

# Business Ethics Concepts & Cases

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# Chapter Three

## The Business System: Government, Markets, and International Trade

# Economic Systems

- Tradition-Based Societies: rely on traditional communal roles and customs to carry out basic economic tasks.
- Command Economy: economic system based primarily on a government authority making the economic decisions.
- Market Economy: economic system based primarily on private individuals making the main economic decisions.

# “Free” Markets and Trade

- Free Markets = each individual is able to voluntarily exchange goods with others and to decide what will be done with what he or she owns without interference from government.
- Free Trade = citizens may freely trade goods with the citizens of other nations without the interference of tariffs, quotas, or other government limits on the goods citizens may buy from or sell to foreign citizens.

# Locke's State of Nature

- All persons are free and equal.
- Each person owns his body and labor, and whatever he mixes his own labor into.
- People's enjoyment of life, liberty, and property are unsafe and insecure.
- People agree to form a government to protect and preserve their right to life, liberty, and property.

# Criticisms of Locke's View on Rights

- Locke does not demonstrate that individuals have “natural” rights to life, liberty, and property.
- Locke's natural rights are negative rights and he does not show these override conflicting positive rights.
- Locke's rights imply that markets should be free, but free markets can be unjust and can lead to inequalities.
- Locke wrongly assumes human beings are atomistic individuals.

# Free Markets and Utility

- Adam Smith
  - Market competition ensures the pursuit of self-interest in markets and advances the public's welfare.
  - Government interference in markets lowers the public's welfare by creating shortages or surpluses.
  - Private ownership leads to better care and use of resources than common ownership.
- Hayek and von Mises
  - Governments should not interfere in markets because they cannot have enough information to allocate resources as efficiently as free markets.

# Criticisms of Free Markets and Utility

- Rests on unrealistic assumption that there are no monopoly companies.
- Falsely assumes that all costs of manufacturing are paid by manufacturer, which ignores the costs of pollution.
- Falsely assumes human beings are motivated only by a self-interested desire for profit.
- Some government planning and regulation of markets is possible and desirable.

# Keynes' Criticism of Smith

- Smith wrongly assumes demand is always enough to absorb the supply of goods.
  - If households forego spending, demand can be less than supply, leading to cutbacks, unemployment, and economic depression.
  - Government spending can make up for such shortfalls in household spending, so government should intervene in markets.
- Keynes' views were challenged when government spending did not cure high unemployment but created inflation.

# Social Darwinism

- Belief that economic competition produces human progress.
- Views of Herbert Spencer
  - Evolution operates in society when economic competition ensures the fittest survive and the unfit do not, which improves the human race.
  - If government intervenes in the economy to shield people from competition, the unfit survive and the human race declines, so government should not do so.
  - Assumes those who survive in business are “better” people than those who do not.

# Free Trade and Utility

- Advocated by Adam Smith.
  - everyone prospers if nations specialize in making and exporting goods whose production costs for them are lower than for other nations.
- Advocated by David Ricardo.
  - everyone prospers if nations specialize in making and exporting goods whose opportunity costs to them are lower than the opportunity costs other nations incur to make the same goods.

# Criticisms of Free Trade and Utility

- Ignores the easy movement of capital by companies.
- Falsely assumes that a country's production costs are constant.
- Ignores the influence of international rule setters.

# Karl Marx: Criticizing Markets and Free Trade

- Capitalist systems offer only two sources of income.
  - Sale of one's own labor.
  - Ownership of the means of production (i.e. buildings, machinery, land, and raw materials).
- Capitalism and its private property system creates alienation among workers.

# Marx on Alienation

- In capitalism, workers become alienated when they lose control of their own life activities and the ability to fulfill their true human needs.
- Capitalism alienates workers from their own productive work, the products of their work, their relationships with each other, and from themselves.
- Alienation also occurs when the value of everything is seen in terms of its market price.

# Marx and Private Property

- Private ownership of the means of production is the source of the worker's loss of control over work, products, relationships, and self.
- Productive property should serve the needs of all and should not be privately owned, but owned by everyone.

# Marx's Historical Materialism

- The methods a society uses to produce its goods determines how that society organizes its workers.
- The way a society organizes its workers determines its social classes.
- A society's ruling social class controls society's government and ideologies and uses these to advance its own interests and control the working classes.

# Immiseration of Workers

- Combined effects of increased concentration, cyclic crises, rising unemployment, and declining relative compensation.
  - Industrial power is concentrated in the hands of a few who organize workers for mass production.
  - Mass production in the hands of a few leads to surplus which causes economic depression.
  - Factory owners replace workers with machines which creates unemployment; they keep wages low to increase profits.
- The only solution is a revolution that establishes a classless society where everyone owns the means of production.

# Criticism of Marx

- Marx's claims that capitalism is unjust are unprovable.
- Justice requires free markets.
- The benefits of private property and free markets are more important than equality.
- Free markets can encourage community instead of causing alienation.
- Immiseration of workers has not occurred; instead their condition has improved.

# Mixed Economy

- Mixed Economy = an economy that retains a market and private property system but relies heavily on government policies to remedy their deficiencies.