

ENTREPRENEURIAL ETHICS-TOPICS

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TOPIC 1

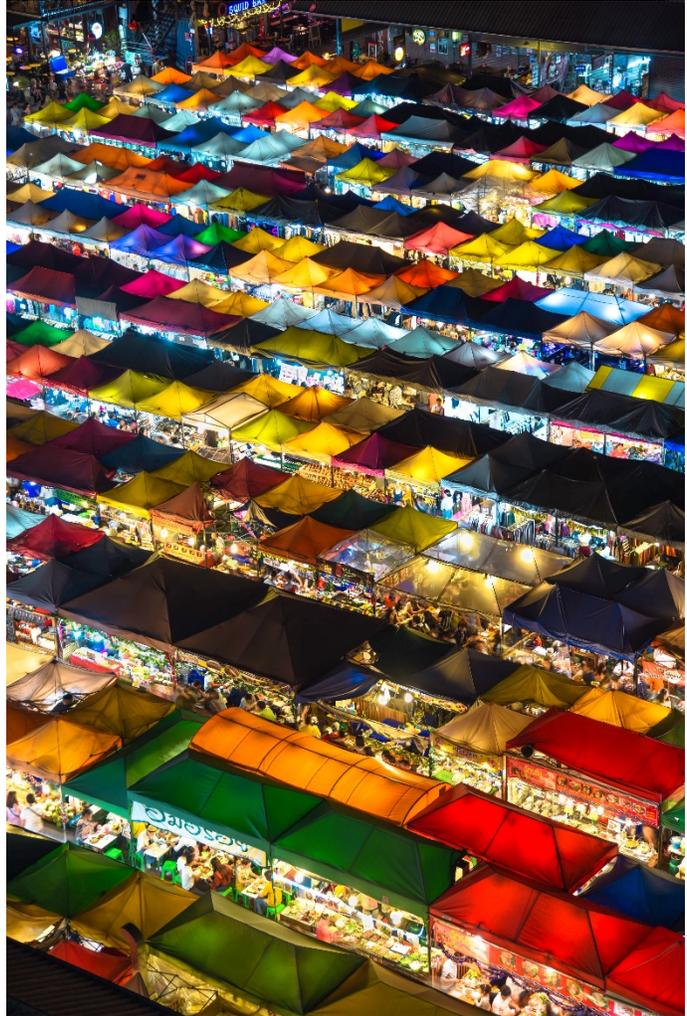
THE MORAL NATURE AND PURPOSE OF BUSINESS

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 as general *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.



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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 valuation 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

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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

Friedman: The Social Responsibility of Business is to Increase its Profits¹



M. Friedman

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 in the New York Times, excerpted below, he presents a neoliberal view of the

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

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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. Business persons 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.

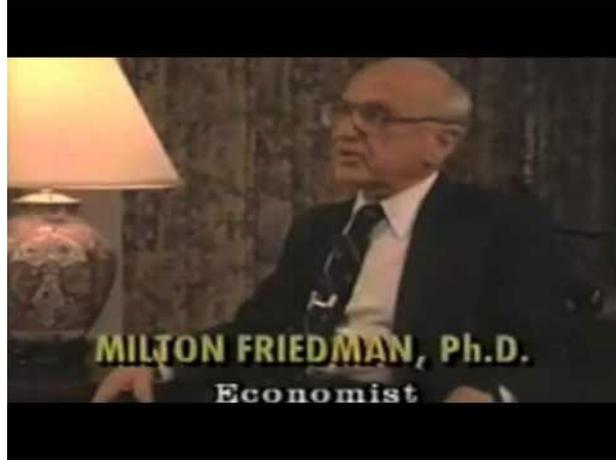


'ETHICAL POLICY'

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.

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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



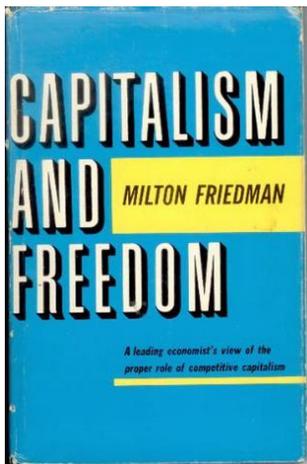
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may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects....

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.

Richard Wolff

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

[CLICK HERE TO WATCH THE VIDEO](#) (7:30)



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.

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Definition: 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.



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Freeman's books describe how a healthy company never loses sight of everyone involved in its success. Stakeholder theory says that if it treats its employees badly, a company will eventually fail. If it forces its projects on communities to detrimental effects, the same would likely happen. "A company can't ignore any of its stakeholders and truly succeed," Freeman said in an interview. "There might be short-term profits, but as stakeholders become dissatisfied, and feel let down, the company cannot survive."

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."

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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

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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

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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: The zombie still walks²



George Monbiot

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.

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,

² Monbiot, George, "Neoliberalism." *The Guardian*, www.theguardian.com 6 February 2017.

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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.

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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



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

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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 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....

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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?

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 placelessness 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.

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

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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 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.





[LIES ABOUT SOCIALISM DEBUNKED \(VIDEO 7:08\)](#)

Socialism

Tony Wilsdon: Capitalism Causes Poverty⁴

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.

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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....

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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.

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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

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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.

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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: the moral nature of business

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.

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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?



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 Monbiot'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 less?