate this problem. Instead, we need all board members, male and female, to regard their ability to contribute as being on equal footing with all other members. Only then can boards be capable of being effective.

Groups don't change dynamics until they decide to change their dynamics. If change is imposed from external pressures, groups simply find a way around the new rules. That's been proven in research in many areas, but is especially well captured in by Lee Ann Banaszak's classic on suffrage, *Why Movements Succeed or Fail*. The key is for those involved to recognize — for themselves — that something has to change. When change is forced onto communities, often the change is rejected. If a quota forced a board to accept a bunch of new (female) members, it's easy to imagine that key discussions would end up being made over a pre-call, dinner, or a golf game, rather than within the board meeting itself — thus undermining the well-intentioned goals of the quota.

Quotas don't necessarily increase the right kind of diversity. It's possible to improve the gender ratio of boards without improving the diversity of the conversation. Perhaps the reason that mixed-gender boards perform better, for instance, is that the companies who elect to have more women on the board have chosen more forward-thinking business practices generally. Quotas could encourage less-enlightened firms to change the gender of the board members but still seek the same biases, education, and experiences, hence leading to more of the status quo. Again, we can turn to research done by Margaret Heffernan to show how our bias is a blindness that affects each of our ability to take in new ideas.

Quotas de-emphasize qualifications. In Norway, the first country to mandate quotas, research showed that the women promoted were less experienced than the directors they replaced. Professors at the University of Michigan found that firms that were forced to increase the share of women on their boards by more than ten percentage points saw one measure of corporate value fall by 18%.

Imposing quotas only targets a symptom — not the disease. Quotas won't encourage meritocratic selection, or even increase the pipeline of qualified candidates, but merely propagate gender-oriented approach that is guaranteed to provoke a backlash. All of this is doing a disservice to the higher-level goal: better performance.

Some might suggest an answer is the firms that claim to help individuals achieve "board readiness." I have invested a good bit of energy looking into these groups, and even joining some. And in my own, albeit limited experience of different organizations, these firms mostly exacerbate the problem. Rather than helping individuals recognize what key career experience they have (or lack), they accept fees for polishing resumes, promoting the use of buzzwords, and emboldening people without sufficient qualifications to believe they are ready for board positions. This merely dilutes the average strength of the applicants, and generates noise in the marketplace that makes connecting qualified candidates with those seeking them, harder.

The goal should not be just "more female board members," but more female board members who are capable and credible once serving. To do that, we need to promote women into roles where they can gain the relevant experience: running a P&L, leading a company, delivering performance numbers, leading transformational initiatives, and managing risk. Once experience has been gained, "discovery" of these talents needs to be sponsored. Ultimately, most of work belongs to the exceptional person herself.

We need to have experienced people of all types, including women, serving boards effectively. There is no shortage of important problems that companies and our economies face that will benefit from a fresh point of view. Imposing quotas will quickly provide the appearance of change, but will in fact delay real change. In order for their ideas be heard, valued and therefore acted upon, women must be truly welcomed by the board's selection process, not forced upon it. This may mean that changing the makeup of boards takes longer. But it will result in real change faster.

Men and Women in Business

Gene Marks

Why Most Women Will Never Become CEO[15]

I run a small technology firm. We do business with a lot of larger technology companies. I meet plenty of women in senior positions. But it's rare that I come across a female CEO. Why is that?

Only recently, Meg Whitman was appointed CEO of HP. And Virginia Rometty was just named CEO of IBM. These are two smart women leading two giant technology firms. But they are anomalies. They are abnormal. The fact is that most women just don't make it to this level.

As of this past May, only twelve of the Fortune 500 companies were run by women. This is down from fifteen the previous year. Really? In the world of Rosie, Oprah, Kim Kardashian and Hillary Clinton less than 3% of our largest companies have female leaders?

Gene Marks

Look, I'm not surprised. I'm a guy. I know why.

Reason 1: One Friday night I picked up my teenage son at the movies along with four of his teenage friends. The ride home was filled with laughter, profanity, burps, flatulence and a few head slaps. It took a week for the smell to dissipate.

Reason 2: The next night I picked up my teenage daughter at the movies along with four of her teenage friends. Deathly silence. Apparently, one of the girls' boyfriends at the theatre had

---

[15] Marks, Gene. "Why Most Women Will Never Become CEO." *Forbes*. www.forbes.com https://www.forbes.com/sites/quickerbettertech/2011/10/31/why-most-women-will-never-become-ceo/#55f22cf348ff

made a remark about another girl's makeup in the group. He thought she looked...hot. Oh boy. Sides had been chosen. And except for the occasional hissed whisper, no one was talking to each other. It took two weeks for the tension to dissipate.

These are the reasons why most women do not become CEOs.

Ever seen what it's like to be a woman in today's workplace? Sure, things have come a long way since the days of Mad Men. I don't see guys patting their secretaries on the backside or calling them "honey" or "darling." But the sexism is still there. It's just more concealed. I've been in more than a few meetings where once an attractive female staffer leaves the room one or two of the guys will comment on her hotness. This goes on, believe me. Guys are still checking out the girls in the office. I see their body language noticeably change whenever a pretty female employee enters the room. Words, thoughts and important points are missed because of a new perfume or a low-cut blouse. It works the other way too. The less attractive female employees are also frequently ignored...for the opposite reason. Men are still trying to take women seriously in the workplace. But most haven't progressed beyond the maturity level of my teenage son and his friends.

But that's just the beginning. Women also have more personal and social pressures than men. And this affects their ability to further their careers and get the experience they need to become good managers. It's common today for families to have two working parents. But let's admit it, when little Johnny gets sick at school who's the first person that's usually called? When a child is up at night coughing, which parent is staying up with her? When the plumber has to make an emergency morning visit, who's generally staying at home to deal with it? It's usually mom. And even if she has a full-time job too.

When my wife and I were younger and our baby would cry in the middle of the night I would put a pillow...over my head. That stopped the crying for sure. My wife (who was working full time by the way) was the one who got out of bed to care for the child. Yes, I was an ass. I'm not saying that many dads don't pitch in or try to do their fair share. But as much as women have achieved in earning their equality, there are still some age-old cultural habits that won't die. Children need their mommies. And most moms I know, whether they have a full-time job or not, want to be there for their child. I know plenty of women who admit they struggle with this instinctual tug on their gut. Men don't have this kind of instinctual tug. Let's face it: unless there's beer involved, men don't have many instincts at all. We figure our wives will ultimately handle these things. And in many cases, they just do.

Which puts a noticeable strain on a woman's career. She can be earning twice what her husband earns but that's still not enough. She's also expected to be a good mom too (and a good daughter-in-law, and a good housekeeper and a good neighbor). And if she's not "there" for her kids then she's criticized.   She can't win. And by choosing her family responsibilities over her professional responsibilities (which, by the way, is the right thing to do in my opinion) she leaves her flank open to the men in her office who can do the things she can't do because she's not there to do it. The men running companies look at each other and nod in sympathy when Joyce misses that meeting because of a sick child. But they move on, with Richard stepping in to replace her. Business continues. And Joyce is left out in the cold.

And by the way...quadruple that pressure for women trying to raise children on their own.

Like my teenage son and his friends, men can also get away with more stupidity.   They can make the occasional inappropriate joke and then just apologize. If a woman does that she's treated like a leper. Men can sprinkle profanity in their conversation, and it endears them as one of the folks. God forbid if a woman drops an f-bomb in the office – she's a total you-know-what (hint: it's not a snitch). Men can date women thirty years younger and get high fives from their peers. As much as many women would like to do that (oh, I see my wife checking out those college guys playing Frisbee on the beach!) they just won't. Because they can't. Men can make mistakes like this and get off with a warning. Women are held to a much higher standard.

That's because the standards in today's business world are still made and enforced...by men. And guys say to themselves: how would we feel if that was our daughter? Which is why we joke about the woman teacher that had a one-nighter with the high school football player. And then we're enraged by the male teacher who did the same thing with one of his female students. Women are not allowed to make off-color jokes. They have to appear to be embarrassed by that YouTube video.   They could never comment on the looks of a fellow co-worker. They shouldn't be talking about how many beers they consumed the night before. Men can do all of this with ease and not be judged by their bosses. Women cannot. And this limits their ability to connect with other employees and build the kind of invisible bonds that men get to build. Bonds that help these same men progress further in their companies than their female co-workers.

A woman's physical appearance is way more under the radar than a man's. Look at the women who do make it to the very top of technology companies: Whitman, Rometty, Carly Fiorina. Notice something? Um....they're good looking! They are slim, attractive, well put

Reid Hoffman

Carly Fiorina

together. Do you think a woman who looks like Reid Hoffman stands a chance at becoming CEO?

Don't deny it- a female's looks are held to a much higher level of scrutiny than a man's. A guy can pull any one of his two or three suits out of a closet and throw it on top of the same shirt he wore the previous day (and probably the same undershirt too). Most women in the workplace spend hours putting themselves together. They always have to appear like it's 9AM. They're not allowed to let their guard down, even if they're working late into the evening. Because men (and other women) will judge their appearance. And make comments to each other like, "sure she's OK, but remember how she looked that night we were putting together the proposal? Yeesh!" Yes, men say that stuff. And then they let these things cloud their decision making when it's promotion time. It happens.

All these things add up. The surreptitious judgments in the office. The social pressures. The double-standard of behaviors. The burden of maintaining physical appearances. And you know what happens? Most women throw in the towel. They don't want to put up with it. They leave the corporate world to raise families. Or start their own small businesses. And if they stay in the corporate world many do so without aspirations of becoming the top dog. They don't want the headaches, the scrutiny, or the responsibility.

So, who's left? The women with the thickest skin. Which is not always the best qualification to be an effective CEO.   This is why we don't see as many women CEOs as we do men. Still.   Yes, women have advanced a great deal in the business world. Unfortunately, the business world hasn't advanced along with them. I'm not sure this will change anytime soon. Because remember: *My son and his idiot friends are the up and coming generation. It ain't pretty.*

Related articles from recent news:

[Opinion: Putting women on California public company boards generates benefits](#)

[Are gender quotas for women on boards bad for stocks?](#)

TOPIC 7
ALGORITHMS, BIG DATA, MORAL AGENCY

Introduction

This Topic focuses on some of the moral issues associated with the growth of Big Data analytics and its rapidly increasing deployment in numerous human decision-making applications and situations.

We will investigate critical assessments of **Cathy O'Neil**'s text *Weapons of Math Destruction* where she details some of the moral problems associated with algorithmic decision-making. Besides the possibility of bias infecting algorithmic analyses, there is also the problem of algorithms supplanting or overriding moral agency.

The article "Big Data Ethics" by **Andrej Zwitter** reflects on the impact that the explosion of Big Data analytics is having and is likely to have on personal moral agency – our ability to make free decisions and control the course of our moral life.

Finally, a **Pew Research report** of a large-scale survey of "technology experts, scholars, corporate tech practitioners, and government leaders" is presented. These leaders in the tech industry were asked to respond to the following question:

Will the net overall effect of algorithms be positive for individuals and society or negative for individuals and society?

How technology experts responded to this question is very illuminating, especially Theme 3 of the report: ***"Humanity and human judgment are lost when data and predictive modeling become paramount."*** Whoa! Humanity and human judgement are lost!? What about that? Be sure to check out Theme 3 in the Pew Research report.

What I think that you should take away from this investigation is an increased consciousness of the scale and ubiquity (appearing everywhere) of Big Data analytics and the specific kinds of unique and, in some cases, original moral issues that arise with this emergent technology. Not to mention how it might be undermining "humanity and human judgment."

 Another thing that you will see reflected in the issue of big data analytics is how moral reflection sometimes lags behind new technological developments. In some ways ethics precedes
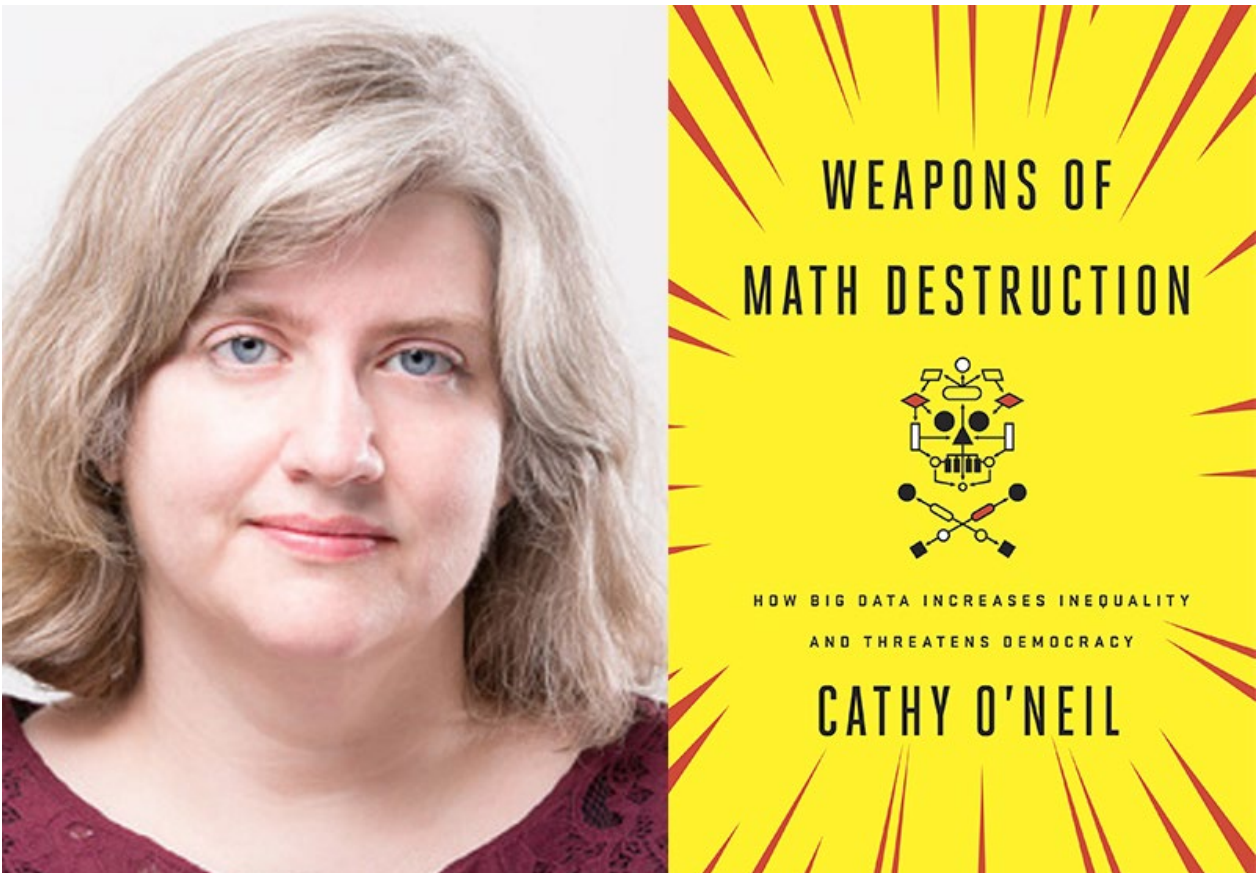
technology since morality has been around since there have been human beings. But, in other ways ethics and moral reflection are always playing catch-up with new technological developments that present new moral problems.

One dimension of the moral issues with Big Data arises because Big Data utilizes *proxy measurements* to target or evaluate members of correlative groups. The police analyze zip codes to deploy officers; employers use credit scores to gauge responsibility; payday lenders assess grammar to determine credit worthiness. Zip codes are a stand-in for race and socio-economic status; credit scores for wealth; and poor grammar for immigrants. The potential for bias lurks throughout the use of big data analytics and algorithms.

Mindless algorithms created by an unknown number of invisible technicians who inevitably and blindly introduce their own prejudices and biases into the algorithms, can result in racism, sexism, ethnic profiling, predatory marketing, prejudicial policies, and other kinds of injustice.

This potential for perniciousness is multiplied exponentially by virtue of the sheer scope of Big Data's reach. And the opacity (hiddenness) of its insinuation into the most intimate and personal nooks and crannies of our everyday life will most certainly result in transforming our sense of self and our moral value orientation, *without our being aware of it* for the most part, guided by an invisible human hand targeting the data-driven payload toward decision-making about members of unsuspecting groups. Listen to author Cathy O'Neil's scorching assessment of big data analytics in the following video.

Cathy O'Neil: The era of faith in Big Data must end (13:19)

Here it might be instructive to recall what we learned from the Stanford Prison experiment, Milgram's obedience study, and from Social Psychologists like Sam Sommers, author of *Situations Matter,* about how background dimensions of situations that we are mostly unaware of

can have a big impact on our perception in general, including our self-perception and decision-making. Big Data is the perfect tool for taking advantage of this barely conscious, background, tacit source of influence. Most folks don't realize it is happening.

The article listed below, "Big Data: Weapons of Math Destruction " by **Derek Beres** is a review of Cathy O'Neil's book *Weapons of Math Destruction.* Beres's article focuses on the potential for Big Data to cause "dehumanization by numbers" by making decisions that affect people's lives based on algorithms that "create self-perpetuating feedback loops where your phone bill can have more impact on the cost of your auto insurance policy than getting hammered and sitting behind the wheel." This occurred in Florida, according to O'Neil, where some residents who had clean driving records were charged more for insurance than others who had DUI's but good credit scores. **This unfairness is the result of using abstract and impersonal algorithms that focus on "proxies" (quantifiable data sources) as a way of making decisions in other areas of human interaction.** O'Neil details numerous such cases in her book.

For example, in A Math Nerd Wants to Stop the Big Data Monster, **Katherine Burton** points out that O'Neil "describes companies using ZIP codes as a proxy for creditworthiness, which leads to predatory lending and hiring discrimination." Again, in Math is racist: How data is driving inequality, **Aimee Rawlins** points out that one of the most compelling sections of O'Neil's book focuses on algorithm-driven recidivist models for the sentencing of criminals:

> *For years, criminal sentencing was inconsistent and biased against minorities. So, some states started using recidivism models to guide sentencing. These take into account things like prior convictions, where you live, drug and alcohol use, previous police encounters, and criminal records of friends and family. These scores are then used to determine sentencing.*

> *"This is unjust," O'Neil writes. "Indeed, if a prosecutor attempted to target a defendant by mentioning his brother's criminal record or the high crime rate in his neighborhood, a decent defense attorney would roar, 'Objection, Your Honor!'" But in this case, the person is unlikely to know the mix of factors that influenced his or her sentencing -- and has absolutely no recourse to contest them.*

Big Data and Moral Agency

Once we begin to see the potential for Big Data to impact and influence our lives and our consciousness and to drive social policy, we can begin to understand the kinds of moral concerns that Andrej Zwitter raises in his article Big Data Ethics about the potential erosion of personal moral responsibility as a result of the nature, growth and enormous impact of Big Data.

According to Zwitter, the invisibility of Big Data's influence is due in part to the speed of Big Data's development, too fast for us to fully comprehend its nature and possible effect. It is a case of technological development dangerously outpacing moral consciousness development. Part of the reason for this is that **the mining and deployment of big data is largely invisible and we are all tacitly complicit in its formation.** And the Big Data industry is still in its infancy, so

things are just getting started. We collect tons more data than we actually put to use, due in large part to the development of the internet. Undoubtedly, the amount of interpreted and deployed data will continue to increase as applications multiply.

Here is why Zwitter thinks that Big Data will cause an erosion of individual moral responsibility. He points to the "hyper-connectivity" of current society, witnessed in the explosion of social networking, for example, and driven by Big Data, resulting in the fact that **virtually everyone becomes a data collection point that contributes anonymously to some degree to the targeting of *groups* for commercial, policing, evaluative, and other purposes, and which can involve unjust and prejudicial outcomes.** For this reason, Zwitter thinks that Big Data will erode individual moral agency and individual moral responsibility.

Let's look at this a little closer. Being a moral agent means that you have the capacity to act. Not all bodily movements are "acts," of course. To act you must intend what you do and accept the consequences of your actions. Animals do not intend to do what they do; they are purely re-active. Thus, you are morally responsible for the actions that you knowingly and willingly intend to happen. But with Big Data you are part of the aggregated active cause of the resulting targeting somewhere down the data road, but without clear knowledge of the extent of your participation or its targeted use, or the outcome of what you partially initiated and caused. Thus, Zwitter asks to what extent do data contributors (you and me) have moral responsibility for those targeted and possibly unjust outcomes?

Data is de-individualized in its aggregation which first distances the individual data contributor from a moral connection to her or his input and the consequent outcome impacting the targeted group. But impersonal data still retains group characteristics, or it would be useless. Thus, it does not matter that the data has been "de-individualized" because this anonymization still leaves group privacy vulnerable. Individual data contributors inevitably contribute to this group vulnerability and the use to which it is put, yet they no longer have any control of the outcome of this use and thus cannot have moral responsibility for it. In this way Zwitter thinks Big Data undermines or erodes personal moral responsibility.

In response to Zwitter, however, let me offer an alternative interpretation regarding his worry about the erosion of individual moral agency, a perspective that is born out of our earlier reflections in this course about the nature of human subjectivity. It may be that the potential undermining of individual moral agency resulting from the hyper-networked structure of a datified or data-driven social order is not an assault on moral agency but rather a necessary correction to the over-reach of the whole idea of moral agency to begin with, an idea we encountered earlier in this course.

To be a moral agent involves the presumption that we are somehow free of situational influences (free and autonomous) and thus able to make moral judgments for which we are entirely

morally responsible. But this seemingly realistic position may have an erroneous assumption at the heart of the very idea of moral agency itself.

As we saw with the workers at Wells Fargo who were influenced by the toxic cross-selling culture that existed at the bank--and recalling again what Social Psychology teaches about invisible situational influences on our perception and judgments--it seems reasonable to conclude that the toxic culture at Wells Fargo influenced the moral judgments of the workers and is thus, to some degree, responsible for the workers' immoral behavior. Just as human subjectivity is essentially inter-subjectivity, according to Emmanuel Levinas, so also morality is perhaps always *inter-relational morality* such that we, as individuals, are never wholly and entirely responsible for any of our supposedly free and autonomous actions. In short, we are all in this together, inescapably. The idea of the separate individual is a myth not a reality.

So, from this inter-relational moral perspective, Big Data is not a threat to moral agency, as Zwitter thinks. Rather, Big Data provides support for a critique of the individualist understanding of moral agency as an outmoded ideal configuration of the person based on a liberal notion of rational subjectivity that makes little sense in a hyper-connected social order. **In other words, if it is true that we are all connected; and if it is true that our judgments are influenced by situational factors that we are unaware of, then we cannot be held absolutely individually accountable for our inter-related and contextualized 'actions'.**

Could it be that there really is no such thing as an action of which I am wholly and entirely the cause and thus for which I am wholly and entirely responsible? Are all actions necessarily inter-relational to some extent? What difference does this make to the assessment of moral responsibility? What do YOU think?

How Big Data can win elections (2:15)

Derek Beres

A Review of Cathy O'Neil's Weapons of Math Destruction
"Weapons of Math Destruction: How Big Data Destroys Lives"

Derek Beres

A few weeks ago I went with my fiancée to buy a new car. While figuring out which model would be most economical, I reminded her to factor in an increase in insurance rates, something that had happened to me the previous year. The salesman said that might not be true.

Turns out he was right. <mark>A former auto insurance salesman, he told us rates are dependent upon zip code. Companies factor in the driving records of everyone</mark>

in that neighborhood—your personal driving record is only partly consequential. So, while moving from Mar Vista to Palms included an increase for me, my fiancée moving from Venice resulted in a decrease.

We should consider that balance, correct? Hardly. We're the victims of an invisible algorithm, something data scientist Cathy O'Neil spends an entire book discussing in *Weapons of Math Destruction*. A math geek by nature, O'Neil became disillusioned with her lifelong passion's applications in Big Data when working for a hedge fund during the economic collapse in 2008.

My insurance issue seems benign in comparison to many issues of inequality and injustice O'Neil address. To return to that industry, however, she discusses how credit scores, itself an industry fueled by deception and corruption, affects unsuspecting drivers in insidious ways.

For example, drivers in Florida with clean records and bad credit scores were shown to pay $1,522 *more* than drivers with similar records save a drunken driving conviction. Whether or not you've paid your phone bill can have more impact on auto insurance than getting hammered and sitting behind the wheel. If this seems unfair, it is, and the problems are only getting worse.

Credit scores are used by nearly half of American employers to screen potential employees. With the rise of online resume readers, qualified candidates are never considered by human eyes due to the slightest infraction. Yet credit should not be a prison sentence. Many factors contribute to a lapse in bill payment, including another subject invisible algorithms affect: health insurance. One crippling medical bill can very well result in punishment in the eyes of creditors and employers.

It's the invisibility, dehumanization by numbers, that's the real problem. Qualifying subtleties during an interview—facial expressions, vocal fluctuations, pantomimes, and perhaps most importantly, a logical explanation as to why one's credit score is not optimal—are never weighed in a system that only reads numerical data.

As an example O'Neil tells the story of Sarah Wysocki. In 2009, the Washington, D.C. school district implemented one such system to weed out ineffective teachers. Wysocki was beloved by parents but her IMPACT evaluation score placed her in the bottom 5 percent during the second year of statistical measuring. She was among the 206 teachers let go that year.

What such scoring systems do not take into account, O'Neil writes, are the nuanced factors of education. Like with corporations, the statistical machine seeks constant improvement in the same way shareholders demand perpetual profits. Yet teachers have different classes each year—she might instruct honors students one year, special education children the next. All the algorithm views are test results.

Another teacher in the book received a score of six out of a hundred in a similar rating method. The following year he received a ninety-six. While there's always room for improvement, such a system is obviously ineffective given such a wide disparity for a senior instructor. He was not alone on this absurd grading curve.

Day by day the rhythm of our lives are being automated. O'Neil has a special dislike for algorithms used by policing systems to monitor crime. They create a self-perpetuating feedback loop targeting low-income minority neighborhoods. This leads to confirmation bias: *of course*, that's where the problems are. Kids caught with nickel bags receive jail time while bankers siphoning billions from ignorant customers are immune to prosecution.

While critical of the systems in place, O'Neil reminds us that it does not have to be so. Math can be a tool of construction as well as destruction. For example, an algorithm could show if it's more beneficial to pay your phone or electricity bill during a tight month in regards to how each would affect your credit score. Not sexy, but realistic.

She calls for data scientists to take a digital Hippocratic Oath, which asks them to consider the enormous impact algorithms has on the population. She also wants companies to "open the hood" so methods are not hidden from public view.

Open source and numerically honest platforms are beneficial from consumer and social standpoints. O'Neil invokes Mitt Romney's 47 percent comment about Obama supporters "who pay no income tax." The presidential candidate believed himself to be in a room of like-minded elite, ignorant that staff might not share his values. When everyone's cell phone is a video camera politicians can no longer have separate talking points for separate audiences—something Hillary Clinton is being reminded of now thanks to Wikileaks.

<mark>Asking companies to peer behind the numbers is requesting of them an ethical consideration: Is it more important to maximize profits at inhumane costs or take a slight financial hit to serve the better good?</mark> Of course each is going to answer differently for a host of reasons. As long as that's the case we'll never know whether their weapons are constructive or destructive. As for now, the latter is too often true. As O'Neil warns, democracy itself is the wager.

[Andrej Zwitter](#)

Big Data and Moral Agency

Big Data ethics[16]

The speed of development in Big Data and associated phenomena, such as social media, has surpassed the capacity of the average consumer to understand his or her actions and their knock-on effects. We are moving towards changes in how ethics has to be perceived: away from individual decisions with specific and knowable outcomes, towards actions by many unaware that they may have taken actions with unintended consequences for anyone. Responses will require a rethinking of ethical choices, the

Andrej Zwitter

lack thereof and how this will guide scientists, governments, and corporate agencies in handling Big Data. This essay elaborates on the ways Big Data impacts on ethical conceptions.

On 21 September 2012, a crowd of 3000 rioting people visited a 16-year-old girl's party at home in the little village of Haren, the Netherlands, after she had mistakenly posted a birthday party invite publicly on Facebook. Some might think that the biggest ethical and educational challenge that modern technology is posing concerns children. It seems, however, that particularly with the emergence of Big Data, ethicists have to reconsider some traditional ethical conceptions.

Since the onset of modern ethics in the late 18th century with Hume, Kant, Bentham, and Mills, we took premises such as individual moral responsibility for granted. Today, however, it seems Big Data requires ethics to do some rethinking of its assumptions, particularly about individual moral agency. The novelty of Big Data poses ethical difficulties (such as for privacy), which are not per se new.

These ethical questions, which are commonly known and understood, are also widely discussed in the media. For example, they resurface in the context of the Snowden revelations and the respective investigations by The Guardian concerned with the capabilities of intelligence agencies. But its novelty would not be the sole reason for having to rethink how ethics works. In addition to its novelty, the very

---

[16] Zwitter, Andrej. "Big Data Ethics." *Big Data and Society.* Sage, November 2014. https://doi.org/10.1177/2053951714559253

nature of Big Data has an underestimated impact on the individual's ability to understand its potential and make informed decisions. Hence, much less commonly discussed are the ethical implications of impersonal data. Examples include, among others, the "likes" on Facebook sold to marketing companies in order to more specifically target certain micro-markets; information generated out of Twitter feed based sentiment analyses for political manipulation of groups, etc.

This essay aims to underline how certain principles of our contemporary philosophy of ethics might be changing and might require a rethinking in philosophy, professional ethics, policy-making, and research. First, it will briefly outline the traditional ethical principles with regard to moral responsibility. Thereafter, it will summarize four qualities of Big Data with ethical relevance. The third delves deeper into the idea of the changing nature of power and the emergence of hyper-networked ethics; and the fourth section illustrates which ethical problems might emerge in society, politics and research due to these changes.

Traditional ethics

Since the enlightenment, traditional deontological and utilitarian ethics place a strong emphasis on moral responsibility of the individual, often also called moral agency (MacIntyre, 1998). This idea of moral agency very much stems from almost religiously followed assumptions about individualism and free will. Both these assumptions experience challenges when it comes to the advancement of modern technology, particularly Big Data. The degree to which an entity possesses moral agency determines the responsibility of that entity. Moral responsibility in combination with extraneous and intrinsic factors, which escape the will of the entity, defines the culpability of this entity. In general, the moral agency is determined by several entity innate conditions, three of which are commonly agreed upon (Norman, 2012):

1. Causality: An agent can be held responsible if the ethically relevant result is an outcome of its actions.
2. Knowledge: An agent can be blamed for the result of its actions if it had (or should have had) knowledge of the consequences of its actions.
3. Choice: An agent can be blamed for the result if it had the liberty to choose an alternative without greater harm for itself.

Implicitly, observers tend to exculpate agents if they did not possess full moral agency, i.e. when at least one of the three criteria is absent. There are, however, lines of reasoning that consider morally relevant outcomes independently of the existence of a moral agency, at least in the sense that negative consequences establish moral obligations (Leibniz and Farrer, 2005; Pogge, 2002). New advances in ethics have

been made in network ethics (Floridi, 2009), the ethics of social networking (Vallor, 2012), distributed and corporate moral responsibility (Erskine, 2004), as well as computer and information ethics (Bynum, 2011). Still, Big Data has introduced further changes, such as the philosophical problem of 'many hands', i.e. the effect of many actors contributing to an action in the form of distributed morality (Floridi, 2013; Noorman, 2012), which need to be raised.

Four moral qualities of Big Data

When recapitulating the core criteria of Big Data, it will become clear that the ethics of Big Data moves away from a personal moral agency in some instances. In other cases, it increases moral culpability of those that have control over Big Data. In general, however, the trend is towards an impersonal ethics based on consequences for others. Therefore, the key qualities of Big Data, as relevant for our ethical considerations, shall be briefly examined. At the heart of Big Data are four ethically relevant qualities:

1. There is more data than ever in the history of data:

- Beginning of recorded history till 2003—5 billion gigabytes
- 2011—5 billion gigabytes every two days
- 013—5 billion gigabytes every 10 min
- 2015—5 billion gigabytes every 10 s

2. Big Data is organic: although this comes with messiness, by collecting everything that is digitally available, Big Data represents reality digitally much more naturally than statistical data—in this sense it is much more organic. This messiness of Big Data is (among others, e.g. format inconsistencies and measurement artifacts) the result of a representation of the messiness of reality. It does allow us to get closer to a digital representation of reality.

3*. Big Data is potentially global:* not only is the representation of reality organic, with truly huge Big Data sets (like Google's) the reach becomes global in real time.

4*. Correlations versus causation:* Big data analyses emphasize correlations over causation.

Certainly, not all data potentially falling into the category of Big Data is generated by humans or concerns human interaction. The Sloan Digital Sky Survey in Mexico has generated 140 terabytes of data between 2000 and 2010. Its successor, the Large Synoptic Survey Telescope in Chile, when starting its work in 2016, will collect as much within five days. There is, however, also a large spectrum of data that relates to people and their interaction directly or indirectly: social network data, the growing field of health tracking data, emails, text messaging, the mere use of the

Google search engine, etc. This latter kind of data, even if it does not constitute the majority of Big Data, can, however, be ethically very problematic.

New power distributions

Ethicists constantly try to catch up with modern-day problems (drones, genetics, etc.) in order to keep ethics up-to-date. Many books on computer ethics and cyber ethics have been written in the past three decades since, among others, Johnson and Moor established the field. For Johnson, computer ethics "pose new versions of standard moral problems and moral dilemmas, exacerbating the old problems, and forcing us to apply ordinary moral norms in uncharted realms." This changes to some degree with Big Data as moral agency is being challenged on certain fundamental premises that most of the advancements in computer ethics took and still take for granted, namely free will and individualism. Moreover, in a hyperconnected era, the concept of power, which is so crucial for ethics and moral responsibility, is changing into a more networked fashion. Retaining the individual's agency, i.e. knowledge and ability to act, is one of the main challenges for the governance of socio-technical epistemic systems.

There are three categories of Big Data stakeholders: Big Data collectors, Big Data utilizers, and Big Data generators. Between the three, power is inherently relational in the sense of a network definition of power. In general, actor A's power is the degree to which B is dependent on A or alternatively A can influence B. That means that A's power is different vis-à-vis C. The more connections A has, the more power he or she can exert. This is referred to as micro-level power and is understood as the concept of centrality. On the macro-level, the whole network (of all actors A–B–C–D…) has an overall inherent power, which depends on the density of the network, i.e. the amount of edges between the nodes. In terms of Big Data stakeholders, this could mean that we find these new stakeholders wielding a lot of power:

1. Big Data collectors determine which data is collected, which is stored and for how long. They govern the collection, and implicitly the utility, of Big Data.

2. Big Data utilizers: They are on the utility production side. While (1) might collect data with or without a certain purpose, (2) (re-)defines the purpose for which data is used, for example regarding:

- Determining behavior by imposing new rules on audiences or manipulating social processes;
- Creating innovation and knowledge through bringing together new datasets, thereby achieving a competitive advantage.

3. Big Data generators:

- Natural actors that by input or any recording voluntarily, involuntarily, knowingly, or unknowingly generate massive amounts of data.
- Artificial actors that create data as a direct or indirect result of their task or functioning.
- Physical phenomena, which generate massive amounts of data by their nature or which are measured in such detail that it amounts to massive data flows.

The interaction between these three stakeholders illustrates power relationships and gives us already an entirely different view on individual agency, namely an agency that is, for its capability of morally relevant action, entirely dependent on other actors. One could call this agency 'dependent agency', for its capability to act is depending on other actors. Floridi refers to these moral enablers, which hinder or facilitate moral action, as "infraethics."

The network nature of society, however, means that this dependent agency is always a factor when judging the moral responsibility of the agent. In contrast to traditional ethics, where knock-on effects (that is, effects on third mostly unrelated parties, as for example in collateral damage scenarios) in a social or cause–effect network do play a minor role, Big Data-induced hyper-networked ethics exacerbate the effect of network knock-on effects. In other words, the nature of hyper-networked societies exacerbates the collateral damage caused by actions within this network. This changes foundational assumptions about ethical responsibility by changing what power is and the extent we can talk of free will by reducing knowable outcomes of actions, while increasing unintended consequences.

Some ethical Big Data challenges

When going through the four ethical qualities of Big Data above, the ethical challenges become increasingly clearer: as global warming is an effect of emissions of many individuals and companies, Big Data is the effect of individual actions, sensory data, and other real-world measurements creating a digital image of our reality; "datafication". Already, simply the absence of knowledge about which data is in fact collected or what it can be used for puts the "data generator" (e.g. online consumers, cellphone owning people, etc.) at an ethical disadvantage qua knowledge and free will. The "internet of things" further contributes to the distance between one actor's knowledge and will and the other actor's source of information and power. Global data leads to a power imbalance between different stakeholders benefitting mostly corporate agencies with the necessary know-how to generate intelligence and knowledge from information. Like a true Delphian oracle, Big Data

correlations suggest causations where there might be none. We become more vulnerable to having to believe what we see without knowing the underlying whys.

Privacy

The more our lives become mirrored in a cyber reality and recorded, the more our present and past become almost completely transparent for actors with the right skills and access (Beeger, 2013). The Guardian revealed that Raytheon (a US defense contractor) developed the Rapid Information Overlay Technology (RIOT) software, which uses freely accessible data from social networks and data associated with an IP address, etc., to profile one person and make their everyday actions completely transparent (The Guardian, 2013a).

Group privacy

Data analysts are using Big Data to find out our shopping preferences, health status, sleep cycles, moving patterns, online consumption, friendships, etc. In only a few cases, and mostly in intelligence circles, this information is individualized. De-individualization (i.e. removing elements that allow data to be connected to one specific person) is, however, just one aspect of anonymization. Location, gender, age, and other information relevant for the belongingness to a group and thus valuable for statistical analysis relate to the issue of group privacy.

Anonymization of data is, thus, a matter of degree of how many and which group attributes remain in the data set. To strip data from all elements pertaining to any sort of group belongingness would mean to strip it from its content. In consequence, despite the data being anonymous in the sense of being de-individualized, groups are always becoming more transparent. This issue was already raised by Dalenius (1977) for statistical databases and later by Dwork (2006) that "nothing about an individual should be learnable from the database that cannot be learned without access to the database". This information gathered from statistical data and increasingly from Big Data can be used in a targeted way to get people to consume or to behave in a certain way, e.g. through targeted marketing.

Furthermore, if different aspects about the preferences and conditions of a specific group are known, these can be used to employ incentives to encourage or discourage a certain behavior. For example, knowing that group A has a preference α (e.g. ice cream) and a majority of the same group has a condition β (e.g. being undecided about which party to vote for), one can provide α for this group to behave in the domain of β in a specific way by creating a conditionality (e.g. if one votes for party B one gets ice cream). This is standard party politics; however, with Big Data the ability to discover hidden correlations increases, which in turn increases the ability to create incentives whose purposes are less transparent.

Conversely, <mark>hyper-connectivity</mark> also allows for other strategies, e.g. bots which infiltrate Twitter (the so-called Twitter bombs) are meant to create fake grass-roots debates about, for example, a political party that human audiences also falsely perceive as legitimate grassroots debates. This practice is called "Astroturfing" and is prohibited by Twitter policies, which, however, does not prevent political campaigners from doing it. The electoral decision between Coakley and Brown (in favor of the Republican Brown) of the 2010 special election in Massachusetts to fill the Senate seat formerly held by Ted Kennedy might have been decided by exactly such a bot, which created a Twitter smear campaign in the form of a fake public debate (Ehrenberg, 2012). A 2013 report showed that in fact 61.5% of website visitors were bots (with an increasing tendency). Half of this traffic consisted of "good bots" necessary for search engines and other services, the other half consisted of malicious bot types such as scrapers (5%), hacking tools (4.5%), spammers (0.5%), and impersonators (20.5%) for the purpose of market intelligence and manipulation (Zeifman, 2013).

Propensity

The movie *Minority Report* painted a vision of a future in which predictions about what people were likely to do could lead to their incarceration without an act committed. While the future might not be as bad as depicted in the movie, "predictive policing" is already a fact in cities like Los Angeles, where Big Data analytics point to certain streets, gangs or individuals, who are more likely to commit a crime, in order to have them subjected to extra surveillance.\

The problem is very much a political one: the high probability of a certain person committing a murder cannot be ignored without major public criticism if nothing had been done to prevent it. Another example puts the stakes somewhat lower: what if Big Data analytics predict that a certain person (e.g. a single parent living in a certain neighborhood, with no job, a car, no stable relationship, etc.) has a likelihood of 95% to be involved in domestic violence? No social welfare organization having such information would politically be able not to act on such information. Sending social workers to the person's house might not be as invasive as incarcerating people before the deed and it also does not violate the presumption of innocence. However, this might cause a stigma on the person, the family, and friends. Furthermore, <mark>this raises questions about the ethical role of those setting the intervention threshold and the data scientists writing the algorithm that calculates the chance based on certain variables available in the Big Data pool.</mark>

<mark>One of the key changes in Big Data research is that data scientists let algorithms search for correlations themselves.</mark> This can often lead to surprise findings, e.g. the very famous Wal-Mart finding of increased Pop-Tart purchases

before hurricanes (Hays, 2004). When searching for random commonalities (through data mining), it can be concluded/suggested that the more data we have, the more commonalities we are bound to find. Big data makes random connectedness on the basis of random commonalities extremely likely. In fact, no connectedness at all would be the outlier. This, in combination with social network analysis, might yield information that is not only highly invasive into one's privacy, but can also establish random connections based on incidental co-occurrences. In other words, Big Data makes the likelihood of random findings bigger—something that should be critically observed with regard to investigative techniques such as RIOT.

Research ethics

Ethical codes and standards with regard to research ethics lag behind this development. While in many instances research ethics concerns the question of privacy, the use of social media such as Twitter and Facebook for research purposes, even in anonymous form, remains an open question. On the one hand, Facebook is the usual suspect to be mentioned when it comes to questions of privacy. At the same time, this discussion hides the fact that a lot of non-personal information can also reveal much about very specific groups in very specific geographical relations. In other words, individual information might be interesting for investigative purposes of intelligence agencies, but the actually valuable information for companies does not require the individual tag. This is again a problem of group privacy.

The same is true for research ethics. Many ethical research codes do not yet consider the non-privacy-related ethical effect (see, for example, BD&S' own statement "preserving the integrity and privacy of subjects participating in research"). Research findings that reveal uncomfortable information about groups will become the next hot topic in research ethics, e.g. researchers who use Twitter are able to tell uncomfortable truths about specific groups of people, potentially with negative effects on the researched group. Another problem is the "informed consent": despite the data being already public, no one really considers suddenly being the subject of research in Twitter or Facebook studies. However, in order to represent and analyze pertinent social phenomena, some researchers collect data from social media without considering that the lack of informed consent would in any other form of research (think of psychological or medical research) constitute a major breach of research ethics.

Conclusions

Does Big Data change everything, as Cukier and Mayer-Schönberger have proclaimed? This essay tried to indicate that Big Data might induce certain changes to traditional assumptions of ethics regarding individuality, free will, and power. This might have consequences in many areas that we have taken for granted for so long.

In the sphere of education, children, adolescents, and grown-ups still need to be educated about the unintended consequences of their digital footprints (beyond digital literacy). Social science research might have to consider this educational gap and draw its conclusions about the ethical implications of using anonymous, social Big Data, which nonetheless reveals much about groups. In the area of law and politics, I see three likely developments:

1. political campaign observers, think tank researchers, and other investigators will increasingly become specialized data forensic scientists in order to investigate new kinds of digital manipulation of public opinion;

2. law enforcement and social services as much as lawyers and legal researchers will necessarily need to re-conceptualize individual guilt, probability and crime prevention; and

3. states will progressively redesign the way they develop their global strategies based on global data and algorithms rather than regional experts and judgment calls.

When it comes to Big Data ethics, it seems not to be an overstatement to say that Big Data does have strong effects on assumptions about individual responsibility and power distributions. Eventually, ethicists will have to continue to discuss how we can and how we want to live in a 'datafied' world and how we can prevent the abuse of Big Data as a new found source of information and power.

A Pew Research survey of Big Data experts

Lee Rainie and Janna Anderson

Code-Dependent: Pros and Cons of the Algorithm Age[17]

Algorithms are aimed at optimizing everything. They can save lives, make things easier, and conquer chaos. Still, experts worry they can also put too much control in the hands of corporations and governments, perpetuate bias, create filter bubbles, cut choices, creativity and serendipity, and could result in greater unemployment.

Algorithms are instructions for solving a problem or completing a task. Recipes are algorithms, as are math equations. Computer code is algorithmic. The internet runs on algorithms and all online searching is accomplished through them. Email knows where to go thanks to algorithms. Smartphone apps are nothing but

---

[17] Rainie, Lee and Janna Anderson, "Code-Dependent: Pros and Cons of the Algorithm Age." Pew Research Center, February 2017. http://www.pewinternet.org/2017/02/08/code-dependent-pros-and-cons-of-the-algorithm-age

algorithms. Computer and video games are algorithmic storytelling. Online dating and book-recommendation and travel websites would not function without algorithms. GPS mapping Systems get people from point A to point B vía algorithms. Artificial intelligence (AI) is naught but algorithms. The material people see on social media is brought to them by algorithms. In fact, everything people see and do on the web is a product of algorithms. Every time someone sorts a column in a spreadsheet, algorithms are at play, and most financial transactions today are accomplished by algorithms. Algorithms help gadgets respond to voice commands, recognize faces, sort photos and build and drive cars. Hacking, cyberattacks, and cryptographic code-breaking exploit algorithms. Self-learning and self-programming algorithms are now emerging, so it is possible that in the future algorithms will write many if not most algorithms.

Algorithms are often elegant and incredibly useful tools used to accomplish tasks. They are mostly invisible aids, augmenting human Lives in increasingly incredible ways. However, sometimes the application of algorithms created with good intentions leads to unintended consequences. Recent news Items tie to these concerns:

- The British pound dropped 6.1% in value in seconds on Oct. 7. 2016. Partly because of currency trades triggered by algorithms.

- Microsoft engineers created a Twitter bot named "Tay" this past spring in an attempt to chat with Millennials by responding to their prompts, but within hour's ft was spouting racist. sexist. Holocaust-denying tweets based on algorithms that had it "learning" how to respond to others based on what was tweeted at it.

- Facebook tried to create a feature to highlight Trending Topics from around the site in people's feeds. First, it had a team of humans edit the feature. But controversy erupted when some accused the platform of being biased against conservatives. So, Facebook then turned the job over to algorithms only to find that they could not discern real news from fake news.

- Cathy O'Neil, author of *Weapons of Math Destruction: How Big Data Increases Inequality and Threatens Democracy*, pointed out that predictive analytics based on algorithms tend to punish the poor. Using algorithmic hiring practices as an example.

- Well-intentioned algorithms can be sabotaged by bad actors. An internet slowdown swept the East Coast of the U.S. On Oct. 21, 2016, after hackers bombarded Din DNS, an internet traffic handler, with information that overloaded its circuits, ushering in a new era of internet attacks powered by internet-connected devices. This after internet security expert Bruce Schneier warned in September that "Someone Is Learning How to take down the Internet." And the abuse of Facebook's News Feed algorithm and general promulgation of fake news online became controversial as the 2016 U.S. Presidential election proceeded.

- Researcher Andrew Tutt called for an "FDA for Algorithms." noting, "The rise of increasingly complex algorithms calls for critical thought about how to best prevent, deter and compensate for the harms that they cause .... Algorithmic regulation will require federal uniformity, expert judgment, political independence, and pre-market review to prevent - without stifling innovation - the introduction of unacceptably dangerous algorithms into the market."
- The White House released two reports in October 2016 detailing the advance of algorithms and artificial intelligence and plans to address issues tied to it. And it issued a December report outlining some of the potential effects of Al-driven automation on the U.S. Job market and economy.
- On January 17, 2017, the Future of Life Institute published a list of 23 Principles for Beneficial Artificial Intelligence. Created by a gathering of concerned researchers at a conference at Asimolar, in Pacific Grove, California. The more than 1,600 signatories included Steven Hawking, Elon Musk, Ray Kurzweil, and hundreds of the world's foremost AI researchers.

The use of algorithms is spreading as massive amounts of data are being created, captured, and analyzed by businesses and governments. Some are calling this the Age of Algorithms and predicting that the future of algorithms is tied to machine learning and deep learning that will get better and better at an ever-faster pace.

While many of the 2016 U.S. Presidential election post-mortems noted the revolutionary impact of web-based tools in influencing its outcome, XPrize Foundation CEO Peter Diamandis predicted, "Five big tech trends will make this election look tame." He said advances in quantum computing and the rapid evolution of AI and AI agents embedded in systems and devices in the Internet of Things will lead to hyper-stalking, influencing and shaping of voters, and hyper- personalized ads, and will create new ways to misrepresent reality and perpetuate falsehoods.

Seven major themes about the algorithm era
Theme 1 Algorithms will continue to spread everywhere

- The benefits will be visible and invisible and can lead to greater human insight into the world
- The many upsides of algorithms are accompanied by challenges

Theme 2 Good things lie ahead

- Data-driven approaches to problem-solving will expand
- Code processes will be refined and improved; ethical issues are being worked out
- "Algorithms don't have to be perfect; they just have to be better than people"
- In the future, the world may be governed by benevolent Al

Theme 3 Humanity and human judgment are lost when data and predictive modeling become paramount

- Programming primarily in pursuit of profits and efficiencies is a threat
- Algorithms manipulate people and outcomes, and even "read our minds"
- All of this will lead to a flawed yet inescapable logic-driven society
- Some fear people could lose sophisticated decision-making capabilities and local intelligence
- As code takes over complex systems, humans are left out of the loop
- Solutions should include embedding respect for the individual

Theme 4 Biases exist in algorithmically-organized systems

- Algorithms reflect the biases of programmers and datasets
- Algorithms depend upon data that is often limited, deficient or incorrect

Theme 5 Algorithmic categorizations deepen divides

- The disadvantaged are likely to be even more so
- Algorithms create filter bubbles and silos shaped by corporate data collectors. They limit people's exposure to a wider range of ideas and reliable information and eliminate serendipity

Theme 6 Unemployment will rise

- Smarter, more-efficient algorithms will displace many human work activities
- Some seek a redefined global economic system to support humanity

Theme 7 The need grows for algorithmic literacy, transparency and oversight

- It starts with algorithm literacy - this goes beyond basic digital literacy
- People call for accountability processes, oversight and transparency
- Many are pessimistic about the prospects for policy rules and oversight

Analysts foresee algorithms taking over public and private activities in a new era of "algocratic governance" that supplants "bureaucratic hierarchies." Others describe the emergence of "surveillance capitalism" that organizes economic behavior in an "information civilization."

The Survey

To illuminate current attitudes about the potential impacts of algorithms in the next decade, Pew Research Center and Elon University's Imagining the Internet Center conducted a large-scale canvassing of technology experts, scholars, corporate

practitioners, and government leaders. Some 1,302 responded to this question about what will happen in the next decade:

<mark>Will the net overall effect of algorithms be positive for individuals and society or negative for individuals and society?</mark>

The non-scientific canvassing found that 38% of these particular respondents predicted that the positive impacts of algorithms will outweigh negatives for individuals and society in general, while 37% said negatives will outweigh positives; 25% said the overall impact of algorithms will be about 50-50, positive-negative. [See "About this canvassing of experts" for further details about the limits of this sample.]

Participants were asked to explain their answers, and most wrote detailed elaborations that provide insights about hopeful and concerning trends. Respondents were allowed to respond anonymously; these constitute a slight majority of the written elaborations. These findings do not represent all the points of view that are possible to a question like this, but they do reveal a wide range of valuable observations based on current trends.

In the next section we offer a brief outline of seven key themes found among the written elaborations. Following that introductory section there is a much more in-depth look at respondents' thoughts tied to each of the themes, beginning on page 20 of this report. All responses are lightly edited for style.

Theme 1: Algorithms will continue to spread everywhere

There is fairly uniform agreement among these respondents that algorithms are generally invisible to the public and there will be an exponential rise in their influence in the next decade.

A representative statement of this view carne from Barry Chudakov, founder and principal at Sertain Research and Stream Fuzion Corp. He replied:

"If every algorithm suddenly stopped working, it would be the end of the world as we know it.' (Pedro Domingo's The Master Algorithm). Fact: We have already turned our world over to machine learning and algorithms. The question now is how to better understand and manage what we have done?

"Algorithms are a useful artifact to begin discussing the larger issue of the effects of technology-enabled assists in our lives. Namely, how can we see them at work? Consider and assess their assumptions? And most importantly for those who don't create algorithms for a living - how do we educate ourselves about the way they work, where they are in operation, what assumptions and biases are inherent in them, and how to keep them transparent? Like fish in a tank, we can see them swimming around and keep an eye on them.

[157]

"Algorithms are the new arbiters of human decision-making in almost any area we can imagine, from watching a movie (Affective emotion recognition) to buying a house (Zillow.com) to self-driving cars (Google). Deloitte Global predicted more than 80 of the world's two largest enterprise software companies will have cognitive technologies - mediated by algorithms - integrated into their products by the end of 2016. As Brian Christian and Tom Griffiths write in Algorithms to Live By, algorithms provide 'a better standard against which to compare human cognition itself.' They are also a goad to consider that same cognition: How are we thinking and what does it mean to think through algorithms to mediate our world?

"The main positive result of this is better understanding of how to make rational decisions, and in this measure a better understanding of ourselves. After all, algorithms are generated by trial and error, by testing, by observing, and coming to certain mathematical formulae regarding choices that have been made again and again - and this can be used for difficult choices and problems, especially when intuitively we cannot readily see an answer or a way to resolve the problem. The 37% Rule. Optimal stopping and other algorithmic conclusions are evidence-based guides that enable us to use wisdom and mathematically verified steps to make better decisions.

"The secondary positive result is connectivity. In a technological recapitulation of what spiritual teachers have been saying for centuries, our things are demonstrating that everything is - or can be - connected to everything else. Algorithms with the persistence and ubiquity of insects will automate processes that used to require human manipulation and thinking. These can now manage basic processes of monitoring, measuring, counting, or even seeing. Our car can tell us to slow down. Our televisions can suggest movies to watch. A grocery can suggest a healthy combination of meats and vegetables for dinner. Siri reminds you it's your anniversary.

"The main negative changes come down to a simple but now quite difficult question: How can we see, and fully understand the implications of, the algorithms programmed into everyday actions and decisions? The rub is this: Whose intelligence is it, anyway? ... Our Systems do not have, and we need to build in, what David Gelernter called 'topsight.' the ability to not only create technological Solutions but also see and explore their consequences before we build business models, companies and markets on their strengths, and especially on their limitations."

Chudakov added that this is especially necessary because in the next decade and beyond, "By expanding collection and analysis of data and the resulting application of this information, a layer of intelligence or thinking manipulation is added to processes and objects that previously did not have that layer. So prediction

possibilities follow us around like a pet. The result: As information tools and predictive dynamics are more widely adopted, our lives will be increasingly affected by their inherent conclusions and the narratives they spawn."

"The overall impact of ubiquitous algorithms is presently incalculable because the presence of algorithms in everyday processes and transactions is now so great, and is mostly hidden from public view. All of our extended thinking systems (algorithms fuel the software and connectivity that create extended thinking systems) demand more thinking - not less - and a more global perspective than we have previously managed. The expanding collection and analysis of data and the resulting application of this information can cure diseases, decrease poverty, bring timely Solutions to people and places where need is greatest, and dispel millennia of prejudice, ill-founded conclusions, inhumane practice and ignorance of all kinds. Our algorithms are now redefining what we think, how we think, and what we know. We need to ask them to think about their thinking - to look out for pitfalls and inherent biases before those are baked in and harder to remove.

"To create oversight that would assess the impact of algorithms, first we need to see and understand them in the context for which they were developed. That, by itself, is a tall order that requires impartial experts backtracking through the technology development process to find the models and formulae that originated the algorithms. Then, keeping all that learning at hand, the experts need to soberly assess the benefits and deficits or risks the algorithms create. Who is prepared to do this? Who has the time, the budget, and resources to investigate and recommend useful courses of action? This is a 2ist-century job description - and market niche - in search of real people and companies. In order to make algorithms more transparent, products and product information circular might include an outline of algorithmic assumptions, akin to the nutritional sidebar now found on many packaged food products, that would inform users of how algorithms drive intelligence in a given product and a reasonable outline of the implications inherent in those assumptions."

Theme 2: Good things lie ahead

A number of respondents noted the many ways in which algorithms will help make sense of massive amounts of data, noting that this will spark breakthroughs in science, new conveniences, and human capacities in everyday life, and an ever-better capacity to link people to the information that will help them. They perform seemingly miraculous tasks humans cannot and they will continue to greatly augment human intelligence and assist in accomplishing great things. A representative proponent of this view is Stephen Downes, a researcher at the National Research Council of Canada, who listed the following as positive changes:

Banks. Today banks provide loans based on very incomplete data. It is true that many people who today qualify for loans would not get them in the future. However, many people - and arguably many more people - will be able to obtain loans in the future, as banks turn away from using such factors as race, socio-economic background, postal code and the like to assess fit. Moreover, with more data (and with a more Interactive relationship between bank and client) banks can reduce their risk, thus providing more loans, while at the same time providing a range of Services individually directed to actually help a person's financial State.

"*Health care providers.* Health care is a significant and growing expense not because people are becoming less healthy (in fact, society-wide, the opposite is true) but because of the significant overhead required to support increasingly complex Systems, including prescriptions, insurance, facilities and more. New technologies will enable health providers to shift a significant percentage of that load to the individual, who will (with the aid of personal support Systems) manage their health better, coordinate and manage their own care, and create less of a burden on the system. As the overall cost of health care declines, it becomes increasingly feasible to provide single-payer health insurance for the entire population, which has known beneficial health outcomes and efficiencies.

"*Governments.* A significant proportion of government is based on regulation and monitoring, which will no longer be required with the deployment of automated production and transportation Systems, along with sensor networks. This includes many of the daily (and often unpleasant) interactions we have with government today, from traffic offenses, manifestation of civil discontent, unfair treatment in commercial and legal processes, and the like. A simple example: One of the most persistent political problems in the United States is the gerrymandering of political boundaries to benefit incumbents. Electoral divisions created by an algorithm to a large degree eliminate gerrymandering (and when open and debatable, can be modified to improve on that result)."

A sampling of additional answers, from anonymous respondents:

- "Algorithms find knowledge in an automated way much faster than traditionally feasible."
- "Algorithms can crunch databases quickly enough to alleviate some of the red tape and bureaucracy that currently slows progress down."
- "We will see less pollution, improved human health, less economic waste."
- "Algorithms have the potential to equalize access to information."
- "The efficiencies of algorithms will lead to more creativity and self-expression."
- "Algorithms can diminish transportation issues; they can identify congestion and alternative times and paths."

- "Self-driving cars could dramatically reduce the number of accidents we have per year, as well as improve quality of life for most people."
- "Better-targeted delivery of news, Services, and advertising."
- "More evidence-based social Science using algorithms to collect data from social media and click trails."
- "Improved and more proactive police work, targeting areas where crime can be prevented. "
- "Fewer underdeveloped areas and more international commercial exchanges."
- "Algorithms ease the friction in decision-making, purchasing, transportation and a large number of other behaviors."
- "Bots will follow orders to buy your stocks. Digital agents will find the materials you need."
- "Any errors could be corrected. This will mean the algorithms only become more efficient to humanity's desires as time progresses."

Themes illuminating concerns and challenges

Participants in this study were in substantial agreement that the abundant positives of accelerating code-dependency will continue to drive the spread of algorithms; however, as with all great technological revolutions, this trend has a dark side. Most respondents pointed out concerns, chief among them the final five overarching themes of this report; all have subthemes.

Theme 3: Humanity and human judgment are lost when data and predictive modeling become paramount

Advances in algorithms are allowing technology corporations and governments to gather, store, sort and analyze massive data sets. Experts in this canvassing noted that these algorithms are primarily written to optimize efficiency and profitability without much thought about the possible societal impacts of the data modeling and analysis. These respondents argued that humans are considered to be an "input" to the process and they are not seen as real, thinking, feeling, changing beings. They say this is creating a flawed, logic-driven society and that as the process evolves - that is, as algorithms begin to write the algorithms - humans may get left out of the loop, letting "the robots decide." Representative of this view:

Bart Knijnenburg, assistant professor in human-centered computing at Clemson University, replied, "Algorithms will capitalize on convenience and profit, thereby discriminating [against] certain populations, but also eroding the experience of everyone else. The goal of algorithms is to fit some of our preferences, but not necessarily all of them: They essentially present a caricature of our tastes and

[161]

preferences. My biggest fear is that, unless we tune our algorithms for self-actualization, it will be simply too convenient for people to follow the advice of an algorithm (or, too difficult to go beyond such advice), turning these algorithms into self-fulfilling prophecies, and users into zombies who exclusively consume easy-to-consume items."

An anonymous futurist said, "This has been going on since the beginning of the industrial revolution. Every time you design a human system optimized for efficiency or profitability you dehumanize the workforce. That dehumanization has now spread to our health care and social Services. When you remove the humanity from a system where people are included, they become victims."

Another anonymous respondent wrote, "We simply can't capture every data element that represents the vastness of a person and that person's needs, wants, hopes, desires. Who is collecting what data points? Do the human beings the data points reflect even know or did they just agree to the terms of Service because they had no real choice? Who is making money from the data? How is anyone to know how his/her data is being massaged and for what purposes to justify what ends? There is no transparency, and oversight is a farce. It's all hidden from view. I will always remain convinced the data will be used to enrich and/or protect others and not the individual. It's the basic nature of the economic system in which we live."

A sampling of excerpts tied to this theme from other respondents:

- "The potential for good is huge, but the potential for misuse and abuse - intentional, and inadvertent - maybe greater."
- "Companies seek to maximize profit, not maximize societal good. Worse, they repackage profit-seeking as a societal good. We are nearing the crest of a wave, the trough side of which is a new ethics of manipulation, marketing, nearly complete lack of privacy."
- "What we see already today is that, in practice, stuff like 'differential pricing' does not help the consumer; it helps the company that is selling things, etc."
- "Individual human beings will be herded around like cattle, with predictably destructive results on rule of law, social justice, and economics."
- "There is an incentive only to further obfuscate the presence and operations of algorithmic shaping of Communications processes."
- "Algorithms are ... amplifying the negative impacts of data gaps and exclusions."
- "Algorithms have the capability to shape individuals' decisions without them even knowing it, giving those who have control of the algorithms an unfair position of power."
- "The fact the internet can, through algorithms, be used to almost read our minds means [that] those who have access to the algorithms and their databases have a

vast opportunity to manipulate large population groups."

- "The lack of accountability and complete opacity is frightening."

- "By utilitarian metrics, algorithmic decision-making has no downside; the fact that it results in perpetual injustices toward the very minority classes it creates will be ignored. The Common Good has become a discredited, obsolete relic of The Past."

- "In an economy increasingly dominated by a tiny, very privileged, and insulated portion of the population, it will largely reproduce inequality for their benefit. Criticism will be belittled and dismissed because of the veneer of digital 'logic' over the process."

- "Algorithms are the new gold, and it's hard to explain why the average 'good' is at odds with the individual 'good.'"

- "We will interpret the negative individual impact as the necessary collateral damage of 'progress.'"

- "This will kill local intelligence, local skills, minority languages, local entrepreneurship because most of the available resources will be drained out by the global competitors."

- "Algorithms in the past have been created by a programmer. In the future they will likely be evolved by intelligent/learning machines.... Humans will lose their agency in the world."

- "It will only get worse because there's no 'crisis' to respond to, and hence, not only no motivation to change, but every reason to keep it going - especially by the powerful interests involved. We are heading for a nightmare."

- "Web 2.0 provides more convenience for citizens who need to get a ride home, but at the same time - and it's naive to think this is a coincidence - it's also a monetized, corporatized, disempowering, cannibalizing harbinger of the End Times. (I exaggerate for effect. But not by much.)"

Theme 4: Biases exist in algorithmically-organized systems

Two strands of thinking tie together here. One is that the algorithm creators (code writers), even if they strive for inclusiveness, objectivity and neutrality, build into their creations their own perspectives and values. The other is that the datasets to which algorithms are applied have their own limits and deficiencies. Even datasets with billions of pieces of information do not capture the fullness of people's lives and the diversity of their experiences. Moreover, the datasets themselves are imperfect because they do not contain inputs from everyone or a representative sample of everyone. The two themes are advanced in these answers:

Justin Reich, executive director at the MIT Teaching Systems Lab, observed, "The algorithms will be primarily designed by white and Asian men - with data

selected by these same privileged actors - for the benefit of consumers like themselves. Most people in positions of privilege will find these new tools convenient, safe and useful. The harms of new technology will be most experienced by those already disadvantaged in society, where advertising algorithms offer bail bondsman ads that assume readers are criminals, loan applications that penalize people for proxies so correlated with race that they effectively penalize people based on race, and similar issues."

Dudley Irish, a software engineer, observed, "All, let me repeat that, all of the training data contains biases. Much of it either racial- or class-related, with a fair sprinkling of simply punishing people for not using a standard dialect of English. To paraphrase Immanuel Kant, out of the crooked timber of these datasets no straight thing was ever made."

A sampling of quote excerpts tied to this theme from other respondents:

- "Algorithms are, by definition, impersonal and based on gross data and generalized assumptions. The people writing algorithms, even those grounded in data, are a non-representative subset of the population."
- "If you start at a place of inequality and you use algorithms to decide what is a likely outcome for a person/system, you inevitably reinforce inequalities."
- "We will all be mistreated as more homogenous than we are."
- "The result could be the institutionalization of biased and damaging decisions with the excuse of, 'The Computer made the decision, so we have to accept it.'"
- "The algorithms will reflect the biased thinking of people. Garbage in, garbage out. Many dimensions of life will be affected, but few will be helped. Oversight will be very difficult or impossible."
- "Algorithms value efficiency over correctness or fairness, and over time their evolution will continue the same priorities that initially formulated them."
- "One of the greatest challenges of the next era will be balancing protection of intellectual property in algorithms with protecting the subjects of those algorithms from unfair discrimination and social engineering."
- "Algorithms purport to be fair, rational and unbiased but just enforce prejudices with no recourse."
- "Unless the algorithms are essentially open source and as such can be modified by user feedback in some fair fashion, the power that likely algorithm-producers (corporations and governments have to make choices favorable to themselves, whether in internet terms of s ervice or adhesion contracts or political biases, will inject both conscious and unconscious bias into algorithms."

[164]

Theme 5: Algorithmic categorizations deepen divides

Two connected ideas about societal divisions were evident in many respondents' answers. First, they predicted that an algorithm-assisted future will widen the gap between the digitally savvy (predominantly the most well-off, who are the most desired demographic in the new information ecosystem) and those who are not nearly as connected or able to participate. Second, they said social and political divisions will be abetted by algorithms, as algorithm-driven categorizations and classifications steer people into echo chambers of repeated and reinforced media and political content. Two illustrative answers:

Ryan Hayes, owner of Fit to Tweet, commented, "Twenty years ago we talked about the 'digital divide' being people who had access to a Computer at home vs. those that didn't, or those who had access to the internet vs. those who didn't…. Ten years from now, though, the life of someone whose capabilities and perception of the world is augmented by sensors and processed with powerful AI and connected to vast amounts of data is going to be vastly different from that of those who don't have access to those tools or knowledge of how to utilize them. And that divide will be self-perpetuating, where those with fewer capabilities will be more vulnerable in many ways to those with more."

Adam Gismondi, a visiting scholar at Boston College, wrote, "I am fearful that as users are quarantined into distinct ideological areas, human capacity for empathy may suffer. Brushing up against contrasting viewpoints challenges us, and if we are able to (actively or passively) avoid others with different perspectives, it will negatively impact our society. It will be telling to see what features our major social media companies add in coming years, as they will have tremendous power over the structure of information flow."

Theme 6: Unemployment will rise

The spread of artificial intelligence (AI) has the potential to create major unemployment and all the fallout from that.

An anonymous CEO said, "If a task can be effectively represented by an algorithm, then it can be easily performed by a machine. The negative trend I see here is that - with the rise of the algorithm - humans will be replaced by machines/computers for many jobs/tasks. What will then be the fate of Man?"

Theme 7: The need grows for algorithmic literacv, transparency and oversight

The respondents to this canvassing offered a variety of ideas about how individuals and the broader culture might respond to the algorithmization of life.

[165]

They argued for public education to instill literacy about how algorithms function in the general public. They also noted that those who create and evolve algorithms are not held accountable to society and argued there should be some method by which they are. Representative comments:

Susan Etlinger, industry analyst at Altimeter Group, said, "Much like the way we increasingly wish to know the place and under what conditions our food and clothing are made, we should question how our data and decisions are made as well. What is the supply chain for that information? Is there clear stewardship and an audit trail? Were the assumptions based on partial information, flawed sources, or irrelevant benchmarks? Did we train our data sufficiently? Were the right stakeholders involved, and did we learn from our mistakes? The upshot of all of this is that our entire way of managing organizations will be upended in the next decade. The power to create and change reality will reside in technology that only a few truly understand. So to ensure that we use algorithms successfully, whether for financial or human benefit or both, we need to have governance and accountability structures in place. Easier said than done, but if there were ever a time to bring the smartest minds in industry together with the smartest minds in academia to solve this problem, this is the time."

Chris Kutama, author of Age of Discovery and fellow at the Oxford Martin School, wrote, "Algorithms are an explicit form of heuristic, a way of routinizing certain choices and decisions so that we are not constantly drinking from a fire hydrant of sensory inputs. That coping strategy has always been co-evolving with humanity, and with the complexity of our social Systems and data environments. Becoming explicitly aware of our simplifying assumptions and heuristics is an important site at which our intellects and influence mature. What is different now is the increasing power to program these heuristics explicitly, to perform the simplification outside of the human mind and within the machines and platforms that deliver data to billions of individual lives. It will take us some time to develop the wisdom and the ethics to understand and direct this power. In the meantime, we honestly don't know how well or safely it is being applied. The first and most important step is to develop better social awareness of who, how, and where it is being applied."

Yuval Harari, author of *Sapiens: A Brief History of Humankind*, and, more recently, *Homo Deus: A Brief History of Tomorrow,* makes the case that the human race, guided to present glory by collective 'fictions' like myth, religion, and freedom, will be guided into the future by the new god called Dataism in the Age of Algorithms. This could take the human race far, especially in health care and transportation, but could also result in depersonalization, loss of privacy and autonomy, and uselessness.

PRACTICE

Reflection Exercise

Describe three ways that algorithms can result in unjust predictions as this was discussed by Cathy O'Neil in one of the readings and one of the videos for this week. What does she suggest as a solution for this problem? (Hint: she calls it an "algorithm audit") How do you think that the problem of algorithms containing biases should be dealt with? Should algorithms be regulated?

FURTHER READING

Challenges for the security of big data analytics (May 9, 2019)

Big Data Trends in 2019 (May 9, 2019)

Three reasons your company dislikes Big Data and 4 things you can do about it (May 8, 2019)

Five Ways Big Data Can Help Your Business Succeed (May 6, 2019

TOPIC 8
ARTIFICIAL INTELLIGENCE ETHICS

Introduction

T he purpose of this Topic is to investigate, from an ethical perspective, the burgeoning development and deployment in everyday human life of the various technologies that comprise the field of Artificial Intelligence (AI), especially AI technology in its pursuit of a super-intelligent, completely autonomous, self-learning, and perhaps self-replicating machine. What will be the impact of such artificial, mechanically configured, morality-free superintelligence on human life? What moral concerns accompany the development of super AI?

It is clear to anyone who takes even a cursory look that the field of AI that it is growing with exponential speed in many different directions. What is happening is a **"cognitization"** [thought sharing, data processing of ideas] of everyday life, from smart phones to smart cars, houses, and cities. Life-changing technological breakthroughs in AI, robotics, and associated fields, seem to happen on an almost daily basis. The future seems wide open.

In fact, the future is so wide open that it is difficult to see what might be coming down the road in future years, or even what is just up ahead a few months. That feels a little scary to some people.

Numerous researchers, such as Nick Bostrom, author of the book *Superintelligence*, think that the development of super-intelligent (having *general* intelligence), self-learning, and, ultimately, autonomous machines—far surpassing human abilities (which machines already do now in some 'narrow' areas)—is something that could happen with unexpected speed.

And while such development may have many attractive benefits for humans, Bostrom is among those who believe that this also should be cause for concern and advance planning now— while there's still time. Wide-open futures have high existential risk. Now is the time to consider moral parameters and advance directives before AI gets out of control. Could it really get out of control?
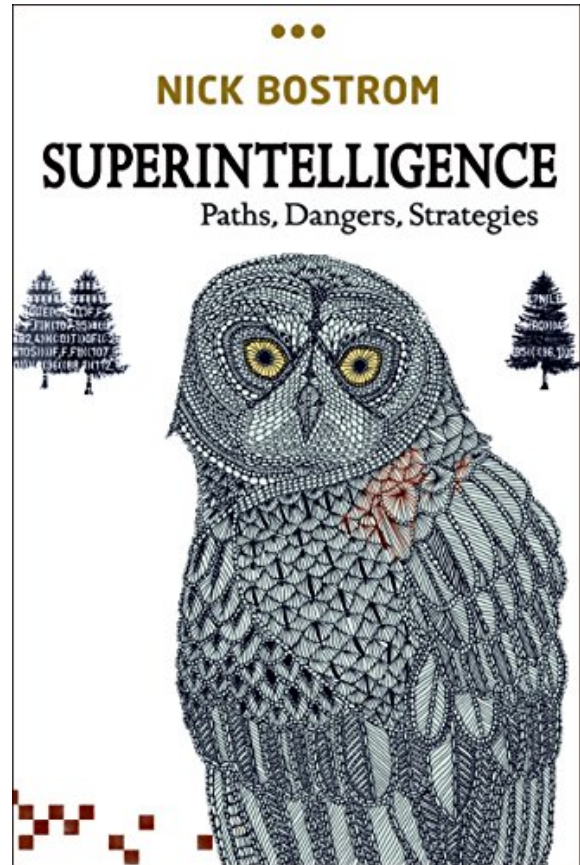
Future uncertainty about the rapid development of AI with unforeseeable outcomes is causing existential anxiety now. Indeed, voices have been raised in alarm.

Elon Musk, while supporting research into the development of friendly AI, likens AI development to "summoning the demon" which he believes *will* inevitably get out of control and perhaps turn on its creator unless precautions are taken in advance. Stephen Hawking, the well-known physicist, thinks AI could cause the end of the human race. Bill Gates doesn't understand "why some people are not concerned" at all about AI. Wake up, folks! Gates wants to say.

While it is true that AI and robotics has already made many positive contributions that have benefitted human beings, there are numerous sources of moral concern.
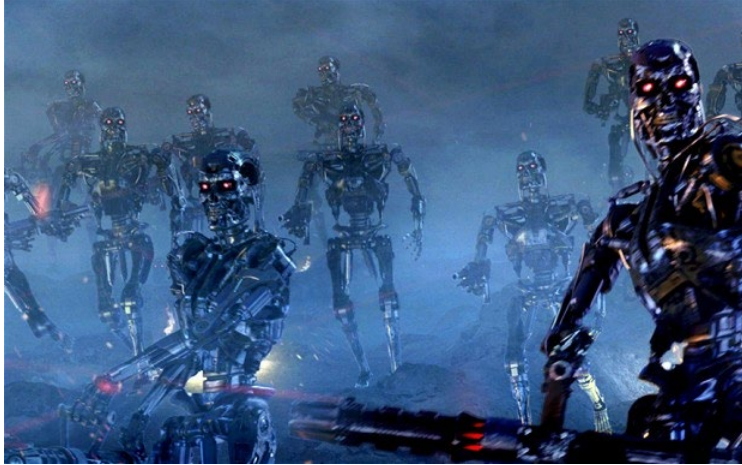
Urvashi Aneja points out a number of the potential areas of moral concern with the development of AI in her article below entitled, "Why our conversations on Artificial Intelligence are Incomplete." Aneja believes that the public should be more aware of the potential negative impact of AI and that in addition to all the excitement about what AI can practically accomplish, there should be a broader discussion about what it should, *and should not,* accomplish, and what values should guide that development.

To what end should AI be directed? Profit? Social benefit? Both? In what proportion? How should that be accomplished? Is self-regulation by the tech industry sufficient? How should the benefits from the AI revolution be distributed? To what extent should robots be held accountable for their behavior? What impact will AI have on moral agency? On society as a whole?
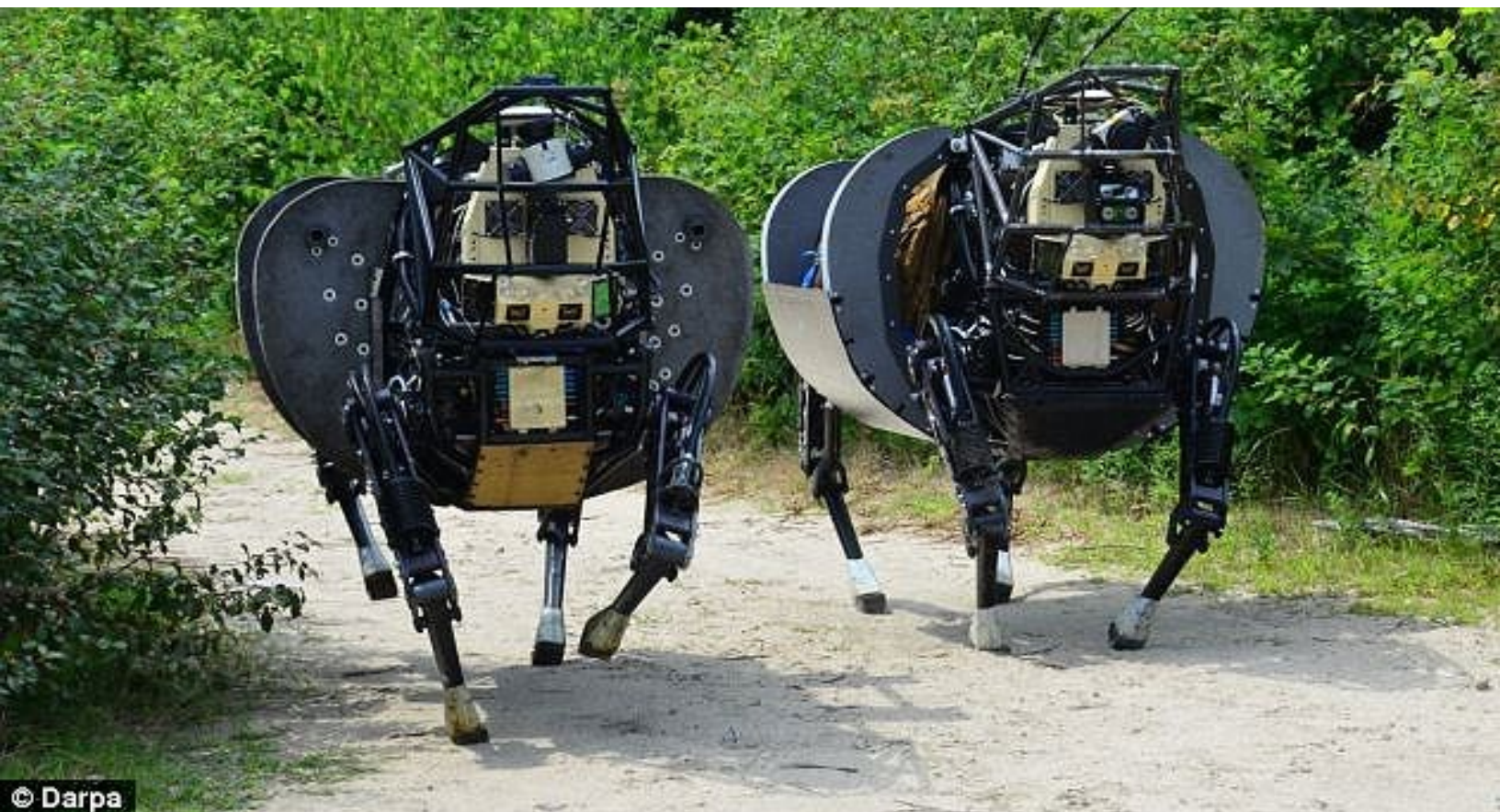
One important area of AI concern that Aneja does not focus on specifically is the development of **AI autonomous weapons systems** and the catastrophic possible outcomes from an all-out AI arms race. There have been numerous calls for limits to the development of autonomous weapons, such as the following from the Future of Life Institute:

Unlike nuclear weapons, [autonomous weapons] require no costly or hard-to-obtain raw materials, so they will become ubiquitous and cheap for all significant military powers to mass-produce. It will only be a matter of time until they appear on the black market and in the hands of terrorists, dictators wishing to better control their populace, warlords wishing to perpetrate ethnic cleansing, etc. Autonomous weapons are ideal for tasks such as assassinations, destabilizing nations, subduing populations and selectively killing a particular ethnic group. We therefore believe that a military AI arms race would not be beneficial for humanity.[18]

This video (5:44) shows why we should ban lethal autonomous weapons....

Human Intelligence, Artificial Intelligence, and Multiple Intelligences

"Artificial" means something created to look like or simulate something real although it is not the real thing itself. Artificial flowers look more or less *like* real flowers but they are not real (natural, organic) flowers. The same for artificial intelligence in relation to human intelligence.

---

[18] Future of Life Institute. www.futureoflife.org July 28, 2015. https://futureoflife.org/open-letter-autonomous-weapons/

Artificial intelligence attempts to mimic or simulate human intelligence. It produces output to appear like the kind of output achieved by human intelligence. In this connection, Sam Harris has asserted that "intelligence" is basically a matter of information processing, and that information or data processing is essentially what the human brain does; and this can be simulated by machines. But is that really the case? It seems like it is the case, at least in narrow applications such as scanning large amounts of data for clusters of similarities. Can human intelligence be effectively summed up as a process of neural data processing? I wonder about that. What do you think?

Isn't human cognition, in all of its many and varied manifestations in science, art, business, entertainment, literature, technology, architecture, industry, and in every area of human endeavor … isn't creative human intelligence ultimately beyond simulation?

Will it ever be possible to effectively reduce human cognition (in all its non-rational, creative spontaneity) to self-learning data-processing machines?

That seems like a narrow stance on the idea of human intelligence. In many ways machine intelligence may be and become more effective than human intelligence, and human intelligence will give way to this convenience, simplicity, and efficiency, because that's what humans do.

Certainly, simulated intelligence is itself a *kind* of intelligence, but hardly the only kind. That there are many kinds of intelligence was articulated by Howard Gardner who introduced the concept of "multiple intelligences" fifty years ago. He argued that we should change our educational models to fit these different types of intelligence. Can all these types of multiple intelligences be simulated by machines?

Elon Musk talks about superintelligence (3:17)

Reducing general, cross-domain human, embodied intelligence to a singular function of data or information processing (which machines already do far better than humans in narrow applications) is a huge oversimplification. To represent this oversimplified intelligence as effectively simulating human intelligence is to do conceptual damage to the amazing complexity of natural human intelligence.

[172]

Human intelligence is an infinitely complex, non-linear, intuitively driven, mostly tacit, insightful rather than strictly logical process that is ultimately inexplicable even to itself, mysterious, and never-endingly adaptive and creative. This cannot be captured in any two-dimensional definitional straight jacket. The damage to human intelligence ultimately may be in the form of humans sacrificing their infinitely complex but somewhat messy multiplicity of overlapping and interweaving natural human intelligence to the cold efficiency of super-intelligent calculated output. Thus, we might increase our leisure by sacrificing our birthright.

What dangers for human beings might there be coming along the path of the artificial intelligence explosion?

Some AI questions raised in the article by Urvashi Aneja

1. How will AI impact the labor market? Jobs? The capital market?
   Overall, will AI have a positive or negative value on future society? Short term?
   Long term?

2. Should AI be developed/deployed strictly for profit? What about social/political benefits?

3. How should the benefits of AI be distributed? On what principle should the mechanism of distribution of AI benefits and burdens be based?

4. Will self-regulation of AI deployment by tech industry work?

5. Should there be greater algorithmic transparency? What about data bias and algorithmic bias of protected characteristics like race and gender?

6. Algorithmic transparency versus competitive advantage? AI power must not be invisible

7. Will AI intensify existing social injustices, like racial discrimination and discrimination against women?

8. Will robots have agency? Moral/legal responsibility? Autonomy possible?

9. The runaway trolley reappears…What would a robot do?

10. AI profitability must be tied to questions of purpose, values, accountability

11. Need expansion of AI conversation beyond AI "epistemic community"

Urvashi Aneja

Why our conversations on AI are incomplete[19]

Artificial Intelligence (AI) is no longer the subject of science fiction and is profoundly transforming our daily lives. While computers have already been mimicking human intelligence for some decades now using logic and if-then kinds of rules, massive increases in computational power are now facilitating the

Dr. Urvashi Aneja

creation of 'deep learning' machines i.e. algorithms that permit software to train itself to recognize patterns and perform tasks, like speech and image recognition, through exposure to vast amounts of data.

These deep learning algorithms are everywhere, shaping our preferences and behavior Facebook uses a set of algorithms to tailor what news stories an individual user sees and in what order. Bot activity on Twitter suppressed a protest against Mexico's now president by overloading the hashtag used to organize the event. The world's largest hedge fund is building a piece of software to automate the day-to-day management of the firm, including, hiring, firing and other strategic decision-making. Wealth management firms are increasingly using algorithms to decide where to invest money. The practice of traders shouting and using hand signals to buy and sell commodities has become outdated on Wall Street as traders have been replaced by machines. And bots are now being used to analyze legal documents to point out potential risks and areas of improvement.

Much of the discussion on AI in popular media has been through the prism of job displacement. Analysts, however, differ widely on the projected impact – a 2016 study by the Organization for Economic Co-operation and Development estimates that 9% of jobs will be diplaced in the next two years, whereas a 2013 study by Oxford

---

University estimates that job displacement will be 47%. The staggering difference illustrates how much the impact of AI remains speculative.

Responding to the threat of automation on jobs will undoubtedly require revising existing education and skilling paradigms, but at present, we also need to consider more fundamental questions about the purposes, values and accountability of AI machines. Interrogating these first-order concerns will eventually allow for a more systematic and systemic response to the job displacement challenge as well.

First, what purpose do we want to direct AI technologies towards? AI technologies can undoubtedly create tremendous productivity and efficiency gains. AI might also allow us to solve some of the most complex problems of our time. But we need to make political and social choices about the parts of human life in which we want to introduce these technologies, at what cost and to what end.

Technological advancement has resulted in a growth in national incomes and GDP, yet the share of national incomes that have gone to labour has dropped in developing countries. Productivity and efficiency gains are thus not in themselves conclusive indicators on where to deploy AI – rather, we need to consider the distribution of these gains. Productivity gains are also not equally beneficial to all – incumbents with data and computational power will be able to use AI to gain insight and market advantage.

Moreover, a bot might be able to make more accurate judgments about worker performance and future employability, but we need to have a more precise handle over the problem that is being addressed by such improved accuracy. AI might be able to harness the power of big data to address complex social problems. Arguably, however, our inability to address these problems has not been a result of incomplete data – for a number of decades now we have had enough data to make reasonable estimates about the appropriate course of action. It is the lack of political will and social and cultural behavioural patterns that have posed obstacles to action, not the lack of data. The purpose of AI in human life must not be merely assumed as obvious, or subsumed under the banner of innovation, but be seen as involving complex social choices that must be steered through political deliberations.

This then leads to a second question about the governance of AI – who should decide where AI is deployed, how should these decisions be made and on what principles and priorities? Technology companies, particularly those that have the

capital to make investments in AI capacities, are leading current discussions predominantly. Eric Horvitz, managing director of the Microsoft Research Lab, launched the One Hundred Year Study on Artificial Intelligence based out of Stanford University. The Stanford report makes the case for industry self-regulation, arguing that 'attempts to regulate AI, in general, would be misguided as there is no clear definition of AI and the risks and considerations are very different in different domains.'

The White House Office of Science and Technology Policy recently released a report on the 'Preparing for the Future of Artificial Intelligence', but accorded a minimal role to the government as regulator. Rather, the question of governance is left to the supposed ideal of innovation – i.e. AI will fuel innovation, which will fuel economic growth and this will eventually benefit society as well. The trouble with such innovation-fueled self-regulation is that development of AI will be concentrated in those areas in which there is a market opportunity, not necessarily areas that are the most socially beneficial. Technology companies are not required to consider issues of long-term planning and the sharing of social benefits, nor can they be held politically and socially accountable.

Earlier this year, a set of principles for Beneficial AI was articulated at the Asilomar Conference – the star speakers and panelists were predominantly from large technology companies like Google, Facebook and Tesla, alongside a few notable scientists, economists and philosophers. Notably missing from the list of speakers was the government, journalists and the public and their concerns. The principles make all the right points, clustering around the ideas of "beneficial intelligence", "alignment with human values" and "common good", but they rest on fundamentally tenuous value questions about what constitutes human benefit – a question that demands much wider and inclusive deliberation, and one that must be led by government for reasons of democratic accountability and representativeness.

What is noteworthy about the White House Report in this regard is the attempt to craft a public deliberative process – the report followed five public workshops and an Official Request for Information on AI.

The trouble is not only that most of these conversations about the ethics of AI are being led by the technology companies themselves, but also that governments and citizens in the developing world are yet to start such deliberations – they are in some sense the passive recipients of technologies that are being developed in specific geographies but deployed globally. The Stanford report, for example, attempts to

[176]

define the issues that citizens of a typical North American city will face in computers and robotic systems that mimic human capabilities. Surely these concerns will look very different across much of the globe. The conversation in India has mostly been clustered around issues of jobs and the need for spurring AI-based innovation to accelerate growth and safeguard strategic interests, with almost no public deliberation around broader societal choices.

The concentration of an AI epistemic community in certain geographies and demographics leads to a third key question about how artificially intelligent machines learn and make decisions. As AI becomes involved in high-stakes decision-making, we need to understand the processes by which such decision making takes place. AI consists of a set of complex algorithms built on data sets. These algorithms will tend to reflect the characteristics of the data that they are fed. This then means that inaccurate or incomplete data sets can also result in biased decision making. Such data bias can occur in two ways.

First, if the data set is flawed or inaccurately reflects the reality it is supposed to represent. If for example, a system is trained on photos of people that are predominantly white, it will have a harder time recognizing non-white people. This kind of data bias is what led a Google application to tag black people as gorillas or the Nikon camera software to misread Asian people as blinking. Second, if the process being measured through data collection itself reflects long-standing structural inequality. *ProPublica* found, for example, that software that was being useful to assess the risk of recidivism in criminals was twice as likely to mistakenly flag black defendants as being at higher risk of committing future crimes. It was also twice as likely to incorrectly flag white defendants as low risk.

What these examples suggest is that AI systems can end up reproducing existing social bias and inequities, contributing towards the further systematic marginalization of certain sections of society. Moreover, these biases can be amplified as they are coded into seemly technical and neutral systems that penetrate across a diversity of daily social practices. It is, of course, an epistemic fallacy to assume that we can ever have complete data on any social or political phenomena or peoples. Yet, there is an urgent need to improve the quality and breadth of our data sets, as well as investigate any structural biases that might exist in these data – how we would do this is hard enough to imagine, leave alone implement.

The danger that AI will reflect and even exacerbate existing social inequities leads finally to the question of the agency and accountability of AI systems.

[177]

Algorithms represent much more than code, as they exercise authority on behalf of organizations across various domains and have real and serious consequences in the analog world. However, the difficult question is whether this authority can be considered a form of agency that can be held accountable and culpable.

Recent studies suggest for example that algorithmic trading between banks was at least partly responsible for the financial crisis of 2008; the crash of the sterling in 2016 has similarly been linked to a panicky bot-spiral. Recently, both Google and Tesla's self-driving cars caused fatal crashes – in the Tesla case, a man died while using Tesla's autopilot function. Legal systems across the world are not yet equipped to respond to the issue of culpability in such cases, and the many more that we are yet to imagine. Neither is it clear how AI systems will respond to ethical conundrums like the famous trolley problem, nor the manner in which human-AI interaction on ethical questions will be influenced by cultural differences across societies or time. The question comes down to the legal liability of AI, whether it should be considered a subject or an object.

The trouble with speaking about accountability also stems from the fact that AI is intended to be a learning machine. It is this capacity to learn that marks the newness of the current technological era, and this capacity of learning that makes it possible to even speak of AI agency. Yet, machine learning is not a hard science; rather its outcomes are unpredictable and can only be fully known after the fact. This leads to an incompleteness problem for political and legal systems that are charged with the governance of AI.

The question of accountability also comes down to one of visibility. Any inherent bias in the data on which an AI machine is programmed is invisible and incomprehensible to most end users. This inability to review the data reduces the agency and capacity of individuals to resist, even recognize, the discriminatory practices that might result from AI. AI technologies thus exercise a form of invisible but pervasive power, which then also obscures the possible points or avenues for resistance. The challenge is to make this power visible and accessible. Companies responsible for these algorithms keep their formulas secret as proprietary information. However, the far-ranging impact of AI technologies necessitates the need for algorithmic transparency, even if it reduces the competitive advantage of companies developing these systems. A profit motive cannot be blindly prioritized if it comes at the expense of social justice and accountability.

When we talk about AI, we need to talk about jobs – both about the jobs that will be lost and the opportunities that will arise from innovation. But we must also tether these conversations to questions about the purpose, values, accountability and governance of AI. We need to think about the distribution of productivity and efficiency gains and broader questions of social benefit and well being. Given the various ways in which AI systems exercise power in social contexts, that power needs to be made visible to facilitate conversations about accountability. And responses have to be calibrated through public engagement and democratic deliberation – the ethics and governance questions around AI cannot be left to market forces alone, albeit in the name of innovation.

Finally, there is a need to move beyond the universalizing discourse around technology – technologies will be deployed globally and with global impact, but the nature of that impact will be mediated through local political, legal, cultural and economic systems. There is an urgent need to expand the AI epistemic community beyond the specific geographies in which it is currently clustered, and provide resources and opportunities for broader and more diverse public engagement.

ABOUT DR. URVASHI ANEJA … Urvashi Aneja is Founding Director of Tandem Research, a multidisciplinary think tank based in Socorro, Goa that produces policy insights around issues of technology, sustainability and governance. She is Associate Professor at the Jindal School of International Affairs and Research Fellow at the Observer Research Foundation

Fiachra Brolcháin

The battle for ethics at the cutting edge of technology[20]

Dr. Fiachra O. Brolchain

In an era of climate change, political instability, biodiversity loss and economic uncertainty, the pace of technological innovation is widely celebrated. Governments compete with each other to attract tech companies, with tax and education policies increasingly focused on the needs of technology developers. Some people speak of us being in the midst of a new Industrial Revolution. We seem to revere novel technologies and pin many of our hopes for the future upon them.

A large number of these technological developments bring many societal benefits, but our collective enthusiasm for technology can lead us to overlook or underplay many of the downsides. The speed of technological change – bringing us big data, driverless cars, genetic engineering and smart cities, with true AI and geo-engineering distinct future possibilities – is truly astounding. Society is like a jockey wearing a blindfold. The power and pace of the horse is exhilarating, but we have little to no idea where we are going.

That new technologies will significantly change our world is obvious. Whether this will be beneficial or harmful remains to be seen. Novel technologies and those in the early stages of development have the potential to exacerbate the myriad problems of the globe, or to mitigate them. Much will depend on the choices we make regarding their use.

These choices do not take place in a vacuum and ethical philosophy can provide us with guidance as we attempt to navigate our way. The choices available to us in relation to these new technologies are ethical choices. We need to be guided

---

[20] Brolcháin, Fiachra. "The battle for ethics at the cutting edge of technology." Siliconrepublic. March 21, 2017. www.siliconrepublic.com https://www.siliconrepublic.com/machines/ethics-technology-fiachra-o-brolchain-dcu

by our best ethical principles if we are to ensure that the current technological revolution does not result in misery for future generations.

Take, for instance, the burgeoning field of assistive technologies. A whole range of assistive technologies are now being developed to help people with physical or intellectual disabilities, as well as the ageing populations across the Western world. Addressing a range of needs, these tools are designed to make the lives of users and careers easier. These technologies will be used by the most vulnerable members of our society, making the ethical issues particularly important.

Indeed, the general populace is increasingly using assistive devices, from mobile phones to wearables. While there are clear benefits of assistive technologies, there are ethical concerns – the most prominent of which is a concern with privacy.

What do we mean when we talk about privacy? This is not an easy thing to answer. The meaning of privacy is historically and philosophically complex. Some argue that it is a moral right with inherent value; others contend that its value is instrumental.

Conceptually, privacy is often associated with human dignity and with the development of the authentic self. People are likely to behave differently when they know that they are being observed.

We need privacy if we are to avoid self-censorship, or if we are to be able to have certain discussions with each other. Without a space to think and explore various ideas, a person's psychological development is at risk of being stunted. This has led many thinkers to stress the normative importance of informational privacy – the idea that I should be able to control access to information about myself. Many of my thoughts, acts and words should be inaccessible to others. Novel technologies, including assistive technologies, that monitor and gather data about the person constitute a threat to privacy.

Why should we care about privacy? Privacy is also conceptually connected to the concept of autonomy, ie, being able to form your own opinions and make decisions without external influence. Autonomy is a central value in liberal thought, which reveres the liberty of the autonomous individual.

The autonomous individual weighs up their options, ponders their choices, and makes individual decisions without undue external influence. As new technologies – from big data to eye-tracking, facial recognition and emotion capture – undermine privacy, our autonomy is threatened. Increased data about the way

[181]

individuals are likely to behave, their preferences and dislikes, and their emotional responses to various stimuli, makes them easier to manipulate and control.

One might argue that those who don't want to share their information could simply refuse to use the new devices. However, this is unlikely to be sufficient. The internet of things – in which connected objects 'talk' to each other – promises the creation of 'smart cities'.

We will be living in cities where buildings can communicate with each other and with our devices, driverless cars will take us from place to place, and our fridges will remind us to buy milk. The benefits of these technologies have been heralded continuously and are, no doubt, real. For example, from an environmental perspective, increased data about air and water quality and energy use can play an important role in combatting climate change.

However, it will also mean that a person living in such a city could be continuously under surveillance. The use totalitarian regimes could make of such technologies would be familiar to Orwell.

Orwell's dystopian vision could yet be combined with that of Aldous Huxley's *Brave New World*. In a capitalist and consumerist society, much of the data about us will be used for commercial purposes. Omnipresent advertisers armed with huge data sets about each person would make it increasingly difficult for anyone to experience anything that has not been engineered and tailored to grab our individual attention. Already, our lives are inundated with demands on our attention – the internet of things and smart cities will exacerbate this while reducing our privacy significantly. Our mental lives will be less our own. Our encounters with the world will be mediated through technologies designed to catch our attention. This is far from the liberty and autonomy envisioned during the Enlightenment.

It is worth asking who will design these technologies and what their aims are. We must address the issue of responsibility for the negative impact of novel technologies. We must consider the reasons we hold for creating these new technologies – not just in terms of how they will benefit individual people and companies, but their overall societal effect.

The decisions we make now in relation to the technologies we are inventing will shape the societies we, and future generations, will live in. These choices will not take place in a moral vacuum and it is essential that we give deep consideration to the values guiding them.

ABOUT DR. BROLCHÁIN ..... Dr Fiachra Brolcháin has worked on various aspects of applied ethics, including the ethical and social implications of virtual reality and social networking in association with the EU's Reverie Project, and the ethical implications of human enhancement technologies. He is currently working as a Marie Curie ASSISTID Fellow at Dublin City University (DCU), looking at the ethics of the development, use and distribution of assistive technologies for people with intellectual disabilities and autism spectrum disorder.

Video: *Boston Robotics' Atlas has learned some new tricks (1:01)*

Nick Bostrom

The future of humanity

How do we invest in the future of humanity?
Swedish philosopher Nick Bostrom explains[21]

Economics correspondent Paul Solman recently traveled to Oxford University's Future of Humanity Institute. Solman spoke with the institute's founding director Nick Bostrom, a Swedish philosopher known for his work on artificial intelligence and existential threats. At the Future of Humanity Institute, Bostrom leads a team trying to figure out how to best invest in the future of humanity. That means identifying threats to the continuing existence of homo sapiens and figuring out how to reduce the possibility of such events.

PAUL SOLMAN: If I care about future generations, 100,000 years from now, and there's some possibility that they won't exist, what should I invest in to give them the best chance of

Video: What happens when AI gets smarter than us? Dr. Nick Bostrom (16:30)

survival and having a happy life the way I've had one?

NICK BOSTROM: What you should invest in is what we are trying to figure out, and it's a really difficult question. How can we trace out the links between actions that people take today and really long-term outcomes for humanity — outcomes that stretch out indefinitely into the future?

PAUL SOLMAN: And that's why [the institute] is called the Future of Humanity…

NICK BOSTROM: That's one of the reasons it's called that. So I call this effort macrostrategy — that is, to think about the really big strategic situation for having a positive impact on the long-term future. There's the butterfly effect: A small change in an initial condition could have arbitrarily large consequences. And it's hard enough to predict the economy two years from now, so how could we even begin to think about how your actions make a difference a million years from now? So there are some ideas that maybe bring the answer a little bit closer. One idea is this concept of existential risk. That helps focus our attention.

PAUL SOLMAN: Nuclear winter — that is, the period of abnormal cold that would follow a nuclear war. That has been, in my lifetime, I think the most common existential threat that people have talked about.

NICK BOSTROM: Well, if you think that nuclear war poses a threat to the survival of our species or even if you think that it would just be enormous destruction, then obviously we would look for ways to try to reduce the probability that there would be a nuclear war. So here you have to introduce a second consideration, which is how easy it is to actually make a difference to a particular race.

So it is quite difficult for some individual to reduce the probability of a nuclear war, because there are big nations with big stockpiles and strong incentives and a lot of money and a lot of people who have worked on this for decades. So if you, as an individual, choose to join a disarmament campaign, it might make some difference, but a small difference. So there might be other scenarios that have been more neglected and where maybe one extra person or one extra million dollars of research funding would make a larger, proportional difference. So you want to think, how big is the problem, and how much difference can you, on the margin, make to the degree to which the problem gets solved?

"So if there are big existential risks, I think they are going to come from our own activities and mostly from our own inventiveness and creativity."

PAUL SOLMAN: And one area that you yourself have been working on a lot is artificial intelligence, which you've called super intelligence. Is that an existential risk, do you think?

NICK BOSTROM: When I survey the possible things that could derail humanity's long-term future, it can roughly distinguish natural risks, such as volcano eruptions, earthquakes and asteroids, and risks that arise somewhere from our own activity. It's pretty clear that all the really big risks to our survival are of the latter kind, anthropogenic. We've survived risks from nature for 100,000 years, right? So, it's unlikely any of those things would do us in within the next 100 years. Whereas, in the next century, we will be inventing radical new technologies — machine intelligence, perhaps nanotech, great advances in synthetic biology and other things we haven't even thought of yet. And those new powers will unlock wonderful opportunities, but they might also bring with them certain risks. And we have no track record of surviving those risks. So if there are big existential risks, I think they are going to come from our own activities and mostly from our own inventiveness and creativity.

PAUL SOLMAN: What are the greatest of those risks?

NICK BOSTROM: I think the greatest existential risks over the coming decades or century arise from certain, anticipated technological breakthroughs that we might make in particular, machine super intelligence, nanotechnology and synthetic biology. I think each of these has an enormous potential for improving the human condition by helping cure disease, poverty, etcetera. But one could imagine them being misused, used to create very powerful weapon systems, or even in some cases some kind of accidental destructive scenario, where we suddenly are in possession of some technology that's far more powerful than we are able to control or use wisely.

PAUL SOLMAN: How would you rank them in terms of the danger?

NICK BOSTROM: Biotech, synthetic biology and AI I think are near the top. I would also add the unknown. Suppose you had to ask me this question 100 years ago. What are the biggest existential risks? At that time, nobody would have mentioned AI; they didn't have computers, and it wasn't even a concept. Nobody had heard of nanotechnology or synthetic biology or even nuclear weapons, right? A hundred years from now, it's likely that there might be other things that we haven't thought of.

PRACTICE

The runaway trolley returns once again in this chapter. How does the runaway trolley moral dilemma connect with concerns regarding the development of artificial intelligence and autonomous, self-driving cars? (Hint: How do you think that a very intelligent robot like "Sophia" from Hansen Robotics or Atlas from Boston Robotics would handle the two situations of the runaway trolley scenario? … now apply this to self-driving cars and describe the potential moral issue…..)

Video (4:01)

FURTHER READING

U.S. and China Compete for AI dominance May 3 2019

Purdue U. looks at 'What if AI decides to wage war?' May 14, 2019

Does Artificial Intelligence deserve the same protections we give to animals? May 9, 2019

Top Five things to know about the state of Artificial Intelligence March 3, 202

TOPIC 9
TARGETING CHILDREN AS CONSUMERS

Introduction

Advertising that targets young children is one of the most important moral issues of our day. Children are vulnerable and highly susceptible to adverts aimed at them. They are unable to clearly distinguish advertising from entertainment programming. Also, this issue entails several other important moral issues, such as children's privacy, childhood obesity, the commercial 'sexualization' of children, children's consumerist value formation, the undermining of parenting and guidance responsibilities, etc. Understandably, there has been much discussion about these issues in both popular and academic literature because children are dependent on adults to protect them. And our children are the future.

Children [*children = persons under 13 years of age - used as an age determinant in countries having regulation, such as Canada and Germany, and especially children under 8*] are a vulnerable population because research shows that they have

difficulty distinguishing entertainment programming from immersed commercial messages. Aggravating this vulnerability is the fact that the line between entertainment and advertising is steadily blurring due to the development of immersive marketing techniques and rapid changes in delivery platforms.

The messages aimed at children are getting more sophisticated at reaching them. Content advertising is more targeted to their psychological development due to the use of sophisticated psychological knowledge and advancements in data mining and data analytics. Ads are more ubiquitous in children's lives due to the proliferation of media outlet devices such as game machines, phones, pads, and laptops, etc. Commercial messages are more cleverly insinuated into schools, theaters, entertainment, social media, sports, clothing and other online and offline avenues of access to children than ever before. Commercial interests have unprecedented access to children's innermost personal lives these days.

Google fined $170 M for collecting/selling kids data

[189]

On the surface of it, morally speaking, this dimension of the issue seems to be an open and shut case. If children are vulnerable and if they are being harmed by advertisements and marketing aimed at them, marketing that specifically targets them because they are a vulnerable population, then they should be protected from such powerful commercial influence as a matter of justice and fairness and caring. This is based on the 'principle of vulnerability' derived from Deontology: those who have more have a greater duty of charity than those who have less.

There is widespread, but not universal, agreement with this argument, as we will see. In fact, some countries have already enacted legislation aimed at protecting children from commercial interests. In America and the European Union many big food manufacturers have committed to following self-imposed codes of conduct such as CARU and also Federal Trade Commission's COPPA regarding marketing to children. Unfortunately, voluntary, industry-created moral guidelines have been shown to not be effective in changing or guiding corporate behavior regarding the targeting of children.

European countries impose stricter regulations than the U.S. Britain bans advertising on television and radio marketing food high in fat, salt and sugar to children under 16 during peak TV hours. Sweden and Norway outlaw all television advertising to youngsters. Quebec prohibits advertising of any sort directed at children.

YouTube charged with illegally collecting child data

It seems reasonable to have some regulation of commercial speech insofar as this can be harmful to children. But, on the other side, the industry believes that its *legal right* to free commercial speech gives it the *moral right* to advertise products that are potentially harmful to children in the U.S., as McDonald's has argued. Is this just? Or is this a violation of children's fundamental rights as *children*, an assault on their dignity and respect? Moral duty extends farther

than the law, and thus cannot be determined by a legal code alone, unless you subscribe to something like Hobbes's dim view of human nature.

One of the main harms to children from advertising is from fast-food advertising. After banning all advertising, including all junk food advertising, to children, Quebec now has the lowest obesity rate in Canada. In this case, it seems as if the regulation of junk food advertising aimed at children was successful in reducing the harm of childhood obesity. But the ban was costly to the food and beverage industry.

There are continuing efforts to determine the extent to which advertising *causes* children to overeat non-nutritious and fattening foods. Yet, given the huge and well-known persuasive power of advertising and marketing to move people's desires in the commercial direction desired by the purveyors of that marketing, there should be no doubt in any reasonable person's mind that marketing is able to cause children to feel insatiable desire for something that is clearly not healthy for them. Is this manipulation and commercialization of children's desires morally acceptable? Should commercial interests have unrestricted access to children's moral value formation?

Corollary to the belief regarding the protected nature of commercial free speech directed at children is the belief that parents should be responsible for their children and it is *their* job to manage their children. Well, of course, parents *are* responsible for their children by law. But many parents these days feel they have inadequate resources to resist the well-funded, highly sophisticated and professionally researched advertising and marketing campaigns of big corporations aimed at their children. This commercial power to shape and control desire undermines the ability of genuinely concerned parents to exercise their responsibility as parents. In this case, 'bad' parenting seems to be the direct result of 'bad' corporate behavior.

It is an easy blurring of the issue to say that parents need to learn to control their children. But, in the trenches of everyday life, the parental "No" factor is not a sufficient defense against a well-heeled, sophisticated and aggressive food and beverage industry with its endless material resources and profit margin tunnel vision with little if any concern for the welfare of children. As an increasingly unhealthy society, the question we need to urgently wrestle with is should a non-uniformly delivered parental 'No' be our sole line of defense against the increasingly insinuative marketing of unhealthy food to our children? The industry's free speech argument seems anemic and heartless by comparison.
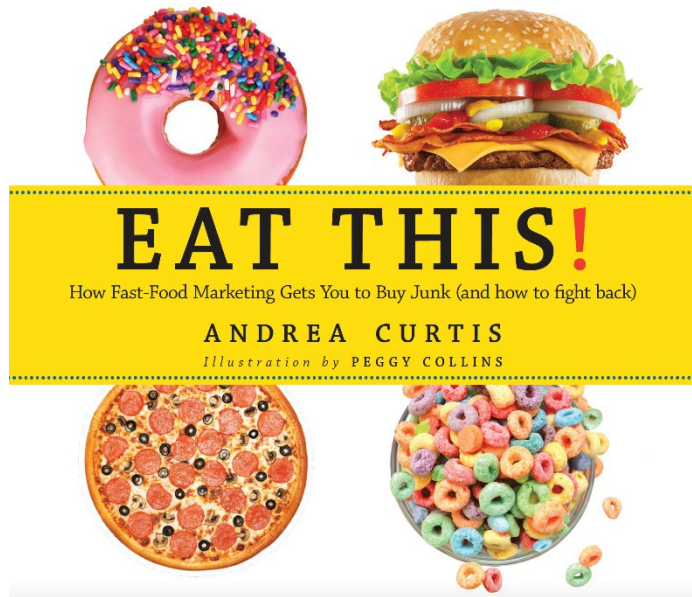
Self-regulation by the industry is insufficient since this approach has made no significant changes. CARU (Children's Advertising Review Unit) seems more like a good example of Milton Friedman's cloak of social responsibility while the industry continues to act irresponsibly. Lobbying efforts by the food and beverage industry in the U.S. have been highly successful at consistently blocking any legislation limiting their ability to advertise to children. All these corporations see is that children are an extremely lucrative commercial market.

Is it morally acceptable to allow profit-motivated companies to use the incredible power of advertising and marketing, now enhanced and driven by big data analytics, to shape and influence the development of the vulnerable, budding morality of highly impressionable young children with their consumerist, materialistic, profit-motivated, commercially value-laden messages about what our children ought to desire and what they need in order to feel good about themselves? Is this something from which a responsible parent would want to protect her or his young child? What do you think?

Keep the following moral principle in mind as you read about and reflect on this issue:

"Above all, we shall not harm children. We shall not participate in practices that are emotionally damaging, physically harmful, disrespectful, degrading, dangerous, exploitative, or intimidating to children. *This principle has precedence over all others in this Code*."

"A position statement of the National Association for the Education of Young Children"

Advertising and child obesity

Catherine Musemeche, M.D.

Ban on Advertising to Children Linked to Lower Obesity Rates[22]

Catherine Musemeche, M.D.

Last weekend I met a couple whose children are not permitted to discuss movies or video games at school. The children don't watch television, have limited computer access and have only seen movies pre-screened by their parents.

There was a time when I might have viewed these restrictions as a bit excessive, but not anymore. With what's being thrown at kids through media exposure these days, I'm all in with an environment that seeks to filter some of it. As a doctor who treats children, many of whom are overweight or obese, I don't think there can be much doubt that child-directed advertising is fueling the obesity epidemic. Now, a recently published University of British Columbia study supports that theory with findings that suggest that banning fast-food advertising to children may actually curtail obesity.

Researchers found that a 32-year ban on fast-food advertising to kids in electronic and print media in Quebec resulted in a 13 percent reduction in fast-food expenditures and an estimated 2 billion to 4 billion fewer calories consumed by children in the province. While the rest of Canada has been experiencing the same explosion in childhood obesity seen here in the United States, Quebec has the lowest childhood obesity rate in Canada.

Meanwhile, in the face of our own raging obesity epidemic, child-directed advertising of unhealthful food to children continues unabated. The Yale Rudd Center for Food Policy and Obesity has just released a 2012 report showing that little has changed since 2009, even though the cereal industry claims to have reduced advertising to children.

Despite a slight improvement in overall nutritional quality of kids' cereals, children still get "one spoonful of sugar in every three spoonfuls of cereal," according to Jennifer L. Harris, the lead researcher on the Rudd study, and that sugar is heavily marketed: in 2011, 6- to 11-year-olds viewed more than 700 ads per year for cereals on television while preschoolers saw 595. Cereal companies spent $264 million to promote child-targeted cereals in 2011 (an increase of 34 percent from just 2008). Other

---

[22] Musemeche, Catherine. "Ban on advertising to children linked to lower obesity rates." MOTHERLODE Adventures in Parenting, New York Times. July 2, 2012
https://parenting.blogs.nytimes.com/author/catherine-musemeche/

companies spend millions more promoting unhealthy products — and it works: television viewing and the associated advertising exposure correlate with an increased intake of candy and sugary sodas.

As if pushing unhealthy food wasn't enough, pharmaceutical companies are now rolling out ads that are designed to appeal to kids. Children's Claritin, an allergy medication, now includes Madagascar stickers and blogging mothers are encouraged to hold Claritin parties for all the neighborhood kids. We seem to have accepted the idea of companies encouraging children to ask for foods that aren't healthy choices; now we're accepting targeted advertising of products that children can't possibly evaluate.

It doesn't matter that children aren't necessarily the ones checking out at the grocery store and driving up to the fast-food outlet. Parents are being bombarded with requests for sugary cereals, fast food and vitamins shaped like dinosaurs. "No" fatigue is rampant, and eventually, "no" doesn't help. Other studies have shown that once children become teenagers and are able to exert more control over their food choices, they eat less healthily. Years of being saturated with advertising for exactly the foods parents try to regulate can't help.

What can be done about the invasion of child-directed advertising? Parents need to be aware of the pervasive advertising their children are being exposed to, take steps to manage their child's media exposure, provide healthy alternatives to cereals and fast food and support legislation to curtail advertising to kids.

We've already seen the Federal Trade Commission go weak in the knees about reeling in food advertising to children, but it is still possible that more cities will follow New York City's ban on outsized sugary sodas and that state governments will take actions similar to Quebec's. And we can always hope that more corporations will voluntarily follow the lead of the Walt Disney Company in setting nutritional standards for products advertised on all child-focused television channels, radio stations and Web sites.

When the consequences of alcohol and tobacco consumption, particularly to young people, were recognized, ads for these products were restricted if not outright banned worldwide. We need to pay similar attention to the long-range effects of advertising obesity, and not turn our children's brains and their behavior over to those whose measure of success is not necessarily the same as ours.

American Psych. Assoc. Task Force on Advertising and Children

Research shows that children under the age of eight are unable to critically comprehend televised advertising messages and are prone to accept advertiser

messages as truthful, accurate and unbiased. This can lead to unhealthy eating habits as evidenced by today's youth obesity epidemic. For these reasons, a task force of the American Psychological Association (APA) is recommending that advertising targeting children under the age of eight be restricted.

The Task Force, appointed by the APA in 2000, conducted an extensive review of the research literature in the area of advertising media, and its effects on children. It is estimated that advertisers spend more than $12 billon per year on advertising messages aimed at the youth market. Additionally, the average child watches more than 40,000 television commercials per year.

The six-member team of psychologists with expertise in child development, cognitive psychology and social psychology found that children under the age of eight lack the cognitive development to understand the persuasive intent of television advertising and are uniquely susceptible to advertising's influence.

"While older children and adults understand the inherent bias of advertising, younger children do not, and therefore tend to interpret commercial claims and appeals as accurate and truthful information," said psychologist Dale Kunkel, Ph.D., Professor of Communication at the University of California at Santa Barbara and senior author of the task force's scientific report.

"Because younger children do not understand persuasive intent in advertising, they are easy targets for commercial persuasion," said psychologist Brian Wilcox, Ph.D., Professor of Psychology and Director of the Center on Children, Families and the Law at the University of Nebraska and chair of the task force. "This is a critical concern because the most common products marketed to children are sugared cereals, candies, sweets, sodas and snack foods. Such advertising of unhealthy food products to young children contributes to poor nutritional habits that may last a lifetime and be a variable in the current epidemic of obesity among kids."

The research on children's commercial recall and product preferences confirms that advertising does typically get young consumers to buy their products. From a series of studies examining product choices, say Drs. Kunkel and Wilcox, the findings show that children recall content from the ads to which

they've been exposed and preference for a product has been shown to occur with as little as a single commercial exposure and strengthened with repeated exposures.

Furthermore, studies reviewed in the task force report show that these product preferences can affect children's product purchase requests, which can put pressure on parents' purchasing decisions and instigate parent-child conflicts when parents deny their children's requests, said Kunkel and Wilcox.

Finally, in addition to the issues surrounding advertising directed to young children, said Kunkel, there are concerns regarding certain commercial campaigns primarily targeting adults that pose risks for child-viewers. "For example, beer ads are commonly shown during sports events and seen by millions of children, creating both brand familiarity and more positive attitudes toward drinking in children as young as 9-10 years of age. Another area of sensitive advertising content involves commercials for violent media products such as motion pictures and video games. Such ads contribute to a violent media culture which increases the likelihood of youngsters' aggressive behavior and desensitizes children to real-world violence," said Kunkel.

According to the findings in the report, APA has developed the following recommendations:

• **Restrict advertising primarily directed to young children of eight years and under. Policymakers need to take steps to better protect young children from exposure to advertising because of the inherent unfairness of advertising to audiences who lack the capability to evaluate biased sources of information found in television commercials.**

• **Ensure that disclosures and disclaimers in advertising directed to children are conveyed in language clearly comprehensible to the intended audience (e.g., use "You have to put it together" rather than "some assembly required").**

Investigate how young children comprehend and are influenced by advertising in new interactive media environments such as the internet.

• **Examine the influence of advertising directed to children in the school and classroom. Such advertising may exert more powerful influence because of greater attention to the message or because of an implicit endorsement effect associated with advertising viewed in the school setting.**

The free commercial speech argument

Emily Bryson York and Gregory Karp

McDonald's defends its right to advertise to children[23]

The national debate on corporate responsibility played out in a microcosm at McDonald's annual meeting Thursday, when votes on shareholder proposals became a referendum on the pursuit of profit versus the question of what constitutes the public good.

Critics hammered McDonald's executives not only for offering unhealthful menu items but also for marketing fast food to kids with its Ronald McDonald character and Happy Meal toys — all while boasting eight straight years of sales growth despite a deep economic recession.

McDonald's response was powerful too, tapping into the fundamental notion of American freedom.

"This is all really about choice," McDonald's Corp. CEO Jim Skinner said at the meeting, held at company headquarters in Oak Brook, Ill. He said that while shareholders have the right to communicate concerns, the company should also have the right to advertise its menu offerings. "It's about protecting people's rights in this democratic society that we live in."

As for Ronald McDonald?

"Ronald McDonald is an ambassador to McDonald's, and he is an ambassador for good," Skinner said. "Ronald McDonald isn't going anywhere."

---

[23] York, Emily and Karp, Gregory. "McDonald's defends its right to advertise to children." Los Angeles Times May 19, 2011. http://articles.latimes.com/2011/may/19/business/la-fi-mcdonalds-20110519

Critics' main beef with McDonald's is its marketing to America's children, thus side-stepping the thorny retort "If you don't like McDonald's, don't eat there."

Children are susceptible to the advertising that McDonald's spends hundreds of millions of dollars on each year, said Juliana Shulman, national compaign organizer for Corporate Accountability International.

"For adults that's one thing, but children aren't just little adults. Their brains are just forming," Shulman said. "McDonald's marketing is really designed to get around parents and get to kids directly. For nearly 50 years, McDonald's has been working to hook kids on unhealthy foods…. Parents are exercising parental responsibility. That alone won't stop the problem."

That marketing, including the Ronald McDonald mascot, is why Steven Rothschild, director of the Department of Preventive Medicine at Rush University Medical Center in Chicago, signed an open letter published in several newspaper advertisements this week.

"You don't put a clown in front of an adult face because it's a happy association. It's aimed at children," Rothschild said. "Parents do have to say no to their children. This is not the nanny state issue. This is one of creating conditions that make it a fair fight — so parents can make good choices, so they have McDonald's working with them not against them."

Critics say they target McDonald's and its annual meetings and not those of, say, Wendy's or Taco Bell's parent corporations because McDonald's is the industry leader, and others will follow suit.

McDonald's executives say the company is working to be part of the solution. The company already allows parents to request milk or juice instead of soda in Happy Meals and offers sliced apples with carmel sauce and chicken nuggets instead of French fries and hamburgers.

"We now provide more choice and variety than anyone else in the industry," a spokeswoman said. "Fruit and walnut oatmeal is the latest example, and that complements our premium salads, apple dippers, and 1% low-fat milk."

Current research on children as consumers

Sandra L. Calvert

(Professor and chair of the Department of Psychology at Georgetown University and the director of the Children's Digital Media Center.)

Children as Consumers: Advertising and Marketing[24]

Summary of the article

Marketing and advertising support the U.S. economy by promoting the sale of goods and services to consumers, both adults and children. Sandra Calvert addresses product marketing to children and shows that although marketers have targeted children for decades, two recent trends have increased their interest in child consumers. First, both the discretionary income of children and their power to influence parent purchases have increased over time. Second, as the enormous increase in the number of available television channels has led to smaller audiences for each channel, digital interactive technologies have simultaneously opened new routes to narrow cast to children, thereby creating a growing media space just for children and children's products.

Calvert explains that paid advertising to children primarily involves television spots that feature toys and food products, most of which are high in fat and sugar and low in nutritional value. Newer marketing approaches have led to online advertising and to so-called stealth marketing techniques, such as embedding products in the program content in films, online, and in video games.

All these marketing strategies, says Calvert, make children younger than eight especially vulnerable because they lack the cognitive skills to understand the persuasive intent of television and online advertisements. The new stealth techniques can also undermine the consumer defenses even of older children and adolescents.

---

[24] Calvert, Sandra L. "Children as Consumers: Advertising and Marketing." *The Future of Children.* Vol. 18 / 1 Spring 2008.

Calvert explains that government regulations implemented by the Federal Communications Commission and the Federal Trade Commission provide some protection for children from advertising and marketing practices. Regulators exert more control over content on scarce television airwaves that belong to the public than over content on the more open online spaces. Overall, Calvert concludes, children live and grow up in a highly sophisticated marketing environment that influences their preferences and behaviors.
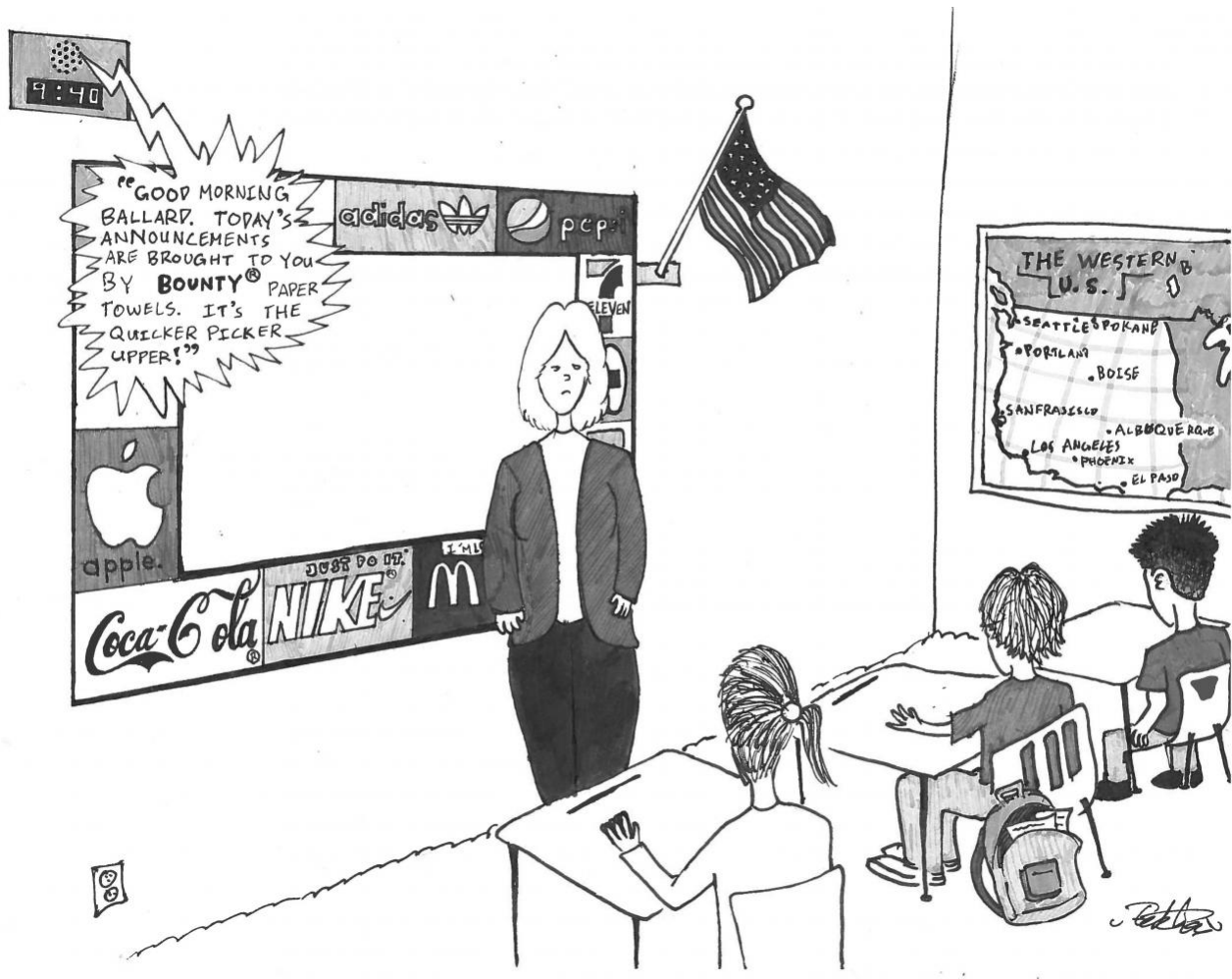
How companies learn what kids want

Faith Boninger and Alex Molnar - University of Colorado

How companies learn what children secretly want[25]

If you have children, you are likely to worry about their safety – you show them safe places in your neighborhood and you teach them to watch out for lurking dangers.
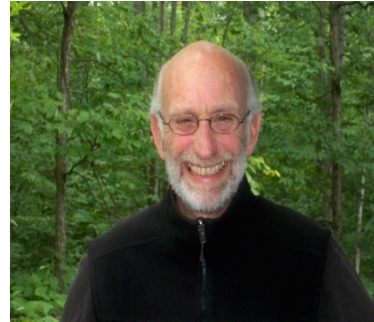
But you may not be aware of some online dangers to which they are exposed through their schools.

Dr. Faith Bonniger

Dr. Alex Molnar

There is a good chance that people and organizations you don't know are collecting information about them while they are doing their schoolwork. And they may be using this information for purposes that you know nothing about.

In the U.S. and around the world, millions of digital data points are collected daily from children by private companies that provide educational technologies to teachers and schools. Once data are collected, there is little in law or policy that prevents companies from using the information for almost any purpose they wish.

Our research explores how corporate entities use their involvement with schools to gather and use data about students. We find that often these companies use the data they collect to market products, such as junk food, to children.

Here's how student data are being collected

Almost all U.S. middle and high school students use mobile devices. A third of such devices are issued by their schools. Even when using their own devices for their schoolwork, students

---

[25] Boninger, Faith and Molnar, Alex. "How companies learn what children secretly want." The Conversation - August 17, 2016. https://theconversation.com/how-companies-learn-what-children-secretly-want-63178

are being encouraged to use applications and software, such as those with which they can create multimedia presentations, do research, learn to type or communicate with each other and with their teachers.

When children work on their assignments, unknown to them, the software and sites they use are busy collecting data.

Ads target children as they do their homework.

For example, "Adaptive learning" technologies record students' keystrokes, answers and response times. On-line surveys collect information about students' personalities. Communication software stores the communications between students, parents and teachers; and presentation software stores students' work and their communications about it.

In addition, teachers and schools may direct children to work on branded apps or websites that may collect, or allow third parties to collect, IP addresses and other information from students. This could include the ads children click on, what they download, what games they play, and so on.

How student data are used

When "screen time" is required for school, parents cannot limit or control it. Companies use this time to find out more about children's preferences, so they can target children with advertising and other content with a personalized appeal.

Children might see ads while they are working in educational apps. In other cases, data might be collected while students complete their assignments. Information might also be stored and used to better target them later.

For instance, a website might allow a third party to collect information, including the type of browser used, the time and date, and the subject of advertisements clicked or scrolled over by a child. The third party could then use that information to target the child with advertisements later.

We have found that companies use the data to serve ads (for food, clothing, games, etc.) to the children via their computers. This repeated, personalized advertising is designed specifically to manipulate children to want and buy more things.

Indeed, over time this kind of advertising can threaten children's physical and psychological well-being.

Consequences of targeted advertising

Food is the most heavily advertised class of products to children. The heavy digital promotion of "junk" food is associated with negative health outcomes such as obesity, heart disease and diabetes.

Additionally, advertising, regardless of the particular product it may sell, also "sells" to children the idea that products can make them happy.

Research shows that children who buy into this materialist worldview are more likely to suffer from anxiety, depression and other psychological distress.

Teenagers who adopt this worldview are more likely to smoke, drink and skip school. One set of studies showed that advertising makes children feel far from their ideals for themselves in terms of how good a life they lead and what their bodies look like.

The insecurity and dissatisfaction may lead to negative behaviors such as compulsive buying and disordered eating.

Aren't there laws to protect children's privacy?

Many bills bearing on student privacy have been introduced in the past several years in Congress and state legislatures. Several of them have been enacted into laws.

Additionally, nearly 300 software companies signed a self-regulatory Student Privacy Pledge to safeguard student privacy regarding the collection, maintenance and use of student personal information.

However, they aren't sufficient. And here's why:

First of all, most laws, including the Student Privacy Pledge, focus on Personally Identifiable Information (PII). PII includes information that can be used to determine a person's identity, such as that person's name, social security number or biometric information.

Companies can address privacy concerns by making digital data anonymous (i.e., not including PII in the data that are collected, stored or shared). However, data can easily be "de-anonymized." And, children don't need to be identified with PII in order for their online behavior to be tracked.

Second, bills designed to protect student privacy sometimes expressly preserve the ability of an operator to use student information for adaptive or personalized learning purposes. In order to personalize the assignments that a program gives a student, it must by necessity track that student's behavior.

This weakens the privacy protections the bills otherwise offer. Although it protects companies that collect data for adaptive learning purposes only, it also provides a loophole that enables data collection.

Finally, the Student Privacy Pledge has no real enforcement mechanism. As it is a voluntary pledge, many companies may scrupulously abide by the promises in the pledge, but many others may not.

What to do?

While education technologies show promise in some areas, they also hold the potential to harm students profoundly if they are not properly understood, thoughtfully managed and carefully controlled.

Parents, teachers and administrators, who serve as the closest protectors of children's privacy at their schools, and legislators responsible for enacting relevant policy, need to recognize the threats of such data tracking.

The first step toward protecting children is to know that that such targeted marketing is going on while children do their schoolwork. And that it is powerful.

---

[204]

Targeting children: Trump's response to Syrian chemical attack

R. D. Walsh, Ph.D. | April 9, 2017

On Tuesday, April 4, 2017, while my Business Ethics students and I were considering the important question of whether it is morally acceptable to target young children with commercial advertising and marketing, military strategists for Syrian President Bashar Assad were apparently targeting the residents of Khan Sheikoun with sarin-loaded munitions—an outlawed nerve agent that causes horrible suffering and death.

The use of sarin as a weapon is considered a war crime by the international community. The most recent death toll from the Syrian chemical attack, stands at 86, including 30 children. According to U.S. Secretary of State Tillerson, not only Syria but also Russia and Iran "bear great moral responsibility" for this human rights atrocity. It was good to hear Tillerson call out the moral dimension of this heinous crime.

In response to the chemical attack against civilians, President Trump ordered a Tomahawk cruise missile attack on the Shayrat air base near Homs, from which the Syrian planes loaded with sarin munitions took off. "Tonight I ordered a targeted military strike on the airfield in Syria from where the chemical attack was launched. It is in the vital national security interest of the United States to prevent and deter the spread and use of deadly chemical weapons," Trump said. What can we learn from an ethical reflection on Trump's action?

To answer that question, let's go back for just a moment to the question of whether it is morally acceptable to target young children commercially. One student confronted me after class and wondered why I had presented such a one-sided picture of the 'advertising to children' question. The student claimed that I presented numerous references to experts who believe that regulation of ads to children is necessary to prevent harms such as child consumerism and obesity, but failed to present substantial opposing arguments, as I usually do with the moral issues we investigate in the course. I appreciated the astute student's critical feedback. Here is my response.

Many child psychologists, moral philosophers, and parenting advocates point out that the huge resources devoted to targeting the lucrative children's market with commercial messages undermines the reach and effectiveness of parental responsibility

to protect children from harmful advertising. The fact is that aside from First Amendment rights-to-free-speech claims and the blaming-the-victim argument that parents are at fault for failing to supervise their children, *there are no substantial arguments on the opposing side of this issue*. Just as there are no acceptable moral arguments justifying the indiscriminate use of chemical weapons against civilians. None.

Trump's decision to attack Syria in retaliation for the chemical attack was apparently an emotional moral decision on his part. That is the first thing we should notice. Yes, his decision also had legal, political, financial, logistical, strategic international aspects, and other interests attached to it; but it was undoubtedly—and perhaps primarily—a moral decision both in its motivation and its intended utility. The exact nature of the response would be carefully deliberated and reflected upon rationally by Trump's security and defense team; but the decision to do *something* was an emotional moral judgment intuitively and tacitly reflecting the idea that the most basic of moral principles, "Do no harm," applies categorically to all children.

President Trump's judgment to bomb Syria was a moral decision similar to the decision involved in the "drowning child" scenario, introduced by philosopher Peter Singer, that we considered earlier in the text in the context of Cosmopolitan moral theory. Singer's scenario is a kind of thought experiment to see where you fall on the moderate (moral duty greater for those close at hand) to strong (moral duty same for all) Cosmopolitan continuum. If you would feel obligated to save the drowning child who is close at hand, Singer argues, why would you not feel obligated to donate to Oxfam to save dying kids in distant lands? Is proximity or lack of it an acceptably significant moral variable?

Adults generally are eagerly willing to help a child in life-threatening circumstances, even at some cost to themselves, when the child is near at hand. The immediate proximity of the child produces an emotional response (moral sentiment) in most adults which leads them to act morally. One analysis and justification of this phenomenon is based upon the fact that adults have the power to act, whereas children do not. This power differential creates a moral differential which is reflected in the "Vulnerability Principle," discussed below.

As the emotional trigger for an event becomes more remote, however, the feeling of having a moral need to act lessens. People are less likely to donate to Oxfam than to give their coat to a shivering child at a bus stop. In the famous trolley experiment, people are generally more willing to pull a lever to divert a trolley from killing four people than they are to push a big person onto the track to stop the trolley, due to the emotional dimension of the personal contact. Folks might accept in a theoretical sense that all adults have moral responsibility for all children, everywhere and at all times, but the truth is that they are most likely to exercise such imperfect responsibility when moved to action emotionally by a local triggering event.

In our age of hyper-connectivity, technology makes it possible to overcome some of the reluctance people feel in relation to strong Cosmopolitanism. When the distant event is made palpably close at hand through visual representation, for example, visual learners like Trump are moved to act in regard to a distant event by a *local* triggering mechanism: the visual representation. It was the viewing of the horrific

photos of the distant Syrian children that moved the President to act. And, of course, he had the *ability* to act.

This illustrates what is often referred to as the "Vulnerability Principle." This idea is derived from the Deontological moral philosophy of Immanuel Kant. Kant asserts that those who have greater resources to do the good, have a greater, if "imperfect," requirement to do so. For example, a wealthy person has greater moral responsibility to engage in material charitable giving than does the poor person lacking the material means with which to be charitable.

One could extend this line of reasoning to the nation state and argue that the wealthier and more powerful the nation state the greater the moral responsibility of that nation state to do good in the world and to further the moral order, especially in regard to the most vulnerable. The U.S. was, practically speaking, the only nation that *could* retaliate for the brutal attack on the innocent Syrian children. Thus, the U.S. had a greater moral duty to consider retaliating because it had the power to do so.

What is also illustrated by this incident is how a person's moral value orientation can change in response to moral trauma. Moral trauma is when our moral value orientation is impacted by something inconsistent with it, thus requiring a re-orientation of values or other action. Trump's value position of "America first" non-intervention in regard to Syria changed when he saw the horrific photos of the victimized children. These children whose lives had been brutally and cruelly cut short were the same age as Trump's son and grandson, personalizing the situation even more. It was this personal moral trauma that caused an overnight re-configuration of Trump's moral value orientation and the decision that he should take effective action on behalf of the defenseless children of Syria.

But, is Trump being hypocritical when it comes to *American* children?

Trump's obvious care for and retaliation for the harm done to Syrian children, and his attempt thereby to prevent future harm to Syrian children, is certainly laudable. Yet there is no government protection for the many obese, 'consumerized' American children who are harmed every day by the proven ill-effects of advertising and marketing that targets children twelve years of age and younger.

A missile barrage of moral outrage tomahawked against the commercial field of profit-motivated enterprises flying stealthily low under the patchwork parental radar of "No!" and targeting millions of unsuspecting, innocent children with lifelong harmful marketing would save President Trump from the charge of moral hypocrisy.

PRACTICE

How does the current epidemic of child obesity, on the one hand, and the idea of "free speech," on the other, connect with the moral issue of whether advertising aimed at young children should be regulated? What is your position regarding this issue? Your response should include an understanding of the Principle of Vulnerability

TOPIC 10
DOES BLOWING THE WHISTLE VIOLATE COMPANY LOYALTY?

Introduction

As **Sarah N. Lynch's brief** article *"Wells Fargo complaints show flaws in federal whistleblower program"* below makes clear, it is rarely desirable to get into the position of being a whistleblower. When the whistleblower discovers something amiss in the workplace, whether big or small, this will undoubtedly arise in his or her consciousness as a felt experience of disturbance that the situation or elements of the situation are not in harmony with their own value orientation. Obviously, it is rarely, if ever, a fun experience to find yourself in the position of a whistleblower.

Some of the disturbing wrongdoings in the workplace might be not much more than the kind of minor moral violations that Susan Heathfield points to in her Codes of Ethics article in Topic 5, like pilfering supplies or lying to get time off. But the wrongdoing could also be more subtle and pervasive, like the corporate culture pressure at Wells Fargo to cross-sell that was coming down heavily on workers in the guise of legitimate company policy. Feeling that what appears to be broad company policy is contrary to her personal morality can create a deep moral conflict for the whistleblower. Read the stories of the people who lost their jobs at Wells Fargo when they blew the whistle internally and you will see what I mean. So, how should the conflict facing the whistleblower be understood? Let's look at three different perspectives.

The idea of whistleblowing is connected to the idea of company loyalty, if there is such a thing as company loyalty at all. **Sissela Bok** describes a traditional view of whistleblowing

that reflects the inherent conflict faced by the whistleblower. The conflict arises because there is a bond of loyalty with the company you work for, according to Bok; yet we also have a duty to the unsuspecting public as part of the social contract. Hence, there occurs a conflict of loyalties, with the whistleblower caught in the middle. For this reason, Bok presents a moral and practical response that a potential whistleblower, caught in such a moral conflict, should take before she or he actually blows the whistle. One should do the least damaging thing first.

Robert Larmer, in the second required article below, criticizes Bok's view and also introduces Ron Duska's view, and then presents his own view of the relation between whistleblowing and company loyalty. There are some tricky but interesting and sort of fun arguments in Larmer's article for determining where you stand about whistleblowing. Here is a quick look.

Larmer brings up philosopher **Ron Duska**. Duska argues that there is no bond of loyalty between employer and employee because only persons can have loyalty relations, and since businesses are not persons but merely instruments for making money (like Friedman's view), there is no bond of loyalty between employer and employee to be damaged by whistleblowing. Larmer thinks Duska is wrong about this. What is his argument for why he thinks Duska is wrong?

Larmer now criticizes Bok's view. He thinks Bok is right that there is a bond of loyalty between employer and employee, but he disagrees with Bok about how this bond of loyalty should be understood and acted upon. Rather than meaning merely acting in harmony with the other's best interest, as Bok understands loyalty, Larmer thinks that loyalty can lead to sometimes acting *against* what the other person thinks is in his or her best interest, especially if they are acting immorally, since acting immorally can never be in one's best interest, even if the person mistakenly thinks that their immoral actions are in their best interest, according to Larmer.

This leads Larmer to the conclusion that whistleblowing is not acting *against* the other's best interest (if the company is, indeed, acting immorally), but really is acting *in harmony with* their best interest--since acting immorally can never be in a person or company's best interest--and thus there is no moral conflict as Bok imagines it. This, of course, presumes that the company is, in fact, acting immorally.

What do you think about that idea that acting immorally can never be in a person's best interest? How about that little lie I tell when my girlfriend asks about her new haircut? I *feel* it is in my best interest, but I guess Larmer would rat me out, like a Duty Ethics person demanding I tell the truth *always*. On the other hand, if you believed that internal whistleblowing would lead to a cover up by management and your termination, maybe—like those unfortunate whistleblowers at Wells Fargo who used the internal hotline and got fired—you *should* go public first, or not at all. What do you think?

Whichever version of whistleblowing and company loyalty you subscribe to, it is rarely in anyone's best interest to find themselves in the position of the whistleblower—unless it is for tax fraud or a company ripping-off the federal government, in which case the whistleblower will get a percentage of the funds collected. Some whistleblowers have made a bundle. But most get bundled and tossed in the river of no return, as Sarah Lynch's article makes clear.

[Sarah N. Lynch](#)

Wells Fargo complaints show flaws in federal whistleblower program[26]

Sarah Lynch

Former Wells Fargo Bank general manager Claudia Ponce de Leon filed a whistleblower complaint in December 2011 with federal labor regulators, alleging she was fired for telling superiors about employees opening unauthorized accounts.

Nearly five years later, she has not been interviewed by investigators at the Labor Department's Occupational Safety and Health Administration (OSHA), said her attorney Yosef Peretz.

Her complaint claiming retaliation by Wells Fargo for reporting potential misconduct is one of several dozens filed against the bank over the last 14 years, Reuters has found.

Their existence shows U.S. government regulators are still not meeting targets set by law -- a problem that was also flagged in a critical internal report issued in September 2015.

In late September, Reuters identified Ponce de Leon and at least four other former Wells Fargo employees who reported to OSHA between 2009 and 2014 that they were fired for raising concerns about the opening of unauthorized accounts and credit cards….

"It's absolutely outrageous that whistleblowers contacted OSHA as early as 2009 about potential fraud at Wells Fargo, and yet these government bureaucrats failed to do their job," said Sen. David Vitter, a Louisiana Republican who has been looking into how Wells Fargo's sales practices have impacted small business owners.

Darrell Whitman - a former OSHA investigator in the San Francisco office from 2010-2015 - was assigned to three of the five cases examined by Reuters from former Wells Fargo employees alleging retaliation for reporting improper sales tactics. Whitman said he only briefly dealt with Ponce de Leon's 2011 case before it was transferred to another investigator, and he was instructed to close the two 2010 cases because they were slated to be transferred to a federal court.

Whitman alleges he was fired for raising concerns about the agency's mishandling of whistleblower complaints, and Kamlet says she was fired for supporting his accounts and for raising concerns about a particular case she was investigating.

Whitman has since filed a whistleblower complaint of his own with the Office of Special Counsel, an office that investigates retaliation against federal employees.

His complaint is still pending.

---

[26] Lynch, Sarah N. "Wells Fargo complaints show flaws in federal whistleblower program." Reuters October 13, 2016. http://www.reuters.com/article/us-wells-fargo-accounts-whistleblower-idUSKCN12D2M0

Sissela Bok

Whistleblowing and Professional Responsibility [27]

Dr. Sissela Bok

Whistleblowing is a new label generated by our increased awareness of the ethical conflicts encountered at work. Whistleblowers sound an alarm from within the very organization in which they work, aiming to spotlight neglect or abuses that threaten the public interest.

The stakes in whistleblowing are high. Take the nurse who alleges that physicians enrich themselves in her hospital through unnecessary surgery; the engineer who discloses safety defects in the braking systems of a fleet of new rapid-transit vehicles; the Defense Department official who alerts Congress to military graft and overspending: all know that they pose a threat to those whom they denounce and that their own careers may be at risk.

Moral Conflicts

Moral conflicts on several levels confront anyone who is wondering whether to speak out about abuses or risks or serious neglect. In the first place, he must try to decide whether, other things being equal, speaking out is in fact in the public interest. This choice is often made more complicated by factual uncertainties: Who is responsible for the abuse or neglect? How great is the threat? And how likely is it that speaking out will precipitate changes for the better?

In the second place, a would-be whistleblower must weigh his responsibility to serve the public interest against the responsibility he owes to his colleagues and the institution in which he works. While the professional ethic requires collegial loyalty, the codes of ethics often stress responsibility to the public over and above duties to colleagues and clients. Thus the United States Code of Ethics for Government Servants asks them to "expose corruption wherever uncovered" and to "put loyalty to the highest moral principles and to country above loyalty to persons, party, or government." Similarly, the largest professional engineering association requires members to speak out against abuses threatening the safety, health, and welfare of the public.

A third conflict for would-be whistleblowers is personal in nature and cuts across the first two: even in cases where they have concluded that the facts warrant speaking out, and that their duty to do so overrides loyalties to colleagues and institutions, they often have reason to fear the results of carrying Out such a duty. However strong this duty may seem in theory, they know that, in practice, retaliation is likely. As a result, their careers and their ability to support themselves and their families may be unjustly impaired. A government handbook issued during the Nixon era recommends reassigning "undesirables" to places so remote that they would prefer to resign.

---

[27] Bok, Sisela. "Whistleblowing and Professional Responsibility." *New York University Education Quarterly*, vol. 11, Summer 1980, pp. 2-7.

Whistleblowers may also be downgraded or given work without responsibility or work for which they are not qualified; or else they may be given many more tasks than they can possibly perform. Another risk is that an outspoken civil servant may be ordered to undergo a psychiatric fitness-for-duty examination, declared unfit for service, and "separated" as well as discredited from the point of view of any allegations he may be making. Outright firing, finally, is the most direct institutional response to whistleblowers.

Add to the conflicts confronting individual whistleblowers the claim to self-policing that many professions make, and professional responsibility is at issue in still another way. For an appeal to the public goes against everything that "self-policing" stands for. The question for the different professions, then, is how to resolve, insofar as it is possible, the conflict between professional loyalty and professional responsibility toward the outside world. The same conflicts arise to some extent in all groups, but professional groups often have special cohesion and claim special dignity and privileges.

The plight of whistleblowers has come to be documented by the press and described in a number of books. Evidence of the hardships imposed on those who chose to act in the public interest has combined with a heightened awareness of professional malfeasance and corruption to produce a shift toward greater public support of whistleblowers. Public service law firms and consumer groups have taken up their cause; institutional reforms and legislation have been proposed to combat illegitimate reprisals.

Given the indispensable services performed by so many whistleblowers, strong public support is often merited. But the new climate of acceptance makes it easy to overlook the dangers of whistleblowing: of uses in error or in malice; of work and reputations unjustly lost for those falsely accused; of privacy invaded and trust undermined. There comes a level of internal prying and mutual suspicion at which no institution can function. And it is a fact that the disappointed, the incompetent, the malicious, and the paranoid all too often leap to accusations in public. Worst of all, ideological persecution throughout the world traditionally relies on insiders willing to inform on their colleagues or even on their family members, often through staged public denunciations or press campaigns.

No society can count itself immune from such dangers. But neither can it risk silencing those with a legitimate reason to blow the whistle. How then can we distinguish between different instances of whistleblowing? A society that fails to protect the right to speak out even on the part of those whose warnings turn out to be spurious obviously opens the door to political repression. But from the moral point of view there are important differences between the aims, messages, and methods of dissenters from within.

Nature of Whistleblowing

Three elements, each jarring, and triply jarring when conjoined, lend acts of whistleblowing special urgency and bitterness: dissent, breach of loyalty, and accusation.

Like all dissent, whistleblowing makes public a disagreement with an authority or a majority view. But whereas dissent can concern all forms of disagreement with, for instance, religious dogma or government policy or court decisions, whistleblowing has the narrower aim of

shedding light on negligence or abuse, or alerting to a risk, and of assigning responsibility for this risk.

Would-be whistleblowers confront the conflict inherent in all dissent: between conforming and sticking their necks out. The more repressive the authority they challenge, the greater the personal risk they take in speaking out. At exceptional times, as in times of war, even ordinarily tolerant authorities may come to regard dissent as unacceptable and even disloyal.

Furthermore, the whistleblower hopes to stop the game; but since he is neither referee nor coach, and since he blows the whistle on his own team, his act is seen as a violation of loyalty. In holding his position, he has assumed certain obligations to his colleagues and clients. He may even have subscribed to a loyalty oath or a promise of confidentiality. Loyalty to colleagues and to clients comes to be pitted against loyalty to the public interest, to those who may be injured unless the revelation is made.

Not only is loyalty violated in whistleblowing, hierarchy as well is often opposed, since the whistleblower is not only a colleague but a subordinate. Though aware of the risks inherent in such disobedience, he often hopes to keep his job. At times, however, he plans his alarm to coincide with leaving the institution. If he is highly placed, or joined by others, resigning in protest may effectively direct public attention to the wrongdoing at issue. Still another alternative, often chosen by those who wish to be safe from retaliation, is to leave the institution quietly, to secure another post, and then to blow the whistle. In this way, it is possible to speak with the authority and knowledge of an insider without having the vulnerability of that position.

It is the element of accusation, of calling a "foul," that arouses the strongest reactions on the part of the hierarchy. The accusation may be of neglect, of willfully concealed dangers, or of outright abuse on the part of colleagues or superiors. It singles out specific persons or groups as responsible for threats to the public interest. If no one could be held responsible—as in the case of an impending avalanche—the warning would not constitute whistleblowing.

The accusation of the whistleblower, moreover, concerns a present or an imminent threat. Past errors or misdeeds occasion such an alarm only if they affect current practices. And risks far in the future lack the immediacy needed to make the alarm a compelling one, as well as the close connection to particular individuals that would justify actual accusations. Thus an alarm can be sounded about safety defects in a rapid-transit system that threaten or will shortly threaten passengers, but the revelation of safety defects in a system no longer in use, while of historical interest, would not constitute whistleblowing. Nor would the revelation of potential problems in a system not yet fully designed and far from implemented.

Not only immediacy, but also specificity, is needed for there to be an alarm capable of pinpointing responsibility. A concrete risk must be at issue rather than a vague foreboding or a somber prediction. The act of whistleblowing differs in this respect from the lamentation or the dire prophecy. An immediate and specific threat would normally be acted upon by those at risk. The whistleblower assumes that his message will alert listeners to something they do not know, or whose significance they have not grasped because it has been kept secret.

The desire for openness inheres in the temptation to reveal any secret, sometimes joined to an urge for self-aggrandizement and publicity and the hope for revenge for past slights or injustices. There can be pleasure, too— righteous or malicious—in laying bare the secrets of co-workers and in setting the record straight at last. Colleagues of the whistleblower often suspect his motives: they may regard him as a crank, as publicity-hungry, wrong about the facts, eager for scandal and discord, and driven to indiscretion by his personal biases and shortcomings.

For whistleblowing to be effective, it must arouse its audience. Inarticulate whistleblowers are likely to fail from the outset. When they are greeted by apathy, their message dissipates: When they are greeted by disbelief, they elicit no response at all. And when the audience is not free to receive or to act on the information—when censorship or fear of retribution stifles response—then the message rebounds to injure the whistleblower. Whistleblowing also requires • the possibility of concerted public response: the idea of whistleblowing in an anarchy is therefore merely quixotic.

Such characteristics of whistleblowing and strategic considerations for achieving an impact are common to the noblest warnings, the most vicious personal attacks, and the delusions of the paranoid. How can one distinguish the many acts of sounding an alarm that are genuinely in the public interest from all the petty, biased, or lurid revelations that pervade our querulous and gossip-ridden society? Can we draw distinctions between different whistleblowers, different messages, different methods?

We clearly can, in a number of cases. Whistleblowing may be starkly inappropriate when in malice or error, or when it lays bare legitimately private matters having to do, for instance, with political belief or sexual life. It can, just as clearly, be the only way to shed light on an ongoing unjust practice such as drugging political prisoners or subjecting them to electroshock treatment. It can be the last resort for alerting the public to an impending disaster. Taking such clear-cut cases as benchmarks, and reflecting on what it is about them that weighs so heavily for or against speaking out, we can work our way toward the admittedly more complex cases in which whistleblowing is not so clearly the right or wrong choice, or where different points of view exist regarding its legitimacy— cases' where there are moral reasons both for concealment and for disclosure and where judgments conflict….

Individual Moral Choice

What questions might those who consider sounding an alarm in public ask themselves? How might they articulate the problem they see and weigh its injustice before deciding whether or not to reveal it? How can they best try to make sure their choice is the right one? In thinking about these questions it helps to keep in mind the three elements mentioned earlier: dissent, breach of loyalty, and accusation. They impose certain requirements—of accuracy and judgment in dissent; of exploring alternative ways to cope with improprieties that minimize the breach of loyalty; and of fairness in accusation. For each, careful articulation and testing of arguments are needed to limit error and bias.

Dissent by whistleblowers, first of all, is expressly claimed to be intended to benefit the public. It carries with it, as a result, an obligation to consider the nature of this benefit and to consider also the possible harm that may come from speaking out: harm to persons or institutions

and, ultimately, to the public interest itself. Whistleblowers must, therefore, begin by making every effort to consider the effects of speaking out versus those of remaining silent. They must assure themselves of the accuracy of their reports, checking and rechecking the facts before speaking out; specify the degree to which there is genuine impropriety; consider how imminent is the threat they see, how serious, and how closely linked to those accused of neglect and abuse.

If the facts warrant whistleblowing, how can the second element— breach of loyalty—be minimized? The most important question here is whether the existing avenues for change within the organization have been explored. It is a waste of time for the public as well as harmful to the institution to sound the loudest alarm first. Whistleblowing has to remain a last alternative because of its destructive side effects: it must be chosen only when other alternatives have been considered and rejected. They may be rejected if they simply do not apply to the problem at hand, or when there is not time to go through routine channels or when the institution is so corrupt or coercive that steps will be taken to silence the whistleblower should he try the regular channels first.

What weight should an oath or a promise of silence have in the conflict of loyalties? One sworn to silence is doubtless under a stronger obligation because of the oath he has taken. He has bound himself, assumed specific obligations beyond those assumed in merely taking a new position. But even such promises can be overridden when the public interest at issue is strong enough. They can be overridden if they were obtained under duress or through deceit. They can be overridden, too, if they promise something that is in itself wrong or unlawful. The fact that one has promised silence is no excuse for complicity in covering up a crime or a violation of the public's trust.

The third element in whistleblowing—accusation—raises equally serious ethical concerns. They are concerns of fairness to the persons accused of impropriety. Is the message one to which the public is entitled in the first place? Or does it infringe on personal and private matters that one has no right to invade? Here, the very notion of what is in the public's best "interest" is at issue: "accusations" regarding an official's unusual sexual or religious experiences may well appeal to the public's interest without being information relevant to "the public interest."

Great conflicts arise here. We have witnessed excessive claims to executive privilege and to secrecy by government officials during the Watergate scandal in order to cover up for abuses the public had every right to discover. Conversely those hoping to profit from prying into private matters have become adept at invoking "the public's right to know." Some even regard such private matters as threats to the public: they voice their own religious and political prejudices in the language of accusation. Such a danger is never stronger than when the accusation is delivered surreptitiously. The anonymous accusations made during the McCarthy period regarding political beliefs and associations often injured persons who did not even know their accusers or the exact nature of the accusations.

From the public's point of view, accusations that are openly made by identifiable individuals are more likely to be taken seriously. And in fairness to those criticized, openly accepted responsibility for blowing the whistle should be preferred to the denunciation or the leaked rumor. What is openly stated can more easily he checked, its source's motives challenged, and the underlying information examined. Those under attack may otherwise be hard put to defend

themselves against nameless adversaries. Often they do not even know that they are threatened until it is too late to respond. The anonymous denunciation, moreover, common to so many regimes, places the burden of investigation on government agencies that may thereby gain the power of a secret police.

From the point of view of the whistleblower, on the other hand, the anonymous message is safer in situations where retaliation is likely. But it is also often less likely to be taken seriously. Unless the message is accompanied by indications of how the evidence can be checked, its anonymity, however safe for the source, speaks against it.

During the process of weighing the legitimacy of speaking out, the method used, and the degree of fairness needed, whistleblowers must try to compensate for the strong possibility of bias on their part. They should be scrupulously aware of any motive that might skew their message: a desire for self-defense in a difficult bureaucratic situation, perhaps, or the urge to seek revenge, or inflated expectations regarding the effect their message will have on the situation. (Needless to say, bias affects the silent as well as the outspoken. The motive for holding back important information about abuses and injustice ought to give similar cause for soul-searching.)

Likewise, the possibility of personal gain from sounding the alarm ought to give pause. Once again there is then greater risk of a biased message. Even if the whistleblower regards himself as incorruptible, his profiting from revelations of neglect or abuse will lead others to question his motives and to put less credence in his charges. If, for example, a government employee stands to make large profits from a book exposing the inequities in his agency, there is danger that he will, perhaps even unconsciously, slant his report in order to cause more of a sensation.

A special problem arises when there is a high risk that the civil servant who speaks out will have to go through costly litigation. Might he not justifiably try to make enough money on his - public revelations—say, through books or public speaking—to offset his losses? In so doing he will not strictly speaking have *profited* from his revelations: he merely avoids being financially crushed by their sequels. He will nevertheless still be suspected at the time of revelation, and his message will therefore seem more questionable.

Reducing bias and error in moral choice often requires consultation, even open debateP[10]P: methods that force articulation of the moral arguments at stake and challenge privately held assumptions. But acts of whistleblowing present special problems when it comes to open consultation. On the one hand, once the whistleblower sounds his alarm publicly, his arguments will be subjected to open scrutiny; he will have to articulate his reasons for speaking out and substantiate his charges. On the other hand, it will then be too late to retract the alarm or to combat its harmful effects, should his choice to speak out have been ill-advised.

For this reason, the whistleblower owes it to all involved to make sure of two things: that he has sought as much and as objective advice regarding his choice as he can *before* going public; and that he is aware of the arguments for and against the practice of whistleblowing in general, so that he can see his own- choice against as richly detailed and coherently structured a background as possible. Satisfying these two requirements once again has special problems because of the very nature of whistleblowing: the more corrupt the circumstances, the more dangerous it may be to seek consultation before speaking out. And yet, since the whistleblower himself- may have a

biased view of the state of affairs, he may choose not to consult others when in fact it would be not only safe but advantageous to do so; he may see corruption and conspiracy where none exists.

Robert A. Larmer

Whistleblowing and Employee Loyalty[28]

Whistleblowing by an employee is the act of complaining, either within the corporation or publicly, about a corporation's unethical practices. Such an act raises important questions concerning the loyalties and duties of employees. Traditionally, the employee has been viewed as an agent who acts on behalf of a principal, i.e., the employer, and as possessing duties of loyalty and confidentiality. Whistleblowing, at least at first blush, seems a violation of these duties and it is scarcely surprising that in many instances employers and fellow employees argue that it is an act of disloyalty and hence morally wrong.

Dr. Robert Larmer

It is this issue of the relation between whistleblowing and employee loyalty that I want to address. What I will call the standard view is that employees possess *prima fade* duties of loyalty and confidentiality to their employers and that whistleblowing cannot be justified except on the basis of a higher duty to the public good. Against this standard view, Ronald Duska has recently argued that employees do not have even a *prima facie* duty of loyalty to their employers and that whistleblowing needs, therefore, no moral justification. P PI am going to criticize both views. My suggestion is that both misunderstand the relation between loyalty and whistleblowing. In their place I will propose a third more adequate view.

Duska's view is more radical in that it suggests that there can be no issue of whistleblowing and employee loyalty, since the employee has no duty to be loyal to his employer. His reason for suggesting that the employee owes the employer, at least the corporate employer, no loyalty is that companies are not the kinds of things which are proper objects of loyalty. His argument in support of this rests upon two key claims. The first is that loyalty, properly understood, implies a reciprocal relationship and is only appropriate in the context of a mutual surrendering of self-interest. He writes,

"It is important to recognize that in any relationship which demands loyalty the relationship works both ways and involves mutual enrichment. Loyalty is incompatible with self-interest, because it is something that necessarily requires that we go beyond self-interest. My loyalty to my friend, for example, requires I put aside my interests some of the time…. Loyalty

---

[28] Larmer, Robert A. "Whistleblowing and Employee Loyalty." *Journal of Business Ethics*, vol. 11, 1992, pp. 125-128.

depends on ties that demand self-sacrifice with no expectation of reward, e.g., the ties of loyalty that bind a family together."

The second is that the relation between a company and an employee does not involve any surrender of self-interest on the part of the company since its primary goal is to maximize profit. Indeed; although it is convenient, it is misleading to talk of a company having interests. As Duska comments,

A company is not a person. A company is an instrument, and an instrument with a specific purpose, the making of profit. To treat an instrument as an end in itself, like a person, may not be as bad as treating an end as an instrument, but it does give the instrument a moral status it does not deserve....

Since, then, the relation between a company and an employee does not fulfill the minimal requirement of being a relation between two individuals, much less two reciprocally self-sacrificing individuals, Duska feels it is a mistake to suggest the employee has any duties of loyalty to the company.

This view does not seem adequate, however. First, it is not true that loyalty must be quite so reciprocal as Duska demands. Ideally, of course, one expects that if one is loyal to another person that person will reciprocate in kind. There are, however, many cases where loyalty is not entirely reciprocated, but where we do not feel that it is misplaced. A parent, for example, may remain loyal to an erring teenager, even though the teenager demonstrates no loyalty to the parent. Indeed, part of being a proper parent is to demonstrate loyalty to your children whether or not that loyalty is reciprocated. This is not to suggest any kind of analogy between parents and employees, but rather that it is not nonsense to suppose that loyalty may be appropriate even though it is not reciprocated. Inasmuch as he ignores this possibility, Duska's account of loyalty is flawed.

Second, even if Duska is correct in holding that loyalty is only appropriate between moral agents and that a company is not genuinely a moral agent, the question may still be raised whether an employee owes loyalty to fellow employees or the shareholders of the company. Granted that reference to a company as an individual involves reification and should not be taken too literally, it may nevertheless constitute a legitimate shorthand way of describing relations between genuine moral agents.

Third, it seems wrong to suggest that simply because the primary motive of the employer is economic, considerations of loyalty are irrelevant. An employee's primary motive in working for an employer is generally economic, but no one on that account would argue that it is impossible for her to demonstrate loyalty to the employer, even if it turns out to be misplaced. All that is required is that her primary economic motive be in some degree qualified by considerations of the employer's welfare. Similarly, the fact that an employer's primary motive is economic does not imply that it is not qualified by considerations of the employee's welfare. Given the possibility of mutual qualification of admittedly primary economic motives, it is fallacious to argue that employee loyalty is never appropriate.

In contrast to Duska, the standard view is that loyalty to one's employer is appropriate. According to it, one has an obligation to be loyal to one's employer and, consequently, a *prima*

fade duty to protect the employer's interests. Whistleblowing constitutes, therefore, a violation of duty to one's employer and needs strong justification if it is to be appropriate. Sissela Bok summarizes this view very well when she writes the whistleblower hopes to stop the game; but since he is neither referee nor coach, and since he blows the whistle on his own team, his act is seen as a violation of loyalty. In holding his position, he has assumed certain obligations to his colleagues and clients. He may even have subscribed to a loyalty oath or a promise of confidentiality. Loyalty to colleagues and to clients comes to be pitted against loyalty to the public interest, to those who may be injured unless the revelation is made.P

The strength of this view is that it recognizes that loyalty is due one's employer. Its weakness is that it tends to conceive of whistleblowing as involving a tragic moral choice, since blowing the whistle is seen not so much as a positive action, but rather the lesser of two evils. Bok again puts the essence of this view very clearly when she writes that "a would-be whistleblower must weigh his responsibility to serve the public interest *against* the responsibility he owes to his colleagues and the institution in which he works" and "that [when] their duty [to whistleblow] ... so *overrides loyalties to colleagues and institutions,* they [whistleblowers] often have reason to fear the results of carrying out such a duty." The employee, according to this understanding of whistleblowing, must choose between two acts of betrayal, either her employer or the public interest, each in itself reprehensible. .

Behind this view lies the assumption that to be loyal to someone is to act in a way that accords with what that person believes to be in her best interests. To be loyal to an employer, therefore, is to act in a way which the employer deems to be in his or her best interests. Since employers very rarely approve of whistleblowing and generally feel that it is not in their best interests, it follows that whistleblowing is an act of betrayal on the part of the employee, albeit a betrayal made in the interests of the public good.

Plausible though it initially seems, I think this view of whistleblowing is mistaken and that it embodies a mistaken conception of what constitutes employee loyalty. It ignores the fact that the great majority of corporate whistleblowers... [consider] themselves to be very loyal employees who ... [try] to use 'direct voice' (internal whistleblowing),... [are] rebuffed and punished for this, and then ... [use] 'indirect voice' (external whistleblowing). They... [believe] initially that they... [are] behaving in a loyal manner, helping their employers by calling top management's attention to practices that could eventually get the firm in trouble.

By ignoring the possibility that blowing the whistle may demonstrate greater loyalty than not blowing the whistle, it fails to do justice to the many instances where loyalty to someone constrains us to act in defiance of what that person believes to be in her best interests. I am not, for example, being disloyal to a friend if I refuse to loan her money for an investment I am sure will bring her financial ruin; even if she bitterly reproaches me for denying her what is so obviously a golden opportunity to make a fortune.

A more adequate definition of being loyal to someone is that loyalty involves acting in accordance with what one has good reason to believe to be in that person's best interests. A key question, of course, is what constitutes a good reason to think that something is in a person's best interests. Very often, but by no means invariably, we accept that a person thinking that something

[220]

is in her best interests is a sufficiently good reason to think that it actually is. Other times, especially when we feel that she is being rash, foolish, or misinformed we are prepared, precisely by virtue of being loyal, to act contrary to the person's wishes. It is beyond the scope of this paper to investigate such cases in detail, but three general points can be made.

First, to the degree that an action is genuinely immoral, it is impossible that it is in the agent's best interests. We would not, for example, say that someone who sells child pornography was acting in his own best interests, even if he vigorously protested that there was nothing wrong with such activity. Loyalty does not imply that we have a duty to refrain from reporting the immoral actions of those to whom we are loyal. An employer who is acting immorally is not acting in her own best interests and an employee is not acting disloyally in blowing the whistle. Indeed, the argument can be made that the employee who blows the whistle may be demonstrating greater loyalty than the employee who simply ignores the immoral conduct, inasmuch as she is attempting to prevent her employer from engaging in self-destructive behavior.

Second, loyalty requires that, whenever possible, in trying to resolve a' problem we deal directly with the person to whom we are loyal. If, for example, I am loyal to a friend I do not immediately involve a third party when I try to dissuade my friend from involvement in immoral actions. Rather, I approach my friend directly, listen to his perspective on the events in question, and provide an opportunity for him to address the problem in a morally satisfactory way. This implies that, whenever possible, a loyal employee blows the whistle internally. This provides the employer with the opportunity to either demonstrate to the employee that, contrary to first appearances, no genuine wrongdoing had occurred, or, if there is a genuine moral problem, the opportunity to resolve it.

This principle of dealing directly with the person to whom loyalty is due needs to be qualified, however. Loyalty to a person requires that one acts in that person's best interests. Generally, this cannot be done without directly involving the person to whom one is loyal in the decision-making process, but there may arise cases where acting in a person's best interests requires that one act independently and perhaps even against the wishes of the person to whom one is loyal. Such cases will be especially apt to arise when the person to whom one is loyal is either immoral or ignoring the moral consequences of his actions. Thus, for example, loyalty to a friend who deals in hard narcotics would not imply that I speak first to my friend about my decision to inform the police of his activities, if the only effect of my doing so would be to make him more careful in his criminal dealings. Similarly, a loyal employee is under no obligation to speak first to an employer about the employer's immoral actions, if the only response of the employer will be to take care to cover up wrongdoing.

Neither is a loyal employee under obligation to speak first to an employer if it is clear that by doing so she places herself in jeopardy from an employer who will retaliate if given the opportunity. Loyalty amounts to acting in another's best interests and that may mean qualifying what seems to be in one's own interests, but it cannot imply that one take no steps to protect oneself from the immorality of those to. whom one is loyal. The reason it cannot is that, as has already been argued, acting immorally can never really be in a person's best interests. It follows, therefore, that one is not acting in a person's best interests if one allows oneself to be treated immorally by

that person. Thus, for example, a father might be loyal to a child even though the child is guilty of stealing from him, but this would not mean that the father should let the child continue to steal. Similarly, an employee may be loyal to an employer even though she , takes steps to protect herself against unfair retaliation by the employer, e.g., by blowing the whistle externally.

Third, loyalty requires that one is concerned with more than considerations of justice. I have been arguing that loyalty cannot require one to ignore immoral or unjust behaviour on the part of those to whom one is loyal, since loyalty amounts to acting in a person's best interests and it can never be in a person's best interests to be allowed to act immorally. Loyalty, however, goes beyond considerations of justice in that, while it is possible to be disinterested and just, it is not possible to be disinterested and loyal. Loyalty implies a desire that the person to whom one is loyal take no moral stumbles, but that if moral stumbles have occurred that the person be restored and not simply ' punished. A loyal friend is not only someone who sticks by you in times of trouble, but someone who tries to help you avoid trouble. This suggests that a loyal employee will have a desire to point out problems and potential problems long before the drastic measures associated with whistleblowing become necessary, but that if whistleblowing does become necessary there remains a desire to help the employer.

In conclusion, although much more could be said on the subject of loyalty, our brief discussion has enabled us to clarify considerably the relation between whistleblowing and employee loyalty. It permits us to steer a course between the Scylla of Duska's view that, since the primary link between employer and employee is economic, the ideal of employee loyalty is an oxymoron, and the Charybdis of the standard view that, since it forces an employee to weigh conflicting duties, whistleblowing inevitably involves some degree of moral tragedy. The solution lies in realizing that to whistleblow for reasons of morality is to act in one's employer's best interests and involves, therefore, no disloyalty.

TOPIC 11
ARE MULTINATIONAL CORPORATIONS FREE OF MORAL DUTY?

Introduction

We **have seen in the** news <u>recently</u> that large and powerful multinational corporations—Apple, Microsoft, Starbucks, Amazon and others—were able to divert profits made in the European Union and claim them instead through an arrangement with Ireland in order to reap a huge tax advantage. Ireland acted as a tax haven and has been called to account for its apparent EU rule violations. The so-called <u>Panama Papers</u> also make it clear how MNCs (and others) can and do shift profits offshore to avoid paying taxes. And, more recently, there has been the so-called <u>Paradise Papers</u> reiterating the problem of off-shoring to avoid taxes or launder money.

The multinational corporations, of course, claim not to have broken the law. Maybe they just bent it a little. But, as with the case of the <u>Heritage Oil and Gas Co. Ltd</u> in Uganda, we can nevertheless ask if those MNCs did not act immorally by knowingly bending the rules to the max (and maybe breaking a few as well) in order to manipulate the situation so that the company did not have to pay taxes to the impoverished and vulnerable citizens of Uganda where Heritage was able to earn billions of dollars in profits. Heritage tried to do this by relocating the company to a tax shelter. It would have succeeded if Uganda had not persisted through a long and expensive

court battle. Is not such behavior morally wrong even though it may just squeak under the legal bar?

> **Profitable Giants Like Amazon Pay $0 in Corporate Taxes. Some Voters Are Sick of It** New York Times 4/29/2019
>
> **YES, AMAZON PAYS TAXES!** National Review 4/30/2019

If nothing else, the international tax evasion situation which seems to be a regular news feature these days, certainly shows the power of wealthy multinational corporations to circumvent the law with carefully crafted accounting and legal schemes. And it is difficult for nation states, which often have far less resources than MNCs, to do anything about it.

Can we find some basis in principle or practice to ascribe moral responsibility to these multinational corporations, or are they simply free to do as they please in the international business arena since there is no effective international police force and international business laws are often non-existent, inadequate or poorly enforced?

In his unusual article below, *"International Business, Morality, and the Common Good,"* well-known Business Ethics philosopher, **Manuel Velasquez**, makes a very strong, rational case for the argument that multinational corporations do NOT have any moral responsibility. He uses

two main sources of evidence: an argument from Hobbes applying the concept of the "state of nature" to MNCs, and a second argument based on the famous **"Prisoners Dilemma"** scenario.

You should have a clear understanding of these two arguments. In addition to the question at hand, it is interesting to see how Velasquez uses Hobbes' idea to craft and support his argument. Do you agree with the premises of Velasquez's argument? The Prisoners Dilemma argument, developed by game theorists at the Rand Corporation during the Cold War to model the effects of the impasse between the U.S. and the Soviet Union resulting in the nuclear race, has intrinsic interest, as I hope that you see. I think it is worth getting to see the kind of rationality presupposed by this thought experiment.

It is odd to see a Business Ethics professor of Velasquez's stature write a paper arguing that MNCs do not have any moral responsibility. You would think that he would argue in the opposite direction. So, I wrote to Professor Velasquez and asked him why he bothered to make such an unusual argument. He wrote back at length and his response printed below is worth reading. Basically, he says that he wanted to try to construct the strongest possible argument *in favor of* the idea that MNCs did not have any moral responsibility, and then see if he could effectively counter and defeat that argument. Velasquez confesses in his note to me that "once I had developed this argument fully, I was not able to find a good answer to the argument; that is, I could not find a good way of showing that the argument was wrong."

John Fleming, however, in the second article below, does offer a critical, existential assessment of Velasquez's argument. Fleming is a businessman working in the international arena, a past CEO of Walmart, and his vision of the nature of a MNC is significantly different from Velasquez. How, exactly, do these two visions of MNCs differ?

Fleming points to various foundations for moral responsibility that exist *within* a multinational company, like Codes of Ethics, the moral impact of the CEO, and company pride. These practical moral value orientations attach to particular and concrete aspects of how a company actually functions 'on the ground' every day, rather than how it is perceived abstractly and theoretically by philosophers in their academic ivory towers.

Also, Fleming thinks that Velasquez's abstract and depersonalized notion of rationality, which underlies the Prisoners Dilemma, is too rigidly drawn, abstract, and decontextualized to apply to how everyday practical business interactions and judgments in unrepeatable situations among a community of people who *are* the corporation, constitutes a natural and intrinsic moral framework for the company. Contrary to the logic of the Prisoner's Dilemma, Fleming offers the idea of "bounded rationality." What does he mean by this?

On the ground, in the actual, everyday practice of managing a company, Fleming argues, there are numerous sources upon which to base a foundation for the moral orientation of MNCs that are inherent in the nature of the company as a community of persons, its leadership, its code of ethics, local laws and moral traditions, the loyalty and pride of workers, and other actual aspects of the firm as the locus of everyday moral practice.

You should become aware of the sources of moral foundation that Fleming points to in his critical response to Velasquez. They provide evidence for seeing how an Ethics of Care is built

into corporations naturally when corporations are perceived as fairly stable communities of inter-related and inter-acting persons working toward common goals. When corporations are looked at instrumentally, however, and evaluated on abstract principles of justice—as they are in Velasquez's article—this dehumanized, abstract, analytic, and instrumental perspective fails to find any basis for moral responsibility for the corporation. Yet another reminder that what you see is often determined by how you look at it.

Who do you think has the better argument, Velasquez or Fleming?

Manuel Velasquez

Velasquez: International Business, Morality, and the Common Good[29]

Dr. Manuel Velasquez

During the last few years an increasing number of voices have urged that we pay more attention to ethics in international business, on the grounds that not only are all large corporations now internationally structured and thus engaging in international transactions, but that even the smallest domestic firm is increasingly buffeted by the pressures of international competition. . . .

Can we say that businesses operating in a competitive international environment have any moral obligations to contribute to the international common good, particularly in light of realist objections? Unfortunately, my answer to this question will be in the negative....

International Business

... When speaking of international business, I have in mind a particular kind of organization: the multinational corporation. Multinational corporations have a number of well known features, but let me briefly summarize a few of them. First, multinational corporations are businesses and as such they are organized primarily to increase their profits within a competitive environment. Virtually all of the activities of a multinational corporation can be explained as more or less rational attempts to achieve this dominant end. Secondly, multinational corporations are bureaucratic organizations. The implication of this is that the identity, the fundamental structure, and the dominant objectives of the corporation endure while the many individual human beings who fill the various offices and positions within the corporation come and go. As a consequence, the particular values and aspirations of individual members of the corporation have a relatively minimal and transitory impact on the organization as a whole. Thirdly, and most characteristically, multinational corporations operate in several nations. This has several implications. First, because the multinational is not confined to a single nation, it can easily escape the reach of the laws of

---

[29] Velasquez, Manuel. "International Business, Morality, and the Common Good." *Business Ethics Quarterly*, vol. 2, no. 1, January 1992, pp. 41-43. References omitted.

any particular nation by simply moving its resources or operations out of one nation and transferring them to another nation. Second, because the multinational is not confined to a single nation, its interests are not aligned with the interests of any single nation. The ability of the multinational to achieve its profit objectives does not depend upon the ability of any particular nation to achieve its own domestic objectives.

The Traditional Realist Objection in Hobbes

The realist objection, of course, is the standard objection to the view that agents—whether corporations, governments, or individuals—have moral obligations on the international level. Generally, the realist holds that it is a mistake to apply moral concepts to international activities: morality has no place in international affairs. The classical statement of this view, which I am calling the "traditional" version of realism, is generally attributed to Thomas Hobbes. . . .

In its Hobbesian form, as traditionally interpreted, the realist objection holds that moral concepts have no meaning in the absence of an agency powerful enough to guarantee that other agents generally adhere to the tenets of morality. Hobbes held, first, that in the absence of a sovereign power capable of forcing men to behave civilly with each other, men are in "the state of nature," a state he characterizes as a "war ... of every man, against every man." Secondly, Hobbes claimed, in such a state of war, moral concepts have no meaning:

To this war of every man against every man, this also is consequent; that nothing can be unjust. The notions of right and wrong, justice and injustice have there no place. Where there is no common power, there is no law: where no law, no injustice.

Moral concepts are meaningless, then, when applied to state of nature situations. And, Hobbes held, the international arena is a state of nature, since there is no international sovereign that can force agents to adhere to the tenets of morality.

The Hobbesian objection to talking about morality in international affairs, then, is based on two premises: (1) an ethical premise about the applicability .of moral terms and (2) an apparently empirical premise about how agents behave under certain conditions. The ethical premise, at least in its Hobbesian form, holds that there is a connection between the meaningfulness of moral terms and the extent to which agents adhere to the tenets of morality: If in a given situation agents do not adhere to the tenets of morality, then in that situation moral terms have no meaning. The apparently empirical premise holds that in the absence of a sovereign, agents will not adhere to the tenets of morality: they will be in a state of war. This appears to be an empirical generalization about the extent to which agents adhere to the tenets of morality in the absence of a third-party enforcer. Taken together, the two premises imply that in situations that lack a sovereign authority, such as one finds in many international exchanges, moral terms have no meaning and so moral obligations are nonexistent. ...

Revising the Realist Objection: The First Premise

... The neo-Hobbesian or realist... might want to propose this premise: When one is in a situation in which others do not adhere to certain tenets of morality, and when adhering to those

tenets of morality will put one at a significant competitive disadvantage, then it is not immoral for one to like-wise fail to adhere to them. The realist might want to argue for this claim, first, by pointing out that in a world in which all are competing to secure significant benefits and avoid significant costs, and in which others do not adhere to the ordinary tenets of morality, one risks significant harm to one's interests if one continues to adhere to those tenets of morality. But no one can be morally required to take on major risks of harm to oneself. Consequently, in a competitive world in which others disregard moral constraints and take any means to advance their self-interests, no one can be morally required to take on major risks of injury by adopting the restraints of ordinary morality.

A second argument the realist might want to advance would go as follows. When one is in a situation in which others do not adhere to the ordinary tenets of morality, one is under heavy competitive pressures to do the same. And, when one is under such pressures, one cannot be blamed—i.e., one is excused—for also failing to adhere to the ordinary tenets of morality. One is excused because heavy pressures take away one's ability to control oneself, and thereby diminish one's moral culpability.

Yet a third argument advanced by the realist might go as follows. When one is in a situation in which others do not adhere to the ordinary tenets of morality it is not fair to require one to continue to adhere to those tenets, especially if doing so puts one at a significant competitive disadvantage. It is not fair because then one is laying a burden on one party that the other parties refuse to carry.

Thus, there are a number of arguments that can be given in defense of the revised Hobbesian ethical premise that when others do not adhere to the tenets of morality, it is not immoral for one to do likewise....

Revising the Realist Objection: The Second Premise

Let us turn to the other premise in the Hobbesian argument, the assertion that in the absence of a sovereign, agents will be in a state of war. As I mentioned, this is an apparently empirical claim about the extent to which agents will adhere to the tenets of morality in the absence of a third-party enforcer.

Hobbes gives a little bit of empirical evidence for this claim. He cites several examples of situations in which there is no third party to enforce civility and where, as a result, individuals are in a "state of war." Generalizing from these few examples, he reaches the conclusion that in the absence of a third- party enforcer, agents will always be in a "condition of war."

Recently, the Hobbesian claim ... has been defended on the basis of some of the theoretical claims of game theory, particularly of the prisoner's dilemma. Hobbes' state of nature, the defense goes, is an instance of a prisoner's dilemma, and rational agents in a Prisoner's Dilemma necessarily would choose not to adhere to a set of moral norms.

A Prisoner's Dilemma is a situation involving at least two individuals. Each individual, is faced with two choices: he can cooperate with the other individual or he can choose not to cooperate. If he cooperates and the other individual also cooperates, then he gets a certain payoff. If, however, he chooses not to cooperate, while the other individual trustingly cooperates, the non-

cooperator gets a larger payoff while the cooperator suffers a loss. And if both choose not to cooperate, then both get nothing.

It is a commonplace now that in a Prisoner's Dilemma situation, the most rational strategy for a participant is to choose not to cooperate. For the other party will either cooperate or not cooperate. If the other party cooperates, then it is better for one not to cooperate and thereby get the larger payoff. On the other hand, if the other party does not cooperate, then it is also better for one not to cooperate and thereby avoid a loss. In either case, it is better for one to not cooperate.

... In Hobbes' state of nature each individual must choose either to cooperate with others by adhering to the rules of morality (like the rule against theft), or to not cooperate by disregarding the rules of morality and attempting to take advantage of those who are adhering to the rules (e.g., by stealing from them). In such a situation it is more rational... to choose not to cooperate. For the other party will either cooperate or not cooperate. If the other party does not cooperate, then one puts oneself at a competitive disadvantage if one adheres to morality while the other party does not. On the other hand, if the other party chooses to cooperate, then one can take advantage, of the other - party by breaking the rules of morality at his expense. In either case, it is morally rational to not cooperate.

Thus, the realist can argue that in a state of nature, where there is no one to enforce compliance with the rules of morality, it is more rational, from the individual's point of view to choose not to comply with morality than to choose to comply. Assuming—and this is obviously a critical assumption— that agents behave rationally, then we can conclude that agents in a state of nature will choose not to comply with the tenets of ordinary morality. . ..

Can we claim that it is clear that multinationals have a moral obligation to pursue the global common good in spite of the objections of the realist?

I do not believe that this claim can be made. We can conclude from the discussion of the realist objection that the Hobbesian claim about the pervasiveness of amorality in the international sphere is false when (1) interactions among international agents are repetitive in such a way that agents can retaliate against those who fail to cooperate, and (2) agents can determine the trustworthiness of other international agents.

But unfortunately, multinational activities often take place in a highly competitive arena in which these two conditions do not obtain. Moreover, these conditions are noticeably absent in the arena of activities that concern the global common, good.

First, as I have noted, the common good consists of goods that are indivisible and accessible to all. This means that such goods are susceptible to the free rider problems. Everyone has access to such goods whether or not they do their part in maintaining such goods, so everyone is tempted to free ride on the generosity of others. Now governments can force domestic companies to do their part to maintain the national common good. Indeed, it is one of the functions of government to solve the free rider problem by forcing all to contribute to the domestic common good to which all have access. Moreover, all companies have to interact repeatedly with their host governments, and this leads them to adopt a cooperative stance toward their host government's objective of achieving the domestic common good.

[229]

But it is not clear that governments can or will do anything effective to force multinationals to do their part to maintain the global common good. For the governments of individual nations can themselves be free riders, and can join forces with willing multinationals seeking competitive advantages over others.

Let me suggest an example. It is clear that a livable global environment is part of the global common good, and it is clear that the manufacture and use of chlorofluorocarbons is destroying that good. Some nations have responded by requiring their domestic companies to cease manufacturing or using chlorofluorocarbons. But other nations have refused to do the same, since they will share in any benefits that accrue from the restraint others practice, and they can also reap the benefits of continuing to manufacture and use chlorofluorocarbons. Less developed nations, in particular, have advanced the position that since their development depends heavily on exploiting the industrial benefits of chlorofluorocarbons, they cannot afford to curtail their use of these substances. Given this situation, it is open to multinationals to shift their operations to those countries that continue to allow the manufacture and use of chlorofluorocarbons. For multinationals, too, will reason that they will share in any benefits that accrue from the restraint others practice, and that they can meanwhile reap the profits of continuing to manufacture and use chlorofluorocarbons in a world where other companies are forced to use more expensive technologies. Moreover, those nations that practice restraint cannot force all such multinationals to discontinue the manufacture or use of chlorofluorocarbons because many multinationals can escape the reach of their laws.

An exactly parallel, but perhaps even more compelling, set of considerations can be advanced to show that at least some multinationals will join forces with some developing countries to circumvent any global efforts made to control the global warming trends (the so-called "greenhouse effect") caused by the heavy use of fossil fuels.

The realist will conclude, of course, that in such situations, at least some multinationals will seek to gain competitive advantages by failing to contribute to the global common good (such as the good of a hospitable global environment). For multinationals are rational agents, i.e., agents bureaucratically structured to take rational means toward achieving their dominant end of increasing their profits. And in a competitive environment, contributing to the common good while others do not, will fail to achieve this dominant end. Joining this conclusion to the ethical premise that when others do not adhere to the requirements of morality it is not immoral for one to do likewise, the realist can conclude that multinationals are not

morally obligated to contribute to such global common goods (such as environmental goods).

Moreover, global common goods often create interactions that are not iterated. This is particularly the case where the global environment is concerned. As I have already noted, preservation of a favorable global climate is clearly part of the global common good. Now the failure of the global climate will be a one-time affair. The breakdown of the ozone layer, for example, will happen once, with catastrophic consequences for us all; and the heating up of the global climate as a result of the infusion of carbon dioxide will happen once, with catastrophic consequences for us all. Because these environmental disasters are a one-time affair, they represent

a non-iterated prisoner's dilemma for multinationals. It is irrational from an individual point of view for a multinational to choose to refrain from polluting the environment in such cases. Either others will refrain, and then one can enjoy the benefits of their refraining; or others will not refrain, and then it will be better to have also not refrained since refraining would have made little difference and would have entailed heavy losses.

Finally, we must also note that although natural persons may signal their reliability to other natural persons, it is not at all obvious that multinationals can do the same. As noted above, multinationals are bureaucratic organizations whose members are continually changing and shifting. The natural persons who make up an organization can signal their reliability to others, but such persons are soon replaced by others, and they in turn are replaced by others. What endures is each organization's single-minded pursuit of increasing its profits in a competitive environment. And an enduring commitment to the pursuit of profit in a competitive environment is not a signal of an enduring commitment to morality.

So, I wrote a note to Professor Velasquez

Dear Professor Velasquez:

My students and I are studying your article, "International Business and the Common Good" here in the School of Business at the University of Montana and are wondering why you—as a rock solid Business Ethics professor—wrote an essay that argues that MNCs have no moral responsibility. Were you really serious about this?

Thanks for your time,

Robert D. Walsh, Ph.D.

And Professor Velasquez wrote back

Hi, Robert:

Thanks for your email. I'm assuming you are talking about the article entitled "International Business, Morality, and the Common Good." Anyway, I assume that is the correct article in the comments that follow.

I'm not sure exactly what you mean by "Were you really serious about this?" Let me say a little bit about the genesis of the article. I had begun by writing an article on the moral responsibilities (i.e., obligations) of companies whose operations span more than one country, i.e., of multinationals. (At the back of my mind, I was thinking about the moral obligations multinationals might have to avoid engaging in the bribery of government officials in foreign countries.) In the process of putting that article together I decided that in part of the article I would try to answer objections to the claim I wanted to defend, namely, that multinationals do have moral obligations. (In particular, I originally wanted to show, multinationals have a moral obligation not to engage in bribing the government officials of foreign countries.)

One of the objections that I was looking at was the so-called "realist" objection that multinationals do not have moral obligations when they operate at an international level because

at that level they operate in a "state of nature," i.e., a state in which there is no super-national entity capable of enforcing moral obligations. In such a state, the realist argument says, the very concept of a moral obligation either makes no sense or does not apply.

The more I thought about that argument, and the more I thought about different ways of understanding that argument, as well as different ways of justifying the premises of the argument, the more I came to believe that I did not really have an answer to all versions of the argument. So I decided to see what the best, strongest, and most reasonable version of the argument might look like, and then see if I could answer that argument.

The version I thought was the strongest concluded that when there is no international entity capable of enforcing morality at an international level, and when other companies are not behaving morally at an international level, then it is permissible for my company to also not behave morally at an international level. For example, if there is no "international" police force capable of forcing all companies to avoid engaging in bribery, and if other companies are using bribes to get government officials to buy their products instead of buying the products of my company, then my company would have no moral obligation to avoid engaging in bribery. I thought that this realist argument could also be used to justify the conclusion that international companies (operating under the same conditions of no international police force, everyone is doing it, etc.) do not have an obligation to support the global common good, such as the global common good of a livable environment.

But once I had developed this argument fully, I was not able to find a good answer to the argument; that is, I could not find a good way of showing that the argument was wrong. So I decided to write up the argument in the form of an independent article, instead of using it as part of the longer article that I had originally set out to write. That way, if it was published, maybe other people would read it and would be able to find a way of showing that the argument was wrong, even though I had failed to find a way of showing that. So I wrote it up, and the article got published in a journal.

But do I personally believe that the conclusion of the article is correct? No, I don't.

Nevertheless, I still don't have a way of showing that the realist argument contains a fatal flaw. So although I think the conclusion of the realist argument is false, I don't have any way yet of showing that the realist argument is wrong, although I think (or maybe just hope) it is wrong.

I think, though, that the world has changed in important ways since I wrote the article. Take bribery, for example. Today almost every developed nation has adopted a law that prohibits their companies from bribing a foreign government in order to make a sale. So you no longer have a situation where all other companies are using bribery, and so where companies that do not use bribes would be at a disadvantage. Today almost all companies in the developed world that have something valuable to sell to foreign governments, are bound by the anti-bribery laws of their own countries, and most of them abide by those laws. So with respect to bribery, anyway, the conditions that are needed to be able to show (by using the realist argument) that companies do not have an obligation to avoid bribery, no longer exist. You can no longer use the realist argument to show that multinationals have no obligation to avoid engaging in bribery.

The same is true with the issue of avoiding the use of chlorofluorocarbons, another example I used in the article. Today almost every country has laws that make most uses of chlorofluorocarbons illegal. So the realist can no longer say that since there is no international enforcer, and since everyone is doing it, it is morally permissible for international companies to make money by selling chlorofluorocarbons or by selling products containing chlorofluorocarbons.

But we are not quite there yet with respect to at least one of the moral issues I identified in the article, namely, the use of fossil fuels that contribute to global warming. We know that if we all continue to use fossil fuels (e.g., gasoline) we will eventually create an environment that cannot sustain us. So a reasonable conclusion would be that we have a moral obligation to avoid using fossil fuels. But at an international level, there is no international enforcer, and everyone uses fossil fuels, so the realist argument would say that companies that operate at the international level, at least, have no obligation to stop using fossil fuels. And it seems to me that in fact, most people today buy the realist argument as it applies to the use of fossil fuels (and they seem to accept the realist argument at a national, as well as an international, level). Or, at any rate, I have met very few people who think that it is immoral to use gasoline to fuel their cars.

Sorry for this long email. I had not looked at the article for several years, and so your email evoked a lot of thoughts that I guess I had stored up.


Manuel Velasquez
Santa Clara University

John Fleming

Fleming: Alternative Approaches and Assumptions[30]

Introduction

I feel that Professor Velasquez has written a very interesting and thought- provoking paper on an important topic. His initial identification with a "strong notion of the common good" raises the level of analysis to a high but very complex plane. The author introduces the interesting and, from my view, unusual realist objection in the Hobbesian form. After a rigorous analysis of this concept Professor Velasquez reaches what I find to be a disturbing conclusion: "It is not obvious that we can say that multinationals have an obligation to contribute to the global common good " He then finishes the paper with a strong plea for the establishment of "an international authority capable of forcing everyone to contribute toward the global good."

It would be presumptuous of me to question the fine ethical reasoning that appears in the paper. I am impressed with its elegance. However, in a topic of this complexity I would like to think that there might be alternative approaches and assumptions that would lead us to a different conclusion. The presentation of such alternatives will be the path that I will take, examining the conceptual and empirical underpinnings of the argument from a management viewpoint.

The Model of a Multinational Corporation

The profit-maximizing, rational model of a multinational corporation presented in the paper is consistent with traditional economics and serves as a useful approximation of the firm from a theoretical viewpoint. But it falls somewhat short in less than purely competitive environments and was never intended to describe the decision processes of actual managers. Empirical studies of firms can lead to a profit-sacrificing, bounded rational model. The importance of profit is still there, but the stockholder does not get all the benefits. Other stakeholders are considered and rewarded. Out of all this can come the important concept of corporate social

---

responsibility, which can include such topics as concerns for the environment and for host country governments.

I also find the faceless and interchangeable bureaucrat a poor model for business executives, particularly the chief executive officers of large corporations. Many of these individuals have a personal impact on the organization, including such areas as business ethics and corporate responsibility. There are also important behavioral aspects of management, such as pride in the firm and corporate culture, that are fertile soil for the nurture of ethics.

Most large American multinational corporations have codes of ethics and some have well-developed programs concerned with ethical behavior worldwide. A number of these firms emphasize that their one code of conduct applies everywhere that they do business. At the GTE Corporation its vision and values statements have been translated into nine different languages and distributed to all its employees to ensure this world-wide understanding of how it conducts its business. This is a far cry from the situational ethics described in the model used by Professor Velasquez.

Model of the International Business Climate

The planning and decision environment of the managers conducting international business is different from that described in the paper. There is the very real problem of a lack of an overarching global government and enforceable laws for the international arena. Nevertheless, there are other very strong restraining forces on companies that prevent the "state of nature" (or law of the jungle) described in the paper. For example, the national governments that do exist influence the ethical behavior of companies acting within their boundaries and beyond. The Foreign Corrupt Practices Act of the United States has set a new standard of behavior in the area of bribery that dictates how American companies will behave worldwide. The financial practices of large banks and securities markets have added major constraints to global corporate behavior. There are also a number of regional and functional organizations in the areas of trade and monetary issues that provide limitations to managerial decision making.

The decisions of multinational executives are also constrained by such factors as public opinion and the pressures of special interest groups. In this area the media also plays a strong role. Examples of these forces are the actions of interest groups that forced marketing changes on infant formula manufacturers and the strong "green" movement that is affecting business decisions throughout many parts of the world.

My own view is that considerable progress has been made in the area of limiting the manufacture and release of chlorofluorocarbons. This is a very complex issue involving tremendous social and economic changes that are far more critical, widespread and controlling than the profits of the producing companies. Even with the existence of an enforcing government there is no guarantee that the problem would be solved speedily. An example in point is the acid rain problem of the United States.

Model of the Prisoner's Dilemma

From the standpoint of managerial decision making the Prisoner's Dilemma model does not simulate a situation that is frequently found in international business. An executive generally would not be negotiating or making mutually beneficial decisions with competitors. I would see the greatest amount of effort of multinational decision makers devoted to the development of repeat customers. Such an accomplishment comes about through solving customer problems with better product/service at a lower cost. An emphasis on efficiency and excellence is a far more effective use of executive time than questionable negotiations with a competitor. I believe that the weakness Professor Velasquez identifies in the Prisoner's Dilemma model as a one-time event with competitors applies even more to negotiations with customers.

The author also points out a major weakness of the model in the signaling of intent that goes on between individuals. He then states that this same signaling is not found to any great extent between companies. I would disagree with this thought. An important part of corporate strategic planning is analyzing market signals. United States antitrust forbids direct contact between competitors on issues relating to the market. But there is no limitation on independent analysis of competitive actions and the interpretation of actions by competitors. When Kodak introduced its instant camera, both Kodak and Polaroid watched the other's actions to determine whether it signaled detente or fight.

Conclusion

For the reasons enumerated above I tend to question the models and assumptions that Professor Velasquez has used in his ethical analysis. And, with these underpinnings in jeopardy, I also tend to question the tentative conclusion of his moral reasoning as it relates to the managerial aspects of international business. I feel that multinationals do have a strong obligation to contribute to the global common good.

TOPIC 12
FOOD FIGHT:
AGRIBUSINESS AND ARTISANAL FARMING

Introduction

There are millions of people in the world today who are suffering from a *lack of food*. Yet, it is also a fact that *global obesity* is steadily on the rise today as well. Thus, given the somewhat startling occurrence of both hunger and obesity in the world today, it is of interest from a moral perspective to investigate some of the questions surrounding food production, distribution and consumption, both locally and globally.

The purpose of this investigation is to see clearly the causes and contributing factors of (and perhaps a solution for) the intractable social justice and distributive justice issues of world hunger, child malnutrition, and food deprivation, on the one hand--especially in the global south—and, on the other hand, the increasing and seemingly unstoppable global obesity epidemic, especially in the global north. What is going on?

Many researchers point to the conflict between two different approaches to food production as a major contributor to the twin problems of obesity and hunger: (1) large, automated, chemical-intensive corporate agribusiness, and (2) small, family-owned, often organic, artisanal farms.

Corporate agribusiness operates from the general position that what is needed is a more intense yield-per-acre of non-expanding agricultural land in order to feed an ever-expanding global population, a yield-per-acre that only technology-driven, precision farming can accomplish. One problem with the corporate argument is that current world food production could already easily meet the food needs of everyone in the world, with plenty left over; and yet many go to bed hungry every night. Almost one quarter of all food is wasted, which alone could feed the world's hungry.

The world food crisis is apparently not the result of scarcity but of poverty and income and wealth inequality and other social, political, and cultural practices. Food subsidies in the U.S., for example, which flow mostly to large, corporate farmers in order to optimize food commodity markets, ends up hurting the small family-owned farm and makes it difficult for them to survive. Check out what economist Joe Stiglitz has to say about farm subsidies in the video at the end of this topic, how they benefit big, corporate farming and hurt the little guy. The Goldman Sachs investment video below lays out the case for this so-called 'precision' approach to farming.

Goldman Sachs: Agribusiness investment video - Precision Farming (2:23)

At the other, consumption end of the food production chain, more food as the result of greater yield per acre means *more food for those who can afford it*. Food supplies, especially meats and expensive processed foods, mass produced from agribusiness sources, flow to the markets of wealthier developed and developing nations in the global north, while the more impoverished or emerging economies of the global south suffer food deprivation, which is especially problematic during the current prolonged famine due to lack of rain in sub-Saharan Africa. To understand the profound existential importance of this situation, we should reflect for a moment on the universal meaning and significance of food and its connection to the human condition.

The fact that there are more than 800 million people suffering from hunger and malnutrition in the world right now is a particularly poignant problem, especially when you consider the nature of food and see this problem of food scarcity alongside the opposite problem of global obesity.

We should keep in mind that food is not merely a commodity among other commodities. Food is life. Food is integral to every aspect of all living things, more so perhaps for us humans because of the added symbolic and social values that food conveys in numerous ways in the human social world. Food is an ultimate or fundamental human value.

Food is certainly the source of our biological nourishment and sustenance, necessary for our being, like air and water. But it is also what brings us together as "loved ones" who belong to families and communities; what Americans celebrate with the Thanksgiving meal. The term "comfort food" suggests how food goes beyond being merely metabolic fuel for proper cell functioning to something that tacitly yet unmistakably conveys love, care and acceptance. Food is our first and most primary connection with the goodness and loving generosity of cosmopolitan life and the fecund earth.

For any person not to have enough to eat when there is more than enough to go around; and for a growing number of other persons becoming obese from too much of the wrong kind of processed food, is a moral tragedy of staggering global proportions with no clear solution in sight. The cause of this double global food crisis is complex because it is tied to other intractable moral issues like global income and wealth inequality.

"You are what you eat" is aptly said. Thus, to reduce food to an economic commodity bought and sold as an investment in the global marketplace which seeks the largest margins in the most lucrative markets; to think of the production of food as an "industry" or a "market" whose robustness is measured in profit and loss rather than as a holistic activity that goes to the core of what it means to be human … this kind of thinking is perhaps already to do damage to the deep personal value of food in human social life and self-consciousness. Food and/or the lack of food is what fits all living things together in the ecological cycle of birth and death, regardless of the trading price of 'food' commodities on the stock market.

Agroecology (the study of ecological processes applied to agricultural production systems) and artisanal farming is a very different approach to farming and the whole idea and meaningfulness of food than the approach of highly mechanized corporate, transnational agribusinesses fueled by the 'Monsanto model'.

In the process of our investigation into the morality of food production and distribution, we will look at one, specific question from among the numerous questions that suggest themselves but which we do not have the time or space to take up here (e.g., corporate animal farming; environmental degradation; labor abuses, child labor, etc.): What I would like to think about is whether the fact that large, multinational agribusinesses driven by higher profit margins rather than

Monsanto (Bayer): the company that owns the world's food supply (13:06)

any higher purpose—agribusinesses engaging in the use of Monsanto produced GMOs and glyphosate pesticides (Roundup) on large, highly mechanized, technologically sophisticated monocrop style farms driven by synthetic chemicals—whether this approach to farming unfairly impacts small, locally owned artisanal farms around the world in both developed and developing nations creating conditions which result in obesity at the well-fed and wealthier end of the scale and malnutrition, deprivation and starvation at the other end.

Artisanal farming or corporate farming: which is the future? Is there any way to resolve the global conflict between small, locally-owned, organic (often, out of necessity), family-oriented and local-job-producing farms in rural areas of poor and emerging nations, and large corporate mega-farms utilizing GMOs and chemical pesticides and fertilizers 'precisely' and extensively incorporating the Monsanto glyphosate model? Which is the best model for the future of humanity?

[240]

It is argued that the GMO/chemical monocropping model of transnational agribusiness inhibits the growth of organic farming which, according to some analyses, is a sufficient model to feed the whole world without resorting to environmentally damaging chemically driven food production via the corporate model. Thus, some researchers, such as David Montgomery in the article below entitled "Healthy soil is the real key to feeding the world," believe that we should aspire to small, organic, locally owned and agroecological type of farms which could feed the world's hungry and provide healthier diets. Others argue that this idea is out of step with the times. It ignores the current mass migration away from rural farm areas to find jobs in the city that have resulted from global outsourcing. Thus, the corporate argument goes, there is a demand to produce more per acre to feed a burgeoning world population amassing in cities worldwide.

Unreported World: Obesity in Paradise – What happened in Samoa? How economic development contributes to the obesity epidemic (24:53)

The article Is Samoa's Obesity Epidemic A Harbinger For Other Developing Nations? which is about the current out-of-control obesity epidemic in Samoa, may be instructive for what is happening globally. When Samoa was a poor, isolated Pacific island nation, the population relied on a healthy diet of locally sourced foods. As Samoa developed economically, more people moved from rural farming areas into cities in order to get work, thus increasing the demand for and reliance upon imported food. But the imported food was higher in sugars, salt, fats, preservatives, and overall was less nutritious and more fattening than the native diet it replaced. The only real payoff was that it was convenient and economically available to the faster paced lifestyle of the emerging economy. Due to this change in diet, Samoa now has the highest obesity and diabetes rates of any country in the world. What is the takeaway from the Samoa story? The commodification of food intensifies yield per acre but ironically leads to a less nutritious diet, especially for the swelling ranks of urban-dwelling poor worldwide.

A good indication of what a country can do when the necessity for organic farming is imposed upon it comes from Cuba. After the collapse of the Soviet Union in the 1990's, Cuba could no longer get parts for farm machinery. Fertilizer and herbicides became unavailable. A famine ensued. Cubans responded by growing their own food using ancient methods of organic crop production. Government support helped. Today, chemically free, organic, artisanal farms in Cuba meet more than 50% of the food demand of the island nation while producing jobs for thousands. What will happen as the U.S. lifts the trade embargo? Will U.S. corporate agricultural interests disrupt the Cuban organic market and create a 'Samoa effect'?

What Cuba can teach America about organic farming (6:15)

The benefits of small, locally owned farms has led numerous states in the U.S. to pass laws restricting the corporate ownership of farms, as happened recently in North Dakota.

But global agribusiness is intertwined with global politics, operating at a level beyond the reach of small, local, independent and self-sufficient family farmers. These folks are often barely able to make ends meet. Lacking governmental support like the corporate farmers, they end up being forced out of business by large agribusinesses that survive on generous government subsidies. Colin Todhunter, in his article below, gives an account of this situation. His evaluation and thoughts about the Cuba model versus the U.S. model are particularly interesting. He argues that organic farming could be a great benefit in the fight against world hunger, especially in the Global South which has almost a billion people who are food challenged. But small, locally owned organic farming, it is claimed, is being forced out by large multinational agribusinesses thriving on government subsidies and driven by the use of GMOs along with chemical fertilizers and pesticides. These agribusinesses are dominating production, processing and distribution of food within the world food market today. But, should they be?

[242]

Joseph Stiglitz, Nobel Prize-winning Economist: Corporate Farming Subsidies are Agribusiness mega welfare (3:18)

Family farmers fight corporations in North Dakota (3:04)

Global hunger and global obesity on the rise
John Tozzi and Jeremy Scott Diamond

The World Is Getting Fatter and No One Knows How to Stop It[31]

Humanity is putting on weight. Across the globe, in wealthy countries and developing nations, among children and adults, an increasing number of people are overweight or obese. Today, nearly 40 percent of the world's adults fall into one of those categories, according to new estimates by a global network of researchers called the NCD Risk Factor Collaboration.

Economic forces are conspiring to cause the great global weight gain. Countries grow wealthier and increase consumption. People move from rural areas to cities, where they have ready access to inexpensive, processed foods. Machines do work that humans once did, decreasing the amount of energy people use. And global trade means the reach of junk food has never been greater. Up against these trends, no country has figured out how to reverse the rise of obesity.

In 2014, there were 114 countries where more than half the adult population was considered overweight, including much of the Americas, Europe, and the Middle East, according to World Health Organization data. In small Pacific Island nations and Persian Gulf states, more than two-thirds of the population is considered overweight or obese, a higher prevalence than in the United States.

Researchers estimate that excess weight caused 3.4 million deaths worldwide in 2010. Being overweight or obese is a risk factor for chronic conditions like cardiovascular disease and diabetes. Those are rising worldwide, too. There were an estimated 422 million adults with diabetes in 2014, a rate of 8.5 percent, compared to 4.7 percent in 1980, according to new estimates published by the World Health Organization April 6.

Diabetes is rising fastest in low- and middle-income countries. It's most common in the region that includes the Middle East and North Africa, where levels of physical inactivity are high.

The number of people who are overweight or obese is going up pretty much everywhere. The world has made progress against health threats from smoking and malnutrition to malaria and waterborne illnesses. No country has yet reversed the obesity epidemic. "Not only is obesity increasing, but no national success stories have been reported in the past 33 years," researchers in the *Lancet* wrote in a 2014 report funded by the Bill & Melinda Gates Foundation.

A United Nations plan published in 2013 calls for halting the rise in diabetes and obesity by 2025. Though the pace of increase has slowed in some places, *Lancet* researchers recently called the chances of the world meeting that target "virtually zero."

So what's causing obesity?

The causes of the worldwide weight gain are complicated, and the story is different from country to country. There are some common trends: Rising incomes, global trade, changing food supplies, and declines in physical activity all contribute.

The world has a lot more food than it once did. For most of history, humans struggled to get enough to eat. Now, in many countries, the food supply is more than sufficient to provide the energy people need. It's difficult to measure how much people actually eat, but estimates of the calories available for consumption show they've steadily climbed over the past half century.

That transformation has unquestionable benefits, with millions of people avoiding starvation and malnutrition. But the increase in obesity, diabetes, and other chronic diseases indicates that too much food —and less healthful food, especially— can have harmful effects on a population as well.

Today, the majority of humanity lives in cities. Work, play, and transit involve less physical activity than they did in an era before computers, televisions, and cars. Globally, almost one-third of adults don't get the recommended level of physical activity, according to research published in 2012.

There may be other factors that we don't fully understand, such as genetics, changes to humans' gut bacteria, or chemicals in the environment that influence our metabolism.

What can be done about obesity?

Increased food availability, growing global wealth, and urbanization are likely to continue. In the United States, obesity plateaued in the first decade of the 21st

[246]

century, and among the youngest children it may be decreasing. To turn the trend around, Mexico began taxing sugary beverages in 2014, with early indicators showing soda sales declining.

With obesity trends intertwined with economic forces, some advocates say that health considerations need to be written into trade and economic policies, like the Trans-Pacific Partnership. The trade deal, currently being considered by 12 nations, including Japan, Australia, Mexico, Canada, and the United States, would lower tariffs on food products like meat, dairy, and sugar, potentially increasing the availability of cheap food.

The trade agreement could also empower corporations to challenge governments' attempts to fight obesity through food labeling laws or subsidies for more nutritious goods.
The course of the obesity epidemic won't rest on the TPP alone. But it might depend on how well countries can balance the health of their people with the global forces shaping their economies.

Agribusiness and Agroecology

COLIN TODHUNTER

Global Agribusiness, Dependency and the Marginalisation of Self-Sufficiency, Organic Farming and Agroecology[32]

Condensed version

Is organic-based farming merely a niche model of agriculture that is not capable of feeding the global population? Or does it have a major role to play?

In addressing these questions, it would be useful to consider a selection of relevant literature to see what it says about the role of organic farming, how this model of agriculture impacts farmers and whether or not it can actually feed the global population.

Organic farming and sustainable livelihoods

In 'The impact of organic farming on food security in a regional and global perspective', Halberg et al (2006) argue that while present food production in theory is sufficient to cover the energy and protein needs of the global population, there are still more than 740 million food insecure people, the majority of whom live in the Global South. The researchers indicate that if a conversion to organic farming of approximately 50% of the agricultural area in the Global South were to be carried out, it would result in increased self-sufficiency and decreased net food import to the region.

Following on from this, in the 2013 book 'Organic Agriculture for Sustainable Livelihioods' by Halberg and Muller, the authors suggest that organic crops tend to provide farmers with a higher net income compared to their conventional counterparts due to lower production costs. The book provides convincing evidence that organic farming has a positive influence on smallholder food security and

---

[32] Todhunter, Colin. "Global Agribusiness, Dependency and the Marginalisation of Self-Sufficiency, Organic Farming and Agroecology." RINF (Real Independent News & Film) March 28, 2016. www.rinf.com
http://rinf.com/alt-news/editorials/global-agribusiness-dependency-marginalisation-self-sufficiency-organic-farming-agroecology/

livelihoods. This is important because smallholder agriculture is key to food production in the Global South, where food insecurity is most prevalent.

Aaron Iverson makes a pertinent point about this book: Halberg and Muller factor into their analyses the economic benefits of organic agriculture over conventional agriculture, which accrue over several years to decades. Iverson says that such analyses on these time scales are rare. Based on extensive research and modelling, the two authors indicate that organic farming promotes crop diversity, improves worker health due to less chemical exposure, increases social and human capital, increases farmland biodiversity, lowers pollution, increases soil fertility and is less financially risky due to lower upfront costs. Among other things, it also sequesters more soil carbon and is less vulnerable to climate change due to improved soil properties.

UN FAO: organic could feed the world

In 2007, the UN FAO (Food and Agriculture Organization) noted that the advantage of organic agriculture is that it relies on fossil-fuel independent and locally-available production assets. Organic models work with natural processes, increase cost-effectiveness and contribute to resilience in the face of climatic stress. The FAO concluded that by managing biodiversity in time (rotations) and space (mixed cropping), organic farmers use their labour and environmental factors to intensify production in a sustainable way and that organic agriculture could break the vicious circle of indebtedness for agricultural inputs, which causes an alarming rate of farmers' suicides.

The FAO recognises that agroecology contributes to improved food self-reliance, the revitalisation of smallholder agriculture and enhanced employment opportunities. It asserts that organic agriculture could produce enough food on a global per capita basis for the current world population but with reduced environmental impact than conventional agriculture.

In a similar vein, although not focusing solely on organic, Jules Pretty et al note that sustainable, resource-conserving agriculture has the potential to significantly increase yields. It also improves nutrition, food security and crop diversity (contrast this with what Daniel Miangi says about the chemical-intensive mono-cropping system and its adverse impact on diet).

UN Special Rapporteur on agroecology and the right to food

Olivier De Schutter, former UN special Rapporteur on the right to food, produced this report in 2011 that was based on an extensive review of recent

scientific literature. He concludes that, by applying agroecological principles to the design of democratically controlled agricultural systems, we can help to put an end to food crises and address climate-change and poverty challenges. He is not the only one who asserts organic farming is better suited to addressing climate-related challenges. This peer-reviewed paper also argues that organic is a "concrete and sustainable option" for adapting to climate change and variability.

De Schutter argues that agroecological approaches could address food needs in critical regions and could double food production in 10 years.

His report focused on regions like Africa and South East Asia and showed an average crop yield increase of 80% in 57 developing countries, with an average increase of 116% for all African projects. Recent projects conducted in 20 African countries demonstrated a doubling of crop yields over a period of 3-10 years. However, De Schutter notes insufficient backing for organic-based farming seriously hinders progress.

And this last point should not be understated. For instance, the success of the green revolution is often touted, but how can we really evaluate it? If alternatives had been invested in to the same extent, if similar powerful and influential interests had invested in organic-based models, would we now not be pointing to the runaway successes of organic-based farming and, importantly, without the massive external costs of a polluted environment, less diverse diets, degraded soils and nutrient deficient food, ill health and so on?

And if green revolution technology and thinking had not been wedded to and fueled and driven by powerful commercial and geopolitical interests, would it not have been employed more judiciously to serve farmers and the public better?

UNCTAD: better incomes and food availability

In 2012, the Deputy Secretary General of the UN Conference on Trade and Development (UNCTAD), Petko Draganov, during the opening of the 2nd African Organic Conference in the Zambian capital, Lusaka, stated:

"Organic agriculture can offer an impressive array of food security, economic, environmental, and health benefits for developing countries, including in Africa."

He went on to state that expanding Africa's shift towards organic farming will have beneficial effects on the continent's nutritional needs, the environment, farmers' incomes, markets and employment.

[250]

According to UNCTAD, organic agriculture can increase farm yields markedly and help farmers receive higher prices for their produce, which sells at a premium. The method also helps create jobs in rural areas.

A meta analysis conducted by UNEP–UNCTAD (2008) assessed 114 cases in Africa. In Kenya, maize yields increased by 71% and bean yields by 158%. Increased diversity in food crops available to farmers resulted in more varied diets and thus improved nutrition. The 114 projects covered 2 million hectares and 1.9 million farmers showing a 116% higher average crop yield on average for all African projects and 128 higher for the projects in East Africa. The UN agencies concluded that organic agriculture can be more conducive to food security in Africa than most conventional production systems and that it is more likely to be sustainable in the long term. These projects increased food availability for local people and gave the farmers involved higher incomes.

IAASTD recommends agroecology

The IAASTD peer-reviewed report, produced by 400 scientists and supported by 60 countries, recommends agroecology to maintain and increase the productivity of global agriculture. It cites the largest study of sustainable agriculture in the Global South, which analysed 286 projects covering 37 million hectares in 57 countries, and found that on average crop yields increased by 79% (the study by Pretty et al, referred to earlier – which includes 'resource conserving' non-organic conventional approaches).

The purpose of listing these reports is to show that there is enough evidence to demonstrate that organic-based approaches are vital for guaranteeing food security, rural development, better nutrition and sustainability, especially in the Global South.

The Cuban model

Aside from the evidence provided above, there are numerous other studies which testify to the efficacy of organic farming: for example, there are reports/studies from the Rodale Institute, Oakland Institute, Women's Collective of Tamil Nadu, Newcastle University, UN Green Economy Initiative and Washington State University. We also need look no further than the results of organic-based farming in Malawi. Organic approaches have also enhanced farmers' livelihoods in India and play a key role in contributing to rural development.

However, if we want to really appreciate what happens when a major widespread shift to organic farming occurs, we need look no further than Cuba.

Cuba is the one country in the world that has made the biggest changes in the shortest time in moving from industrial chemical-intensive agriculture to organic farming.

Miguel Altieri notes that, due to the difficulties Cuba experienced as a result of the fall of the USSR, it moved towards organic and agroecological techniques in the 1990s. Thousands of oxen replaced tractors that could not function due to lack of petroleum and spare parts. Farmers substituted green manures for chemical fertilizers and artisanally produced biopesticides for insecticides.

Altieri states that from 1996 to 2005, per capita food production in Cuba increased by 4.2 percent yearly during a period when production was stagnant across the wider region. In the mid-2000s, the Ministry of Agriculture endorsed the creation of 2,600 new small urban and suburban farms and allowed farming on some three million hectares of unused state lands.

Today Cuba has 383,000 urban farms, covering 50,000 hectares of otherwise unused land and producing more than 1.5 million tons of vegetables. The most productive urban farms yield up to 20 kg of food per square meter, the highest rate in the world, using no synthetic chemicals. Urban farms supply 50 to 70 percent or more of all the fresh vegetables consumed in cities such as Havana and Villa Clara.\

Altieri and his colleague have calculated that if all peasant farms and cooperatives adopted diversified agroecological designs, Cuba would be able to produce enough to feed its population, supply food to the tourist industry and even export some food to help generate foreign currency.

What Cuba has done is a major achievement, as Garry Leech argues:

"The shift to a more ecologically sustainable agricultural production has resulted in healthy organic food being the most convenient and inexpensive food available to Cubans. Because of the US blockade, processed foods are more expensive and not readily available. This reality stands in stark contrast to that in wealthy capitalist nations such as the United States and Canada where heavily-subsidized agri-businesses flood the market with cheap, unhealthy processed foods while organic alternatives are expensive and more difficult to obtain. The consequence in the United States is high levels of obesity, diabetes and heart disease."

Cuba shows what can be done (see how it was done and the dangers it now faces) when the political will exists and what should be done if we are to move away from an unsustainable model of agriculture that creates food insecurity, environmental degradation, bad food and ill health.

The US model

Contrast this with what NAFTA did to Mexico. Driven by an industrial chemical-intensive US model of food processing, retail and agriculture, the outcome has been bad health, the undermining of food security and the devastation of small farmers and businesses.

Processed junk food ridden with toxins and a propped up agribusiness sector with subsidies has become a feature of the US chemical-intensive model of agriculture, which has led to all kinds of health and environmental problems in the US, as highlighted here.

For Olivier De Schutter, a programme that deals effectively with hunger and malnutrition has to focus on Mexico's small farmers and peasants. They constitute a substantial percentage of the country's poor and are the ones that can best supply both rural and urban populations with nutritious foods.

And the writing is on the wall for places like India too as the neoliberal invasion and transnational agribusiness armed with its chemicals (and GMOs) increases its hold over food and agriculture. It is turning out to be disastrous for Indian farmers, the environment and the health of the public (see this too).

In the meantime, supporters of the unhealthy, unsustainable, industrialised petro-chemical model of agriculture wish to continue to rip up indigenous agriculture and recast it accordingly. And they attempt to justify this by stating there is no alternative and that organic-based approaches, including a genuine democratic-participatory movement like agroecology, cannot deliver.

Despite places like Russia, Cuba and Sikkim (India's first fully organic state) are showing the way forward, these supporters would say that, wouldn't they?\

From NAFTA and trade agreements like the Knowledge Initiative on Agriculture (India), TTIP and TPP to the ongoing infiltration of Africa by Bill Gates and 'corporate America', they require business as usual: to offer governments strings-attached loans and ensure export cash-crop monocropping takes hold (see this article from 1999 about India), to make farmers reliant on external inputs, to get them onto a highly profitable but unsustainable GMO/chemical treadmill and to incorporate them into an system of globalisation centred on rigged trade, debt traps and the manipulated international 'free' market.

And all for what? To capture the entire supply chain from seed to plate, to serve the commercial interests of transnational agritech/agribusiness and food retail corporations and to use agriculture as a political tool to create dependency. All of this at the expense of self-sufficiency, sustainable indigenous agriculture and the livelihoods of those involved in traditional food production, processing and retail.

[253]

And all of this too at the expense of regional food security, the environment and a nutritious, healthy and diverse diet.

Colin Todhunter is an extensively published independent writer and former social policy researcher based in the UK and India.

Healthy soil is the most important of all

David R. Montgomery
(Professor of Earth and Space Sciences, University of Washington)

Healthy soil is the real key to feeding the world[33]

One of the biggest modern myths about agriculture is that organic farming is inherently sustainable. It can be, but it isn't necessarily. After all, soil erosion from chemical-free tilled fields undermined the Roman Empire and other ancient societies around the world. Other agricultural myths hinder recognizing the potential to restore degraded soils to feed the world using fewer agrochemicals.

When I embarked on a six-month trip to visit farms around the world to research my forthcoming book, "Growing a Revolution: Bringing Our Soil Back to Life," the innovative farmers I met showed me that regenerative farming practices can restore the world's agricultural soils. In both the developed and developing worlds, these farmers rapidly rebuilt the fertility of their degraded soil, which then allowed them to maintain high yields using far less fertilizer and fewer pesticides.

Their experiences, and the results that I saw on their farms in North and South Dakota, Ohio, Pennsylvania, Ghana and Costa Rica, offer compelling evidence that the key to sustaining highly productive agriculture lies in rebuilding healthy, fertile soil. This journey also led me to question three pillars of conventional wisdom about today's industrialized agrochemical agriculture: that it feeds the world, is a more efficient way to produce food and will be necessary to feed the future.

Myth 1: Large-scale agriculture feeds the world today

According to a recent U.N. Food and Agriculture Organization (FAO) report, family farms produce over three-quarters of the world's food. The FAO also estimates

---

33 Montgomery, David, R. "Healthy soil is the real key to feeding the world." The Conversation April 3, 2017 www.theconversation.com https://theconversation.com/healthy-soil-is-the-real-key-to-feeding-the-world-75364

that almost three-quarters of all farms worldwide are smaller than one hectare – about 2.5 acres, or the size of a typical city block.

Only about 1 percent of Americans are farmers today. Yet most of the world's farmers work the land to feed themselves and their families. So while conventional industrialized agriculture feeds the developed world, most of the world's farmers work small family farms. A 2016 Environmental Working Group report found that almost 90 percent of U.S. agricultural exports went to developed countries with few hungry people.

Of course the world needs commercial agriculture, unless we all want to live on and work our own farms. But are large industrial farms really the best, let alone the only, way forward? This question leads us to a second myth.

Myth 2: Large farms are more efficient

Many high-volume industrial processes exhibit efficiencies at large scale that decrease inputs per unit of production. The more widgets you make, the more efficiently you can make each one. But agriculture is different. A 1989 National Research Council study concluded that "well-managed alternative farming systems nearly always use less synthetic chemical pesticides, fertilizers, and antibiotics per unit of production than conventional farms."

And while mechanization can provide cost and labor efficiencies on large farms, bigger farms do not necessarily produce more food. According to a 1992 agricultural census report, small, diversified farms produce more than twice as much food per acre than large farms do.

Even the World Bank endorses small farms as the way to increase agricultural output in developing nations where food security remains a pressing issue. While large farms excel at producing a lot of a particular crop – like corn or wheat – small diversified farms produce more food and more kinds of food per hectare overall.

Myth 3: Conventional farming is necessary to feed the world

We've all heard proponents of conventional agriculture claim that organic farming is a recipe for global starvation because it produces lower yields. The most extensive yield comparison to date, a 2015 meta-analysis of 115 studies, found that organic production averaged almost 20 percent less than conventionally grown crops, a finding similar to those of prior studies.

But the study went a step further, comparing crop yields on conventional farms to those on organic farms where cover crops were planted and crops were rotated to build soil health. These techniques shrank the yield gap to below 10 percent.

[255]

The authors concluded that the actual gap may be much smaller, as they found "evidence of bias in the meta-dataset toward studies reporting higher conventional yields." In other words, the basis for claims that organic agriculture can't feed the world depend as much on specific farming methods as on the type of farm.

Consider too that about a quarter of all food produced worldwide is never eaten. Each year the United States alone throws out 133 billion pounds of food, more than enough to feed the nearly 50 million Americans who regularly face hunger. So even taken at face value, the oft-cited yield gap between conventional and organic farming is smaller than the amount of food we routinely throw away.

Building healthy soil

Conventional farming practices that degrade soil health undermine humanity's ability to continue feeding everyone over the long run. Regenerative practices like those used on the farms and ranches I visited show that we can readily improve soil fertility on both large farms in the U.S. and on small subsistence farms in the tropics.

I no longer see debates about the future of agriculture as simply conventional versus organic. In my view, we've oversimplified the complexity of the land and underutilized the ingenuity of farmers. I now see adopting farming practices that build soil health as the key to a stable and resilient agriculture. And the farmers I visited had cracked this code, adapting no-till methods, cover cropping and complex rotations to their particular soil, environmental and socioeconomic conditions.

Whether they were organic or still used some fertilizers and pesticides, the farms I visited that adopted this transformational suite of practices all reported harvests that consistently matched or exceeded those from neighboring conventional farms after a short transition period. Another message was as simple as it was clear: Farmers who restored their soil used fewer inputs to produce higher yields, which translated into higher profits.

No matter how one looks at it, we can be certain that agriculture will soon face another revolution. For agriculture today runs on abundant, cheap oil for fuel and to make fertilizer – and our supply of cheap oil will not last forever. There are already enough people on the planet that we have less than a year's supply of food for the global population on hand at any one time. This simple fact has critical implications for society.

So how do we speed the adoption of a more resilient agriculture? Creating demonstration farms would help, as would carrying out system-scale research to evaluate what works best to adapt specific practices to general principles in different settings.

We also need to reframe our agricultural policies and subsidies. It makes no sense to continue incentivizing conventional practices that degrade soil fertility. We must begin supporting and rewarding farmers who adopt regenerative practices.

Once we see through myths of modern agriculture, practices that build soil health become the lens through which to assess strategies for feeding us all over the long haul. Why am I so confident that regenerative farming practices can prove both productive and economical? The farmers I met showed me they already are.

© W Thomas and JC Burrows / SWNS

TOPIC 13
MISSING-IN-ACTION:
GLOBAL EXTRACTION ETHICS

Introduction

T his topic focuses on moral issues arising in the global mining and extraction industry. And, as the PowerPoint that accompanies this topic makes clear, Montana has often been at the heart of mining and extraction issues—and still is. Be sure to check out the PowerPoint.

There are numerous issues that we could focus on. For example, we could investigate the extraction industry from the perspective of the degrading impact of mining on the environment; the lack of regulation; community conflicts where mining occurs; child labor practices; increasing demand and growing scarcity of metals; the sustainability of mining practices, and other moral issues. And while we are carrying out that investigation we must keep in mind that the extraction industry is the veritable backbone of the global economy. Yet, the fundamental importance of mining to the welfare of all must not be a moral free pass for costly

environmental and social externalities produced by extraction. Unfortunately, however, the ethics of mining are 'missing-in-action', according to some observers like Shefa Siegel.

One of the things that Siegel points out in his article "The Missing Ethics of Mining" included with this Topic is that there is little regulatory oversight of the global extraction industry other than questionably effective industry self-regulation. Siegel, a natural resources researcher and writer, shows that various forces have come together to produce a mining and extraction industry that is a moral frontier where the ethics of mining are nowhere to be found.

The general lack of regulatory oversight in the extraction industry allows for abuses such as children working in mines under extremely dangerous and even injurious conditions, including exposure to toxic mercury poisoning, a subject that is the focus of **the excellent documentary video below** on this moral issue, looking at the situation of children mining for gold in West African nations like Mali and Burkina Faso. These children's lives are being stolen from them mercilessly. It is not their fault. They deserve better. It is a heartbreaking experience to see that abuse, to see the adults and the system that promotes it and tolerates it without any understanding of the true cost. But it is something you should see and understand. Being able to see moral issues for what they are, when all others seem blind to them, is, most definitely, to your benefit overall.

As with the other moral issues in a business context that we have investigated in this course, becoming knowledgeable about the mining or agriculture or fashion industries for the sake of this knowledge itself is not the primary goal of this course. I am more interested in your development of moral consciousness, moral awareness, moral sensitivity, personal moral power … developing the ability to see the moral value orientation of whatever situation you are in, and to see how values frequently conflict with one another within ourselves, in relation to others, and between and among groups from one situation to the next.

REQUIRED: Children mining gold in Mali, Africa (16:33)

[259]

The situation that occurred last year (2017) at Standing Rock in North Dakota, for example, (and which is still ongoing although the Trump Admin is doing its best to end it) can and should be understood from a moral value perspective. Of course, it can be viewed from other perspectives as well, such as a legal perspective or a policing perspective or an historical perspective. But you can also look at it as a clash of various moral values espoused by the different groups of stakeholders connected to the Dakota Access Pipeline.

To see a situation from the perspective of moral values does not mean that you will always be able to know the morally correct thing to do or the morally correct resolution of a particular situation where moral values are in conflict. But seeing what is going on and trying to understand it is a good place to start, in business and in life.

More Than Three Years After the Standing Rock Protests, A Judge Ordered the Dakota Access Pipeline to Shut Down

July 6, 2020 - A federal judge ruled the Trump administration violated federal law when it approved the pipeline without doing a full environmental study.

WASHINGTON — A federal judge in Washington on Monday ordered a complete shutdown of the Dakota Access Pipeline after finding the US government violated federal environmental law, a major defeat for the Trump administration and the company that built the pipeline three years after it became operational…. CONTINUE READING THE ARTICLE

Throughout the course, I have tried to introduce numerous moral principles that can help with evaluating the morality of situations, but it is hard to employ these principles if you don't see the moral conflict clearly in the first place. To evaluate the Standing Rock moral conflict from the perspective of Utilitarianism, for example, you would have to look carefully at the consequences of various actions by the various interested parties, both near and far and both now and in the future, who will be harmed and who will benefit.

Thus, thinking through the Standing Rock situation from a Utilitarian moral perspective becomes a difficult, perhaps impossible, task. But this 'impossible task' of moral evaluation, engaging the deployment of moral values in all situations, including in all business transactions, is an endless task; it is a way of life, a dynamic way of perceiving yourself and the world in which you are immersed every day.

Remember, using any moral principles to try to deal with moral conflicts, to make sense of them and to help resolve them, is not an exact science; yet it is an everyday practice, often with life-changing potential. So, thinking through the Standing Rock conflict from the perspective of Virtue Ethics, or Cosmopolitanism, or Existentialism, or Deontology, or any of the other theoretical principles we have studied, while being aware of your moral emotional responses, possible biases, and ideas about the conflict, would be one way of beginning to get some understanding of the moral value orientation of the conflict.

The skill of being able to discern the moral subtleties and nuances of unique situations that you find yourself in requires practice. It requires that you be aware of your own constantly shifting and developing moral value orientation in the context of various situations. You have to get a feel for this moral perspective way of looking at things so that you can add this skill to all your other life skills along your pathway of success. That is how I see the practical goal of the exercises that we have been engaged with in this course this semester.

Here is a place where you can try out your moral skills. The link below leads to an article detailing how powerful mining companies (mostly Canadian) are using international laws to sue local Latin American governments for compensation funds for millions, even billions, against mining claims that have often had zero infrastructure investment. Basically, just a huge rip-off, according to the article. Check it out, see what you think….

Mining Companies Use Excessive Legal Powers to Gamble with Latin American Lives

Here is another article that will sharpen your moral skills. The article was written by Shefa Siegel, an environmental ethics specialist. It is about the lack of ethical regulation in the global mining and extraction industry. Siegel details the life-shattering price paid by indigenous people as a result of mining operations.

Extraction ethics nowhere to be found

Shefa Siegel

The Missing Ethics of Mining[34]

Shefa Seigel

In the middle of the 1980s the pastoralists of Essakane, Burkina Faso, were dying. Drought gripped the drylands of West Africa, crippling peoples' seminomadic livelihoods of millet farming and goat herding. When rain finally returned after three years, the earth had hardened like concrete and water skimmed across the floodplain, barely penetrating the surface. Without arable land the people faced famine—until they discovered gold. Instead of a disaster area, Essakane transformed into a commercial oasis: a mining town of 10,000 miners and traders where gold is processed and exchanged for food, cloth, spices, and animals.

The market becomes frantic before festivals as everyone from fifty square miles converges to tailor new clothes and butcher meat. The town has dirt roads and mud homes, yet despite this lack of infrastructure many elements of modern urbanism are present, including gas stations, auto mechanics, chemicals suppliers, pharmacies, and water distributors. Essakane is the wholesale center for the region, and without its economic influence the area risks reverting to a state of famine.

Not long after becoming a mining town, Essakane became a target for international investors. This dynamic is common. With some exceptions, metals today come from areas that were first discovered and exploited many years ago. The minerals that are easiest to extract have already been exhausted, but mineral production in these areas has been extended through advances in geological and engineering sciences that enable extraction of low-grade ores. And yet, as much as modern mining depends on precise technical expertise, exploration geologists still spend much time trekking in remote areas, learning about the geological formations from local residents, especially miners.

---

[34] Siegel, Shefa. "The Missing Ethics of Mining." *Ethics and International Affairs.* Issue 27.1, February 14, 2013. www.ethicsandinternationalaffairs.org https://www.ethicsandinternationalaffairs.org/2013/the-missing-ethics-of-mining-full-text/

Essakane Gold Mine, Burkina Faso

A few miles outside the town there is a mine so expansive and deep it seems that only machines could have made it. Not so. The crater was dug from lateritic rock entirely by hand. I visited the mine the afternoon before a feast, and it was quiet except for a man in a four-cornered turquoise tunic who was repeatedly pouring the contents of one bucket into another. He was wind-mining. When miners have neither equipment nor chemicals, and do not even have water, they can let the wind work as a separator. Back and forth they pour, again and again, from one bucket to the other, until, if they are lucky, a particle of gold is revealed. Wind-mining is the absolute economic bottom. "My crop failed," the man said grimly, explaining that he had come from far away. "I'm here because I have nothing to feed my family."

Essakane is in northeastern Burkina Faso, which is north of Ghana, east of Mali, and west of Niger. To get there I flew from sleety Paris over the Sahara to the Sahel. For a time there is only an endless horizon of terracotta sand, but as the aircraft descends villages appear—squat huts clustered in circles along dry riverbeds, goats grazing in the dying light. Not two minutes later there are factories, roads, automobiles, and city lights. This is the capital, Ouagadougou. It used to be a joke among American diplomats to say to a fellow Foreign Service Officer who was at risk of being punished for some bureaucratic offense, "Be careful or the undersecretary will send you to Ouagadougou."

People often presume that the lonely prospector with hammer or pan—engaging in what used to be called "practical" and is now called "artisanal" mining—no longer exists. In fact, there has never been a time when more people depended on artisanal mining. We do not know exactly how many of these miners there are: the numbers are always shifting with the seasons and fluctuations in commodities prices, as well as economic failures, wars, and the effects of climate change. Tens of millions is what we suspect, and the number is growing all the time.

The effort to transform Essakane from a town dominated by artisanal mining to one focused on industrial mining failed several times. In 2000 the International Monetary Fund told the Burkinese government it needed to sell off its stake in the mine, undo its monopoly on the gold trade, and open the resources to foreign investment. Soon thereafter, a British company purchased the property. It sold the mine to a Canadian company. The Canadians sold it to South Africans. The South

Africans sold it back to the Canadians. These Canadians sold it, again, to other Canadians.

In 2008, I visited this area as a contractor for an agency of the World Bank. I had recently written a doctoral dissertation about artisanal mining, while working as part of a United Nations environmental research and technical assistance group whose aim was to address mercury pollution. Artisanal miners are the world's largest remaining users of elemental mercury, a potent neurotoxin whose industrial use is declining in every other sector. In the course of our project, however, we also observed two new disturbing trends in mining. First, the number of artisanal miners was spiraling uncontrollably, tripling and quadrupling in lockstep with the steep rise in the price of gold after September 11, 2001. Second, many of the places we were studying were subject to increasingly tense—and frequently violent— land-use conflicts between local artisanal miners and foreign industrial mining companies. Because our remit (and funding) was limited to studying the environmental effects of mercury from artisanal mining, we had no mandate to examine these conflicts. While I had read about coexistence interventions being applied by the World Bank and other international development agencies to these conflict areas, this was my first occasion to experience them directly.

By the time I arrived in Essakane, the Canadian company that owned the mining rights was completing a complicated negotiation with local miners to move the town. When a mining company builds a mine, it puts its camp away from the pit and processing plant. But artisanal miners build directly on top of where they mine. The whole town is permeated by the industry. Residences are next to the operations. Miners bring their bags of ore home with them, crush the rocks by hand (or by machine, if they can afford it), then wash, pan, and amalgamate (with mercury) the crushed ore in a water pit. More often than not, this means they live on top of the gold deposit. Therefore, if you want to build a big industrial mine, the village or town has to be removed.

An industrial mine requires many things to make the business work. It needs top geologists, geochemists, mining engineers, trained labor, expensive machinery, roads, security, and complex chemicals; since most mines are off the grid, it needs a power plant; and above all, it needs enormous volumes of water. The only significant source of water in Essakane is a river that runs for two to three months per year during the rainy season, so the mining company's plan was to dam and divert the river to feed the mine. "What about the people who rely on the river downstream?" I asked the company's in-house sociologist. "That is a question we do not discuss out loud," he answered, chillingly.

I could see that the sociologist was concerned. Access to water is the region's critical issue: there is less than one well for every 500 people. But this was a decision taken above his pay grade. To ask about the mine's water usage was to pose a paradigmatic question, so obvious yet so subversive that if you wished to keep your job you would bite your tongue. I faced the same predicament. Calling into question

the fundamental viability of the mine, its sustainability, was not possible for either of us.

There is no international law governing mining projects. Instead, there are more than a dozen codes, covenants, and standards, all voluntary and self-enforced. These include the International Cyanide Management Code, the Equator Principles, the International Finance Corporation's Performance Standards, the Global Reporting Initiative, the Extractive Industries Transparency Initiative, the Natural Resource Charter, and the United Nations' "Ruggie Principles," to name just a few. Every new framework attempts to trump the preceding ones by defining *the* essential principles of corporate engagement in mining projects. But these different frameworks also reflect an underlying competition among development agencies, scholars, and practitioners. Many of these organizations and individuals are competing for funding from the same small group of donors, and often aim to fund their specific initiatives through membership fees from the companies they are attempting to influence. Across these initiatives, the guiding principle is to promote economic development that benefits everyone involved —foreign companies, host governments, as well as local communities—not to question the underlying economic and ecological value of specific mines. The expansion of mining is accepted as inevitable.

In my case, the assessment I was supposed to write permitted me to comment only on the adequacy of the process for moving the town—"resettlement" as international functionaries call it. As I understood it (I was not an expert in this area), my task was to assess whether the Canadian mining company in Essakane had properly implemented the part of the International Finance Corporation's standards that dealt with resettlement. These standards are heavy with terms like "minimize," "mitigate," and "adequate," as in "minimize involuntary resettlement" or "mitigate adverse impacts." It is a rhetoric of imprecision. There were two other consultants working for a different consulting firm whose job was to move the villagers; they were drowning in paperwork documenting the fairness of the compensation to the residents of Essakane, which nevertheless overlooked a fundamental problem with the development plan. The government owns the subsurface mineral rights, so the miners of Essakane had no formal title. The mineral rights were negotiated directly between the government and the company, and the company was only required to compensate people for what belonged to them above the surface. As a result, the miners would gain new homes, but lose their jobs. **"What will they do without the gold?" I asked the resettlement planners. I was told they would farm instead.**

I went to the villagers to ask them how they would feel about farming. "If we cannot mine, we cannot live," one man said without hesitation. "If there were no more mining, it would be the end of the world."

Area residents had been mining for more than twenty years: none of them knew how to farm.

Their children were also raised as miners, sleeping as infants strapped to their mothers' backs while the women washed gold. By age eight they were crushing stones with metal pestles, and when their bodies matured they worked as diggers, following gold veins down thirty meter shafts.

We sat in a circle in an open-air meeting hall—surrounded by walls but with no roof—a quorum of ten miners and me. Luckily it was the beginning of harmattan, a cooling wind blowing from the desert that lasts for three months and makes nights brisk. A few of the men wore winter coats. It was 30 degrees Celsius, mild compared

to after the harmattan, when temperatures soar over 50 degrees and every shadow becomes a precious refuge. Essakane is still in the Sahel, but the Sahara is only twenty kilometers east. At night when the wind blows, you can smell the desert.

After an hour of discussing the company's plan to relocate the town outside the mining concession and transform the miners into farmers, the men became impatient, fidgeting and peering toward the door. It is no problem for a bureaucrat or consultant to linger in deliberation, but for a miner these missed working hours are pure loss: they are the difference between being able to buy food and going hungry. The miners needed to get back to work. Before leaving, however, a greybeard in the group wanted me to understand something.

"Every day of my life is a war," he said. "If one day I am mining and I find gold, it's okay. If I die, or if my child dies, this is also okay." Then, looking directly at me and extending a pointed finger, he asked: "Can you set me free?" I thought about my visit to the mines the day before, and how the miners rappel into dark, airless spaces to beat the face of a hard rock with a hammer for nine or ten hours before emerging, covered white with ore and coughing clouds of dust. "I don't know how," I responded, rather pathetically.

I don't imagine the miners in Essakane will remember me. Many consultants and experts pass through such mining regions, visiting the areas without ever really experiencing them. Lodging in a company's mining camp is like gated-tourism. There is electricity, potable water, Internet and television, medical care, a gym, and food and drink in abundance. These circumstances are not lost on those outside the fences of the camp, who see how roads, water pipelines, and power plants are built, but are not extended to their villages and towns. They see that mining corporations are able to establish the conditions for modern development in under a year, while they remain trapped in a lifetime of poverty.

THE MISSING ETHICS OF MINING

There is a maddening futility about speaking of "mining," as if it were singular or coherent. It is like talking about "Africa" or addressing the "international community" in the fashion of humanitarians, as if it is all one big thing. Rather, there are many mining industries, and each has its own culture, directives, structure, purpose, and pathologies.

Mining is the material basis for life, making it difficult to exaggerate its significance. George Orwell called it part of the "metabolism" of civilization. Major divisions of history are named in accordance with their dominant mineral products: the Paleolithic and Neolithic Periods; the Copper, Bronze, and Iron Ages. More than ever, humanity relies on minerals to sustain its existence. The growth of population, speed of transportation, proliferation of electronic gadgets and games, and delivery of electricity all depend on the expansion of mining. And yet we are ready to discuss almost any other ethics before the ethics of mining. Some view the concept as a contradiction in terms, others are alarmed that mining continues to exist at all, or simply find the topic supremely boring. We have more faith in our capacity to restrain or end violence and war than to address the ethics of mining. "A man does not

advocate the sun or the moon," wrote Orwell's publisher, Victor Gollancz, in response to Orwell's suggestion in *The Road to Wigan Pier*, his 1937 book about the poverty of coal miners, that the defects of the extractive industries might be irremediable.

Orwell's book is among the last great literary efforts to reckon with the neglected relationship between mining and modern development. Curiously, when the postwar international environmental and development institutions were created, mining got left out. The topic does not figure in Agenda 21, the nonbinding, voluntary UN action plan for sustainable development that has guided environmental negotiations since the Rio conference of 1992. Its chapters on resource conservation include forests, atmosphere, ecosystem diversity, and nuclear waste, but not minerals and mining. The same is true for the earlier global plan from 1987, "Our Common Future," a policy manual intended to unify the international environmental and development agendas. If you follow the chain back to the UN's first global environmental gathering—the 1972 Stockholm Conference on the Human Environment, which led to the creation of the United Nations Environment Programme—the excellent book published to accompany that conference, *Only One Earth*, devotes just a few pages to resource extraction. One has to go back to 1949 and the United Nations Scientific Conference on the Conservation and Utilization of Resources to find minerals and mining included as part of global environmental and development ethics. That conference was divided into four categories: agriculture, forestry, fisheries, and minerals. To lecture on minerals, the United Nations invited *Canada's Deputy Minister of Mines, Hugh Keenleyside*. A historian and lifelong civil servant, Keenleyside's specialization was public administration, not minerals. But having served as Assistant Under-Secretary of State for External Affairs during World War II, he was conscious of how the world wars had depleted global mineral supply.

Prior to World War I, the United States produced 96 percent of the natural resources it consumed, but by the end of World War II, after supporting the allied forces with energy and minerals, it had become a net importer of most essential resources.

"It is significant," Keenleyside said at the outset of his speech, "that in the cases of agriculture, forestry, fisheries, and certain other fields of resources development some progress has been made in the direction of conservation. All these are renewable resources. Yet in the case of minerals, which are not renewable, there has been practically no effort, except in time of war, to interfere with the free play of a market that is interested primarily in profits. This anomaly cannot continue indefinitely."

Keenleyside was a proponent of resource interdependence, which meant careful, internationally coordinated mineral extraction, a system he viewed as essential to

preventing mineral supplies from being wasted again in "the barren struggles of war." But the more resource-dependent the world became in the postwar period, the less we examined the international relations of natural resources. I don't know why mining vanished from environmental and development ethics. Perhaps the idea was that resource extraction would be handled in a different policy sphere, or maybe there was an assumption that managing climate, forests, biodiversity, and other ecological stresses implied an inherent reckoning with the limits of extraction. If this was the case, it certainly has not worked.

There remains no baseline for articulating, much less pursuing, principles of sustainable resource extraction. Instead, there is denial about the dilemma whereby even the technologies that we hope will help lead us toward a sustainable economy demand intensive expansion of extraction. I am thinking particularly of the lithium needed to be mined for batteries in hybrid vehicles, but this is just one example.

While it was once relatively easy to count off the critical minerals and fuels (such as iron, copper, zinc, lead, tin, mercury, or coal), we now depend on at least ninety metals and mineral commodities to power and charge the global economy.P[1]P In the 1980s, Intel needed eleven minerals to manufacture its products; today it requires sixty.

In getting left out, mining also got left behind. One outcome of mining's omission from environmental and development ethics is that as other disciplines and sectors gradually integrated concerns about sustainability into their knowledge communities, mining engineering, mineral economics and processing, geochemistry, and other sub-disciplines associated with mining have remained static. As a result,

there is less experience with the study and practice of sustainable mining than, say, forestry, agronomy, or soil ecology. There is no mining equivalent, for example, of the Yale School of Forestry & Environmental Studies. And while there is much anxiety about the failure to enact the ethics of climate change or environmental health, mining does not even have an ethical roadmap that we do not follow. With climate change there is broad agreement that exceeding a 2 degree Celsius rise in temperature breaks the planet. Pollution experts know to a microgram the tolerable level of exposure to mercury, lead, and arsenic. But what is expected of a mine?

Only in the last decade has vocal public discourse about global resource policy emerged. The effort to build an ethics of sustainable extraction is structured around two principal concepts: transparency and corporate social responsibility. While transparency initiatives concentrate on exposing revenue transactions between the private and public sectors in extractive industry projects, corporate responsibility efforts focus on the improvement of relations between companies and communities. The transparency movement has sparked advocacy and legislative activity in the

United States, United Kingdom, and Canada—the host markets for much of the world's trading of mining shares. Meanwhile, companies are dedicating more staff and resources to ensure the benefits of mine development reach communities in the form of improved services, infrastructure, and education. These twin concepts are intended to transform resource extraction from a winner-takes-all model to one in which all parties benefit.

The problem is that neither corporate responsibility nor transparency speaks to the reconciliation of extraction with ecological limits, or to the fact that we have entered a period of resource scarcity that necessitates nothing short of monopolization to make the business of industrial mining profitable.

This order of magnitude leaves no room for multiple uses of land and resources, especially the smallholder farming and mining economies upon which people depend in mineralized places. Endemic poverty, conflict, and ecological collapse in these regions are rooted in the inequitable allocation of resources. In such cases, win-win solutions are an illusion. Somewhere in the equation, somebody has to give something up.

"THERE ARE HOUSES, AND THERE ARE HOUSES"

No matter where you are in the world, it is hard to witness people losing their land, homes, work, or food. Essakane was not my first encounter with the conflict that occurs when a mining company takes over an area that is already inhabited by artisanal miners. In 2003, I traveled to the interior of Guyana, a country that is 80 percent tropical rainforest. The middle of the country is a savannah that separates the northern and southern forests. Looking out from a mountain top in the southern forest, it is nothing but jungle as far as the eye can see—an ocean of rainforest all the way to Brazil.

In the Marudi mountains I visited a group of artisanal miners whose houses had been burned to the ground by a Canadian exploration company. An exploration company—referred to as a *junior* in the industry—does not generally do much mining. Its role in the mining economy is to evaluate the strength of the deposit— the proven reserves. If it demonstrates that a formation can yield more than 200,000 ounces of gold per year, the assets will likely be sold to a bigger corporation that is better capitalized to front the early costs of assembling the mine before there is any profit. In addition to evaluating reserves, a *junior* needs to show the area is ready for mining. The presence of other miners already working the claim is a serious obstacle.

Many of the artisanal miners had lived and mined in these mountains for more than thirty years. Some were seasonal miners from Amerindian villages in the savannah who came to mine between periods of harvest and hunting. The area had been mined for at least a century, but never industrialized; the interior of Guyana still has few viable roads or bridges to cross the rivers. After their houses were burned, the miners and their families were loaded into a truck at gunpoint and taken off the

mountain. The ones I met had come back a few weeks later, leaving their families in the savannah. They were sleeping in hammocks pitched under tarps. "They used self-loading rifles," a miner told me. He was smoking tobacco rolled in notebook paper. "They even burned our gardens."

The force used to clear the area was in preparation for a mine that did not yet exist. At the time, the company had only a skeletal staff on the site, led by a local Guyanese manager who was from a savannah town. He told me the houses had been destroyed but denied any personal involvement. A few days later he tracked me down in a different village. "I wanted you to know that I did it," he admitted. "It was wrong to burn their houses." But when I met the company's expatriate director in Guyana's capital, Georgetown, he insisted no incident had occurred. Even if it had, he told me, I needed to understand that it was inaccurate to equate thatched-roof dwellings with houses made of concrete and metal. In his words, "There are houses, and there are houses." Later, when I met with the Canadian High Commissioner in charge of the consulate in Georgetown, he tried to persuade me that I had convinced myself that this violence against the miners had occurred. I offered to show him film and photographs from the field, but he said he was out of time and walked me to the door.

Today, it is easier to appreciate that we are in the midst of a worldwide resource boom, but ten years ago there was virtually no media coverage about mineral resource extraction. Environmental and economic development organizations did not concentrate on mining. The topic was not fashionable among scholars, and fewer still followed the explosion of artisanal mining. The boom, not only in gold but in tin, copper, silver, and iron ore, among other minerals, is greater than the rushes of the 1850s and 1890s, and as significant as the production increases of the last century that were needed to support the two world wars. One hardly goes a week now without reading about untapped mineral deposits in the mountains of Afghanistan, child labor in the Congo's coltan mines, or copper extraction in Alaska. Before all this scrutiny, however, it was hard to interpret what was happening, much less comprehend that the connection among these conflicts is the pressure created by crossing a threshold of scarcity.

Guyana and Burkina Faso are hardly isolated instances. It is hard to identify a part of the world where resource extraction is expanding without conflict. There are the more well-known conflicts—for instance, the massacre of striking miners in South Africa in August 2012. But not two weeks before that massacre five people were killed by security forces at an iron mine in Guinea. (The company opening that mine has since withdrawn from Guinea altogether.) Over the last five years some 200 people have been killed in mining clashes in Peru;[2] and militias, paramilitaries, and guerrillas control mineralized parts of the Congo and Colombia, to name just a few hotspots. These conflicts are not only in distant developing countries, however. After years of

exposure to toxic sour gases, people in northern Canada have sabotaged gas wells; and in the United States major protests are occurring over proposed pipelines in Texas and Nebraska.

Mining is an enterprise with no end to problems. As resources dwindle, the costs of extraction increase. This squeeze is especially profound for industrial operations. Miscalculation leads to ruin. If, say, there is more graphite or arsenic in the ore than projected and the chemical treatment process has to be redesigned, or an engineering error causes a wall to collapse, or if there is civil upheaval and conflict in the country in which the mine is located, investors can panic and the whole operation can fail. Corporations that seem invincible can suddenly disappear, if they are unable to bend chaos into order.

Technology and strategy cannot overcome the inevitable depletion of resources, but they can delay it. A hundred years ago mining companies looked for deposits whose percentage of gold per ton of earth—the grade—was at least one ounce. Today the grade is considered exceptional if it exceeds one gram per ton.[3] When the grade is low, the only way to continue mining profitably is to grow. A mine in the first half of the twentieth century might process 10 million tons of ore over a fifty year period. Now mines are processing 10 million tons each year. Today, industrial mines are designed to yield extraordinary returns, measured in both ounces and dollars. But this is only true because the magnitude is so extraordinary,

[273]

and mining corporations are able to collect investment and secure the rights for mines as big as anything humans have ever built.

The magnitude is difficult to illustrate. A mine is not merely a hole in the ground. There are many pits covering a great area, such that it may take two or three days to tour the complex, and even then a visitor would not know all its dimensions. People seeing a mine of this scale often compare it to visiting the Grand Canyon. The first time I visited a tailings pond, where mines store the toxic waste that results from processing ore, I mistook it for a lake. The waste consumed a valley, nearly overflowing its dam. What is often difficult to grasp is that having taken this step there is no going back. A pit filled with toxic compounds does not merely revert to ecological equilibrium, it must be managed forever. A modern industrial mine is

complete inversion: the earth turned upside down. Waste piles form new mountains, open pits become ravines.

The best way to reduce an investor's risk is for a given commodity to be valued as high as possible. Between 2001 and 2005 the price of gold rose from $250 to $700 an ounce. Initially, this ascent was explained by economists as a predictable, if questionable, return to gold as a hedge against global insecurity and post-September 11 fears that the U.S. dollar might collapse. In 2005, I interviewed a commodities analyst in Vancouver, a city that is home to the headquarters of many mining companies. (Canada houses 70 to 80 percent of all the mining companies in the world.) He told me he expected the price to climb over $2,000 an ounce. At the time, this struck me as absurd, but of course that is exactly what happened. Today we are in a bull run that George Soros—a major investor in gold—calls the world's "greatest asset bubble."[4]

For a decade now mining companies have been driving up the price of gold. The force beneath the bubble is the emergence of exchange-traded funds, a mechanism for selling gold as a mass investment by dividing bars into securities that can be traded on major stock exchanges. Until 2001 gold was promoted principally for its use in jewelry. In 2002 the World Gold Council—a consortium of major mining corporations—hired the management consulting firm Bain & Company to review its operations and develop ways to promote gold as an investment. One outcome of this process was the creation of the exchange-traded funds. These funds are now, combined, the world's fifth largest holder of gold, behind only the official reserves of the United States, Germany, Italy, and France. The largest of these funds is held by the World Gold Council. "Our primary mission was to find every button we could push to stimulate demand," James Burton, the Council's former CEO, told Bloomberg Business Week in December 2010. "We also knew that we had launched something that we could not control."[5]

UNANTICIPATED CONSEQUENCES

In July 2012, I had occasion to see what it means to lose control of the gold market. I visited the Ashanti Region in Ghana, an interior province where people are farmer-miners, combining cocoa and oil palm cultivation with seasonal alluvial and shaft mining. Villages are built along rivers and atop deep quartz reefs. The area is part of a goldfield that has been mined for ages, and includes the great Obuasi mine. Extending more than a kilometer underground, it has been mined steadily for over a century.

Ghana has participated in every significant development in gold mining since at least the eighth century, and was known among Arab scholars as the Land of Gold. "It is certain," wrote Roland Oliver and J. D. Fage in 1962, "that the wealth of Ghana, and of its successor empires in western Sudan, stemmed from its control of gold exports to the north and the distribution of salt and other imports in the south."[6] Since the 1890s two kinds of mining—industrial and artisanal—have persisted in parallel, with numerous cycles of decline and resurgence.[7] By law, Ghanaian nationals are permitted to lease twenty-five acre small-scale mining claims,

tiny plots compared to the 200 square-kilometers needed to support an industrial mine. Most small-scale miners cannot afford heavy machinery; their mining is a mix of manual digging and semi-mechanized processing, using small diesel crushers and the outdated but inexpensive technique of mercury amalgamation.

In 2010, Chinese miners arrived in the region and introduced a hybrid model that combined mechanized industrial mining techniques with the mobility of small-scale mining. Under the best conditions industrial mines take years to become operational: one must raise capital, acquire property rights, and construct the mine. A twenty-five acre mine needs none of this preparation. It requires minimal knowledge or capital: an excavator and separator, a lot of diesel fuel and water, and a handful of workers. The risks are low. After clearing the forest and farms, you dig, wash, crush, and separate. If the spot you are exploiting is exhausted or a bust, you move to another claim.

But even with industrial machinery, it would be hard to sustain profit on a single claim for very long before needing to expand the mine; the mining is too superficial and the grade is too low. When the first scientific sampling was conducted in the Ashanti Region in 1885, studies revealed a grade of more than four ounces per ton.[8] Today, the reefs mined at Obuasi average five grams per ton, and the recovery rate from the surfaces mined by the Chinese is lower and less consistent than the reefs. If not for the exceptionally high price of gold, and the ruthless acquisition and consolidation of land, the new hybrid mining by the Chinese could not succeed. "They're cartels," a local land-use expert told me. "They enter the region as goods and services companies, and partner with Ghanaians who front the applications for the claims."

China's ascent as a global mining power has been the big story of resource relations for several years now. What most observers had anticipated, however was a competition between industrial state-owned enterprises and Western corporations, and that the presence of China might embolden host countries to nationalize their resources, knowing they could then turn to the Chinese for a better deal. I don't know of anybody who predicted that a consequence of the rising price of gold would be Chinese miners mechanizing and infiltrating the artisanal mining sector in places such as Ghana.

The villages I visited in Ghana were enduring systematic abuse at the hands of the Chinese. Their farms had been bulldozed and moats dug around them to restrict access. Roads, essential for reaching markets, were flooded by streams re-routed for the mines. In the village of Keniago a man had recently been shot in the thigh while attempting to reach his farm. The villagers retaliated by setting fire to an excavator. The previous day I met a woman in Dunhura who had taken her complaints to the police, but instead found herself arrested. Some expressed hope they could be compensated, or that their farms, which were now lifeless lagoons, would be restored. Others argued it was too late for such remedies. "They are not going to leave," said one man. "We have to defend ourselves. We have to fight."

Outrage was boiling over. In village meetings, men pointed, yelled, and lunged at each other, fighting over who was to blame for permitting entry to the Chinese.

[276]

"They are arguing about the chiefs," Gavin Hilson, an expert on Ghana's mining economy and Chair of Sustainability in Business at the University of Surrey, explained to me. One particularity of local custom is that it is not permitted to speak a bad word about a tribal chief. But land is allocated through the paramount chief, or *Omanhene*, and the hierarchy of sub-chiefs operating under the Ashanti King. "The Chinese could not be there unless they had the support of the chiefs," Hilson said.

It is not hard to understand the outrage I saw intensifying in Ghana. It was not only that people were being terrorized. Their villages are not self-sufficient: there are no fish left in the region's rivers, and farmland is increasingly scarce and infertile. People depend on their cash crops—cocoa and oil palm—to buy nearly all their food from the nearest city, Kumasi. Even the smallest fish, no bigger than a thumb, are purchased this way. Perhaps outrage is not the right word to describe the local reaction; perhaps panic is more accurate. Without farms, how would they eat?

Artificially inflating the price of gold was meant to prolong the lifetime of corporate mining operations, which are confronting diminishing grades and rising costs of energy and materials. Those implementing this strategy did not consider the effect it would have on local communities and the artisanal mining economy, or anticipate the invention of new forms of mining taking advantage of the record price of gold. Whether in Burkina Faso, Guyana, or Ghana, the thread connecting these conflicts is not merely a deficit of transparency or a need for more corporate social responsibility. It is, fundamentally, a problem of scarcity. A sane mining ethic would establish limits on prolonging extraction once the grade reaches an unsustainable level in an area, rather than continuing to expand as if the resource were infinite. Setting these limits would require interfering, as Keenleyside suggested more than sixty years ago, "with the free play of a market that is interested primarily in profits." Such interference, improbable then, is unimaginable now. Instead, the investor bubble driving this gold rush will stubbornly persist, while the ethics of mining remain nowhere to be found.

<u>The Dystopian Lake Filled by the World's Tech Lust</u>

Hidden in an unknown corner of Inner Mongolia is a toxic, nightmarish lake created by our thirst for smartphones, consumer gadgets and green tech, discovers Tim Maughan.

[BBC Future](#) | Tim Maughan

4.2.2015