

# Rival Paradigms in Business Ethics

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## 1. Philosophical Roots

There are two competing narratives about modernity: the Lockean (liberty) narrative and the Rousseauan (equality) narrative. These two narratives permeate and largely define the entire spectrum of political and economic debate. It should therefore come as no surprise that disputes in business ethics reflect these narratives.

### Comparison Charts

#### Ontology (What is the basic truth about ourselves?)

	<b>Lockean Liberty</b>	<b>Rousseauan Equality</b>
<b>Persons</b>	Individuals have free will	Society defines (is constitutive of) the individual
<b>Ultimate Goal</b>	Personal autonomy	Social good
<b>Negative Concern</b>	Tyranny	Victimization (exploitation, alienation)
<b>Positive Concern</b>	Liberty	Equality

#### Epistemology (How is the ultimate goal identified?)

<b>Lockean Liberty</b>	<b>Rousseauan Equality</b>
<b>Individualistic</b>	<b>Communitarian</b>
Moral pluralism: each individual creates his/her own substantive good	Individuals fulfill themselves within social institutions
Public practices are not ends in themselves, but instrumental to private good	Every institution and every practice must reflect the larger social good

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### Axiology (Who or what is of ultimate value?)

	<b>Lockean Liberty</b>	<b>Rousseauan Equality</b>
<b>Politics</b>	Civil association; protect individual negative rights	Enterprise association; protect positive rights with democratic socialism
<b>Law</b>	Rule of law	Distributive justice (fairness)
<b>Legislation</b>	Maximize equality of opportunity	Maximize equality of result

### Business Ethics (How ought people relate in the economic realm?)

	<b>Lockean Liberty</b>	<b>Rousseauan Equality</b>
<b>Corporation<sup>1</sup></b>	Nexus of contracting individuals <sup>2</sup>	Social entity <sup>3</sup>

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<sup>1</sup> This dispute is reflected in the literature which focuses on the distinction among the so-called American model of capitalism as opposed to the Rhine (German or European) model of capitalism and the Japanese model of capitalism; see Michael Albert, *Capitalism against Capitalism* (New York: Wiley, 1992). The American model is seen as focused on liberty, whereas the European model is focused on social-democratic equality and the Japanese model provides benevolent authoritarian equality. See Jeremy Rifkin, *The European Dream: How Europe's Vision of the Future Is Quietly Eclipsing the American Dream* (Cambridge, UK, Polity Press, 2005), and Jonathan Macey, *Corporate Governance* (Princeton, NJ: Princeton University Press, 2008), pp. 28-45. For a shockingly out-of-date discussion of Japan, see Norman Bowie, *Business Ethics: A Kantian Perspective* (Oxford: Blackwell, 1999), where one finds talk about how the Japanese and Swedes are so much more productive than the Americans because of their workplace practices and (one assumes) governance practices. For a criticism of the Rhine and Japanese models, see Norman Barry, *Business Ethics* (West Lafayette, IN: Purdue University Press, 1999), pp. 78-84. For a criticism of the Japanese model, see Ian Maitland and Mitsuhiro Umezu, "An Evaluation of Japan's Stakeholder Capitalism," *Journal of Private Enterprise* 21, no. 2 (2006), pp. 131-64.

<sup>2</sup> See Milton Friedman, "The Social Responsibility Is to Increase Profits," *New York Times Magazine* (September 1970), p. 32; Elaine Sternberg, "The Defects of Stakeholder Theory," *Corporate Governance* 5 (1997), pp. 3-10; and David Henderson, *Misguided Virtue* (London: Institute for Economic Affairs, 2001).

<sup>3</sup> See E. Merrick Dodd, Jr., "For Whom Are Corporate Managers Trustees?" *Harvard Law Review* 45 (1932), pp. 1145-60; R. Edward Freeman, *Strategic Management: A Stakeholder Approach*. (New York: Harper Collins, 1984); R. Edward Freeman, "The

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<b>Role of Management</b>	Production of profitable product or service; maximize shareholder value	Distribution trumps production; social good requires multifiduciary duty to stakeholders <sup>4</sup>
<b>Internal Organization</b>	Hierarchy; contractual autonomy; employment at will	Industrial democracy <sup>5</sup>

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Politics of Stakeholder Theory: Some Future Directions,” *Business Ethics Quarterly* 4 (1994), pp. 409-21; Amitai Etzioni, *The Spirit of Community: The Reinvention of American Society* (New York: Touchstone, 1993); Max B. E. Clarkson, “A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance,” *Academy of Management Review* 20 (1995), pp. 92-117; and Robert Kuttner, *Everything for Sale: The Virtues and Limits of Markets* (New York: Knopf, 1997).

<sup>4</sup> In an early version of his position, Freeman advocated the existence of a “metaphysical director” who “has no direct constituency” and “would be responsible for convincing both stakeholders and management that a certain course of action was in the interests of the long-term health of the corporation, especially when that action implies the sacrifice of the interests of all”; see William M. Evan and R. Edward Freeman, “A Stakeholder Theory of the Modern Corporation: Kantian Capitalism,” in *Ethical Theory and Business*, ed. Tom Beauchamp and Norman Bowie, 3<sup>rd</sup> ed. (Upper Saddle River, NJ: Prentice-Hall, 1988), p. 104. This has a direct affinity with George Brenkert’s notion of a Philosopher-King in his *Political Freedom* (London: Routledge, 1991). Rakesh Khurana, in his *From Higher Aims to Hired Hands* (Princeton, NJ: Princeton University Press, 2007), p. 331, mourns what he sees as the eclipse of the notion that business schools trained managers as part of the university’s mission “to preserve, create, and transmit knowledge to advance the public good” in favor of agency theory. Khurana implicitly accepts the Rousseauan narrative (common good) and explicitly rejects the Lockean narrative (maximize shareholder profits). He rightly observes that this has important implications for who gets to teach management.

<sup>5</sup> See Carole Pateman, *Participation and Democratic Theory* (Cambridge: Cambridge University Press, 1970); Denise Rousseau, et al., “Not so Different After All: A Cross-Discipline View of Trust,” *Academy of Management Review* 23 (1998), pp. 393-404; Denise Rousseau and Andrea Rivero, “Democracy: A Way of Organizing in a Knowledge Economy,” *Journal of Management Inquiry* 12, no. 2 (June 2003), pp. 115-34; and Joan Magretta and Nan Stone, *What Management Is: How It Works and Why It’s Everyone’s Business* (New York: Free Press, 2002). (The general theme of the Academy of Management meeting in Seattle in 2003 was “Democracy in a Knowledge Economy.”) James Hoopes gives a broad but critical historical overview of this dispute in the management literature of the twentieth century; see James Hoopes, *False Prophets* (Cambridge, MA: Perseus, 2003). The emphasis on profit and hierarchy are a stand-in for liberty, whereas the advocacy of democracy and the deemphasis on profit are a stand-in for equality.

## 2. Lockean Liberty Narrative<sup>6</sup>

The Lockean liberty narrative is a form of explication. *Explication* presupposes that all social practices function with implicit norms and that to explicate a practice is to make explicit the inherent norms.<sup>7</sup> In explication we try to clarify that which is routinely taken for granted, namely, our ordinary understanding of our practices, in the hope of extracting from our previous practice a set of norms that can be used reflectively to guide future practice. We do not change our ordinary understanding but rather come to know it in a new and better way. A relevant example is the reliance on *stare decisis* and the analysis of prior cases in the Anglo-American legal system. Explication is an intrinsically historical and conservative activity precisely because a practice is an ongoing historical event. To explicate is to explain what we have been doing, specifically what we have been trying to do. Explication, then, sees the present as a development out of the past; explication does not see the present as an imperfect vision of the future.<sup>8</sup>

The Lockean liberty narrative endorses (a) the Technological Project, (b) a free-market system, (c) limited government, (d) the rule of law, and (e) a culture of personal autonomy. It tries to identify the inherent norms of current business practice, and instructs students in how to participate in making the system work and how to be successful by following its norms.

The crucial theoretical argument for the centrality of a free market was made by Adam Smith.<sup>9</sup> Smith emphasizes private property, competition, and the division of labor, all of which contribute to technological innovation. In Locke's version,

God, who has given the world to men in common, has also given them reason to make use of it to the best advantage of life, and

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<sup>6</sup> See Nathan Rosenberg and L. E. Birdzell, Jr., *How the West Grew Rich: The Economic Transformation of the Industrial World* (New York: Basic Books, 1985); and Deepak Lal, *Reviving the Invisible Hand: The Case for Classical Liberalism in the Twenty-First Century* (Princeton, NJ: Princeton University Press, 2006).

<sup>7</sup> Ludwig Wittgenstein, *Philosophical Investigations* (Oxford: Blackwell, 1958).

<sup>8</sup> This is why Marx is not engaged in explication. He is not content to describe the evolution of bourgeois capitalism out of feudalism, but claims to expose the hidden structure of capitalism and to predict the future. We should add that he is wrong.

<sup>9</sup> See Adam Smith, *An Inquiry into The Nature and Causes of the Wealth of Nations* (Oxford: Oxford University Press, 1985 [1776]).

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convenience. . . . [I]t cannot be supposed He meant it should always remain common and uncultivated. He gave it to the use of the Industrious and Rational . . . not to the Fancy or Covetousness of the Quarrelsome and Contentious . . . for it is labor indeed that puts the difference of value on every thing . . . [O]f the products of the earth useful to the life of man nine tenths are the effects of labor.<sup>10</sup>

In order for a free market economy to function it requires a limited government. The government provides the legal context for maintaining law and order and for enforcing contracts. It requires as well that the government which performs this service understands that it should not interfere with the competitive and innovative process of the market. The government exists to protect the *rights of individuals*, who pursue their own individual interests, from interference either by others or by the government itself. It does not exist to further a collective good or to serve the bureaucracy or to serve a particular faction. This is the sense in which the government is limited or subordinate to the requirements of commerce. It exhibits the *rule of law*, characterized by Hayek as procedural norms within which individuals pursue their substantive self-interest, not a collective good.

In order for a government to remain limited and not become either authoritarian-totalitarian or subject to mob-rule or the tyranny of the majority (i.e., democracy), it is necessary that there be a larger supportive culture where the citizens are special kinds of people. They must be autonomous people.<sup>11</sup> *Autonomous individuals* are those who rule themselves, that is, they impose order on their lives through self-discipline in order to achieve goals that they have set for themselves. Autonomous people are inner-directed and therefore capable of participating in the Technological Project in a creative and constructive way. In fact, the ultimate purpose of the Technological Project is not simply to create more resources or wealth but to allow autonomous people to express their freedom. Wealth is a means to achievement and freedom, not an end in itself.

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<sup>10</sup> John Locke, *Second Treatise of Government*, ed. C. B. Macpherson (Indianapolis, IN: Hackett, 1980), ch. 3, paras. 26, 27, 34, and 40.

<sup>11</sup> See Michael Oakeshott, "The Masses in Representative Democracy," in Michael Oakeshott, *Rationalism in Politics and Other Essays*, ed. Timothy Fuller (Indianapolis, IN: Liberty Press, 1991). Also see Michael Oakeshott, "The Rule of Law," in Michael Oakeshott, *On History and Other Essays* (Totowa, NJ: Barnes & Noble, 1983).

### 3. Rousseauan Equality Narrative

The Rousseauan equality narrative is a form of exploration. The primary explanatory model of the physical sciences is exploration. In *exploration* we begin with our ordinary understanding of how things work and then go on to speculate on what might be behind those workings (e.g., molecules, viruses, etc.). In time, we come to change our ordinary understanding. The new understanding does not evolve from or elaborate on the old understanding; rather, it replaces it by appeal to *underlying structures*. The underlying structures are discovered by following out the implications of some hypothetical model about those structures. The social sciences in general and much of contemporary management adopt this perspective. Such social scientists seek to reveal a structural level of reality (e.g., socio-economic classes, subconscious, etc.) of which we are not immediately aware. By further analogy with the physical sciences, once the hidden structure is exposed, we should be in a position to construct a social technology that can resolve the practical problems of the social world in the same way that engineers apply the results of the physical sciences.

Our ordinary understanding is revisable in the light of the clarification of underlying structures. This is what John Rawls calls “reflective equilibrium,” in which our ordinary understanding is to be put into equilibrium with the constructs that reveal and explain the structural level.<sup>12</sup> Exploration then comes with a built-in critical capacity: it can both legitimate and delegitimize specific elements of our ordinary understanding.

There are several serious flaws in exploration within the social sciences. To begin with, the alleged hidden structures are never isolable and confirmable.<sup>13</sup> There is nothing in the social world that corresponds to an atom or molecule, or even a virus. In the absence of confirmable structures, there are competing explorations none of which can empirically be confirmed. Denied formal criteria or extra-systematic criteria for evaluating their own hypotheses, theorists can only fall back upon aesthetic and/or informal criteria. Often, these criteria mask a hidden or not-so-hidden private political agenda.

The Rousseauan equality narrative (a) disapproves in whole or in part of the free market system, (b) identifies what *ought* to be the norms of business practice, and (c) instructs students on how to transform or modify

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<sup>12</sup> See John Rawls, *A Theory of Justice* (Cambridge, MA: Harvard University Press, 1971), sec. 9.

<sup>13</sup> See Friedrich A. Hayek, *The Counter-Revolution of Science: Studies on the Abuse of Reason* (Indianapolis, IN: Liberty Press, 1980).

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present business practice.<sup>14</sup>

In *Discourse on the Arts and Sciences*, Rousseau criticizes what we have called the Technological Project.<sup>15</sup> Instead of satisfying genuine human needs, the arts and sciences are expressions of pride (promoting invidious self-comparison), and they have led to luxury as well as the loss of human liberty. In his *Discourse on the Origins of Inequality*, Rousseau offers a hypothetical, historical reconstruction in which the division of labor is blamed for economic inequality; the result is a (Lockean) social contract in which the rich and powerful coerce the less fortunate into institutionalizing inequality.<sup>16</sup> Rousseau's own social contract is meant to displace this unhealthy hierarchy and inequality.

Rousseau's critique of modern society was adapted and broadened in the nineteenth century (e.g., by Robert Owen, Charles Fourier, Pierre-Joseph Proudhon, Louis Blanc, Saint-Simon, Marx, etc.), mainly by writers we now identify generically as socialist.<sup>17</sup> These writers, unlike Rousseau, embrace technology, but criticize the poverty and inequality which they alleged were consequences of the Industrial Revolution. They advocate the abolition of private property, which they assert unfairly concentrates power and wealth among a few, exacerbates inequality, and does not provide equal opportunities for everyone. They seek "more equal" opportunity, a "fairer" and more

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<sup>14</sup> Rousseau and Rivero claim: "As a professional and scientific community, we also have a public role to play . . . [in] active monitoring of the practices and trends in contemporary organizations with respect to how they promote or impede democratic practice"; see Rousseau and Rivero, "Democracy: A Way of Organizing in a Knowledge Economy," p. 127.

<sup>15</sup> See Jean-Jacques Rousseau, *Discourse on the Arts and Sciences* (London: J. M. Dent & Sons, 1919 [1750]).

<sup>16</sup> This is the origin of all victimization hypotheses; see Jean-Jacques Rousseau, *Discourse on the Origin of Inequality*, trans. Donald Cress (Indianapolis, IN: Hackett, [1754]).

<sup>17</sup> The disastrous and inhumane consequences and failures of orthodox Marxism (centralized and planned or command economies as well as one-party dictatorial political rule) would be rejected by those we here identify as socialist.

Ian Buruma and Avishai Margalit maintain that non-Westerners who criticize what we call the Lockean narrative invariably borrow from Western writers who reflect what we call the Rousseauan narrative: "[A]s usual the West was fought with ideas that originated in Europe," and "One of the traditional attractions of Islam was its egalitarian promise"; see Ian Buruma and Avishai M. Margalit, *Occidentalism* (New York: Penguin, 2004), pp. 145 and 117, respectively.

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egalitarian distribution of wealth, and the reorganization of society into smaller communities.

In *The Roots of Romanticism*, Isaiah Berlin identifies the romantic dimension of this narrative: “[Romanticism] introduces for the first time . . . a crucial note in the history of human thought, namely that ideals, ends, objectives are not to be discovered by intuition, by scientific means, by reading sacred texts, by listening to experts or to authoritative persons; that ideals are not to be discovered at all, they are to be invented.”<sup>18</sup> He notes, further, that the fundamental basis of romanticism is “will,”

the fact that there is no structure to things, that you can mould things as you will—they come into being only as a result of your molding activity—and therefore opposition to any view which tried to represent reality as having some kind of form which could be studied, written down, learnt, communicated to others, and in other respects treated in a scientific manner.<sup>19</sup>

The allowance of market forces and the external, independent exercise of choice is a failure of imagination and creativity on the part of political, economic, and cultural leaders.<sup>20</sup> Again, as Berlin writes,

there is even such a thing as romantic economics . . . where the purpose of economics, the purpose of money and trade, is the spiritual self-perfection of man, and does not obey the so-called unbreakable laws of economics. . . . Romantic economics is the precise opposite of [laissez-faire economics]. All economic institutions must be bent toward some kind of ideal of living together in a spiritually progressive manner.<sup>21</sup>

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<sup>18</sup> Isaiah Berlin, *The Roots of Romanticism* (Princeton, NJ: Princeton University Press, 1999), p. 87.

<sup>19</sup> *Ibid.*, p. 127.

<sup>20</sup> Romantic “molding,” I take it, differs from the autonomous exercise of human freedom because it applies to a social whole, it assumes that there cannot be unintended consequences (for which one would have to accept responsibility), and it assumes that there will be no unintended consequences because all will choose or acquiesce in the same choice.

<sup>21</sup> Berlin, “The Roots of Romanticism,” p. 126.



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The most important and influential contemporary philosophical work in the Rousseauan equality-narrative tradition is John Rawls's *A Theory of Justice*.<sup>22</sup> To begin with, Rawls provides an exploration,<sup>23</sup> not an explication. He presents a *theory about* justice. What this means is that instead of explicating what we commonly mean, Rawls takes our commonsense intuitions about justice as a springboard for exploring the hidden structure behind our ordinary preconceptions with the hope of modifying our preconceptions in the light of that exploration. Consequently, our commonsense intuitions will be "on trial" with the hidden structures revealed by exploration as the standard by which they will be judged. What Rawls describes as the method of reflective equilibrium is precisely what we have identified as exploration. It is as well an exploration in the form of a social contract (ahistorical and contextless); it has a counterpart to the state of nature

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<sup>22</sup> Victimization is present in Rawls in the form of the claim that we are all products of the genetic lottery and early environmental influences like the family. Moreover, none of us deserves our good fortune. Rawls's position was originally articulated in 1958; see John Rawls, "Justice as Fairness," *Philosophical Review* 67, no. 2 (April 1958), pp. 164-94. See also, John Rawls, *Political Liberalism* (New York: Columbia University Press, 1993). In the eighth edition of their text *Ethical Theory and Business*, the editors attach the following title to their selection from Rawls: "An Egalitarian Theory of Justice"; see Tom Beauchamp, Norman Bowie, and Denis Arnold, eds., *Ethical Theory and Business*, 8<sup>th</sup> ed. (Upper Saddle River, NJ: Pearson, Prentice-Hall, 2009), p. 674.

David Hume long ago demolished the notion of "fairness" by arguing that (1) there is no agreement on what the term means (this is an advantage if all one wants to do is to complain); (2) any division or redistribution of property based on "desert" will fail to attain a consensus (i.e., the same problem with defining "fairness"); (3) any redistribution based upon who will make the best use of the property is incalculable (anticipating Hayek); (4) in a world of equal assets, subsequent trade and economic activity will lead to inequality; and (5) any attempt to maintain the initial equality would require a comprehensive despotism (something which I shall argue below is welcomed by some intellectuals). See David Hume, *Enquiry Concerning the Principles of Morals*, ed. P. H. Nidditch (Oxford: Oxford University Press, 2005 [1777]), sec. III, part 2, esp. p. 194.

<sup>23</sup> There is no way of confirming an exploratory hypothesis or choosing among alternative explorations. Calling an exploration Kantian merely acknowledges the lack of both empirical foundations and confirmation. Explorations always maintain that they begin with our ordinary understanding and then go beyond it. We would suggest, contrary to Rawls, that the concept of justice as ordinarily understood is backward looking, whereas Rawls changes its meaning by equating it with future equality of outcome. Whatever the merits of the case for equality of outcome, it appears in this context to be an external value surreptitiously introduced as if it were both the logical and future historical outcome of the present meaning.

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in the form of a hypothetical state of affairs known as the “original position.”<sup>24</sup> As Rawls puts it, we must “leave questions of meaning and definition aside . . . to get on with the task of developing a substantive theory of justice.”<sup>25</sup> In the hypothetical original position individuals are said to choose principles of justice “behind a veil of ignorance.” This means that choices are to be made with no knowledge of “[one’s] place in society, his class position or social status; nor does he know his fortune in the distribution of natural assets and abilities, his intelligence and strength,” and not even one’s sex.<sup>26</sup>

The egalitarianism in Rawls comes out in a number of ways. First, justice is tied to equality: “the principles that free and rational persons concerned to further their interest would accept in an initial position of *equality* as defining the fundamental terms of their association.”<sup>27</sup>

Second, his insistence on pure procedural justice is designed to nullify the effects of specific contingencies that put men at odds and tempt them to exploit social and natural circumstances to their own advantage. Specifically, Rawls maintains that “everyone’s well being is dependent upon a scheme of cooperation without which no one could have a satisfactory life.”<sup>28</sup> This is a form of enterprise association.

Third, he insists not only that citizens have freedom, but that they have sufficient all-purpose means to make effective use of their freedoms. He specifically rejects “excessive” inequalities of wealth and power. That is why Rawls claims that Robert Nozick’s libertarian conception of justice in *Anarchy, State, and Utopia* is not a liberal conception of justice. According to Rawls, libertarianism does not assure all citizens sufficient means to make full and effective use of their basic liberties.<sup>29</sup>

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<sup>24</sup> “In morality as in everything else, the Rationalist aims to begin by getting rid of inherited nescience and then to fill the blank nothingness of an open mind with the items of certain knowledge which he abstracts from his personal experience, and which he believes to be approved by the common ‘reason’ of mankind”; see Oakeshott, *Rationalism in Politics*, p. 40.

<sup>25</sup> Rawls, *A Theory of Justice*, p. 579.

<sup>26</sup> *Ibid.*, p. 137.

<sup>27</sup> *Ibid.*, p. 10 (italics mine).

<sup>28</sup> *Ibid.*, p. 151; see also, pp. 522, 527, and 570-77.

<sup>29</sup> See Rawls, *Political Liberalism*, pp. 262-65.

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Fourth, Rawls's positive distributive thesis is equality-based reciprocity. All social goods are to be distributed equally, unless an unequal distribution would be to everyone's advantage. The guiding idea is that since citizens are fundamentally equal, reasoning about justice should begin from a presumption that cooperatively produced goods should be equally divided. Justice then requires that any inequalities must benefit all citizens, and particularly must benefit those who will have the least. Equality sets the baseline; from there, any inequalities must improve everyone's situation, and especially the situation of the worst-off. These strong requirements of equality and reciprocal advantage are hallmarks of Rawls's theory of justice. "[S]ocial and economic inequalities" are to be to the greatest benefit of the "least advantaged," also called the "difference principle."<sup>30</sup> The difference principle is a response to socialist concerns about equality. It is a way of arguing that given the original position, we understand how self-interest is tied to the interest of others.

Finally, Rawls maintains both that liberty is a prior principle and that fair opportunity is prior to the notion that inequalities are or must be to the advantage of those less fortunate. With regard to the primacy of liberty, Rawls offers no argument or proof. Nor does he prove that adopting liberty advances the collective interest. Rawls does not specify which liberties are basic or how conflicts among liberties are to be resolved. A similar kind of criticism can be made of the difference principle, a principle which is not clearly deducible from the original position without some implicit assumptions about human nature, specifically the assumption that everyone's well-being depends upon everyone else's well-being. In addition, the discussion of the "maximin rule" does not differentiate between relative and absolute disadvantages (e.g., basic versus minimal needs). This leads to the suspicion that, for Rawls, the main concern is with how each views oneself relative to others. This suspicion is borne out by Rawls's contention that "the most important primary good is self-respect,"<sup>31</sup> coupled with the view that self-respect depends upon how we see ourselves through the eyes of others.<sup>32</sup> We are back to Rousseau.

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<sup>30</sup> Rawls, *A Theory of Justice*, p. 75.

<sup>31</sup> *Ibid.*, p. 440.

<sup>32</sup> This is the polar opposite conception of self-respect from what one would find if the autonomous moral agent were taken seriously.

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The influence of Rawls (and therefore of Rousseau) on business ethics can be seen in the work of Thomas Donaldson.<sup>33</sup> By means of a hypothetical contract,<sup>34</sup> Donaldson postulates that corporations assume moral obligations to employees, consumers, and society as a whole. Corporations thereby assume social responsibilities beyond the creation of wealth and jobs. Going even further than Donaldson is Christopher McMahon, in his influential book *Authority and Democracy*. McMahon advocates co-determination, that is, “legally stipulating that boards of directors be composed in equal parts of representatives of employees and investors.”<sup>35</sup> Here we have a political agenda: If the majority of voters vote for candidates (executive and legislative branches) who favor these policies, then laws will be passed and regulatory agencies such as the Securities Exchange Commission (SEC) will enforce such laws, requiring board composition to be “democratic.”

Beyond the common moral critique, these authors disagree on exactly how to transform the present system and what the precise structure of the alternative will look like. What identifies someone as a proponent of this Rousseauan narrative is (a) the sense of being in an adversarial relation (of varying degrees) to whatever they take the present system to be,<sup>36</sup> (b) a moral

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<sup>33</sup> See Thomas Donaldson, *Corporations and Morality* (Upper Saddle River, NJ: Prentice-Hall, 1982), ch. 3; Thomas Donaldson, *The Ethics of International Business* (New York: Oxford University Press, 1989), pp. 47-61; Thomas Donaldson, *The Ethics of International Business* (New York: Oxford University Press, 1989); Thomas Donaldson and Thomas W. Dunfee, “Towards a Unified Conception of Business Ethics: Integrative Social Contracts Theory,” *Academy of Management Review* 19 (1994), pp. 252-84; and Thomas Donaldson and Thomas W. Dunfee, *Ties that Bind: A Social Contracts Approach to Business Ethics* (Cambridge, MA: Harvard Business School Press, 1999).

<sup>34</sup> In the Lockean narrative, all contractual negotiation begins from the status quo, and no deal is an acceptable one unless all or some parties are helped and no party is hurt (i.e., it is Pareto-efficient). The Lockean narrative is focused on future growth, not redistribution.

<sup>35</sup> Christopher McMahon, *Authority and Democracy* (Princeton, NJ: Princeton University Press, 1994), p. 282.

<sup>36</sup> This is reflected in Edward Said, “Speaking Truth to Power,” in Edward Said, *Representations of the Intellectual* (New York: Vintage, 1996). In the field of business ethics, we are given an ethics “for,” not an ethics “of.” The narrative is always reformist; if there is nothing to reform, then there is nothing to say.

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critique in which it is necessary to identify the “bad guys”<sup>37</sup> and the “victims,” (c) the advocacy of restructuring, and (d) the failure to provide an explicit account of how the new structure will function. They are voices of grievance (and hope) without an explicit plan.

The hidden-structure hypothesis can never stray very far from the understanding of some practice or practices in which we are consensually engaged. In the end, the hidden-structure hypothesis is always an attempt to model one practice (the *disputed practice*) in terms of another (the *consensual practice*). The only question is whether the consensual practice (assuming it has been properly understood) is an appropriate and relevant model for the disputed practice. An example of this in the business ethics/corporate social responsibility (CSR) literature is taking big-corporate, organizational issues to be central and practice-of-commerce issues to be peripheral. Thus, managing people in organizations takes center stage and marketplace interactions between buyers and sellers are treated as peripheral phenomena of “business.” The point is that this focus isn’t (and indeed, can’t be) derived in a value-free way.

### 4. Democracy

Recent discussions in the management literature about democracy reflect the foregoing differences in outlook. The term “democracy” has taken on a wide variety of meanings depending upon what favored or disfavored political, social, economic, cultural, or any other feature the user has in mind.<sup>38</sup> For our purposes there are two different conceptions of democracy.

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<sup>37</sup> The original “bad guys” were the large feudal landowners; this evolved into the multinational corporation. More specifically, with regard to the U.S., the original bad guys were “WASPS,” but later white males.

<sup>38</sup> Democracy may simply mean in the minds of its proponents that there should be an institutionalized widespread use of discussion and consultation among all segments of the organization (Habermasian democracy). This can range all the way from anonymous suggestion boxes (constructive or complaint and denunciation) to consultation with interested parties to periodic and publicized evaluations of all members of the staff either by co-workers, supervisors, or the supervised. Keep in mind, however, that the precise form of this consultation is itself not determined democratically but by those in hierarchical authority. Parents may consult their children but still run the family as a benevolent despotism. In today’s organizations, this is a widespread and accepted practice whose benefits are hardly ever challenged. It is also unclear why calling this democratic means anything. This is especially important in economies influenced by the Technological Project where autonomous individuals both need to know and wish to know in order to obtain maximum efficiency. In this important respect advocates of Taylorism were mistaken about the requirements of the Technological Project. From the point of view of practice this

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First, there is a Lockean version of democracy, which we shall call democracy<sub>1</sub>. In what follows we shall use democracy<sub>1</sub> in the generic sense to mean majority rule; democracy<sub>1</sub> will mean majority rule as it functions within the context of a republic. The purpose of democracy<sub>1</sub> in the political realm is *negative*: checks and balances (competition). Democratic procedure is not a way of arriving at unanimity but a way of blocking any overall purpose from dominating. It actually models government so as to reflect certain aspects of a market economy rather than the other way around. Democracy, therefore, cannot be used to achieve efficiency and coordination. This is precisely the understanding of James Madison in *Federalist* #10, and it is borne out in the political practice of the U.S.<sup>39</sup>

More importantly, the United States, as a primary example, is not a democracy. Jeffrey Kerr argues well that political democracy is not an appropriate or useful model for organizational democracy.<sup>40</sup> My thesis is much stronger: Political democracy neither characterizes the political system of the U.S. nor would it permit the proper functioning of a free-market economy.

There is thus, in an important sense, a total misunderstanding (or rejection) of the relationship that currently holds between the economic, political, legal, and social institutions in the U.S. In short, the democratization thesis in the management literature is not an attempt to explicate current practice but to replace it with something else.

In Rousseauan exploration we must identify a different conception of democracy, which we shall call democracy<sub>2</sub>. This conception of government harks back in part to the classical Greek ideal of the polis according to which a citizen is one who participates in public deliberation about public policy.<sup>41</sup> It is the ancient, not the modern, conception of freedom. According to

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version of democratization is both noncontroversial and relatively innocuous. There is also such a thing as shareholder democracy. Shareholders do, usually, vote, and a majority, usually, carries the day. But it is not “one shareholder, one vote”; it is “one share, one vote.”

<sup>39</sup> See Alexander Hamilton, John Jay, and James Madison, *The Federalist Papers* (New York: Signet, 2003 [1787]).

<sup>40</sup> See Jeffrey Kerr, “The Limits of Organizational Democracy,” *Academy of Management Executive* 18, no. 3 (2004), pp. 81-95.

<sup>41</sup> “[D]emocracy is the power of the people and is manifest in ways . . . that promote participation in and influence over the decisions affecting their everyday lives”; see Rousseau and Rivero, “Democracy: A Way of Organizing in a Knowledge Economy,” p. 116.

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Benjamin Constant, what differentiates the liberty of the moderns from that of the ancients is that among the ancients, liberty consisted in

exercising collectively, but directly, several parts of the complete sovereignty; in deliberating, in the public square, over war and peace; in forming alliances with foreign governments; in voting laws, in pronouncing judgments; in examining accounts, the acts, the stewardship of magistrates; in calling them to appear in front of the assembled people, in accusing, condemning or absolving them. But if this is what the ancients called liberty, they admitted as compatible with this collective freedom the complete subjugation of the individual to the authority of the community. . . . No importance was given to individual independence, neither in relation to opinions, nor to labour . . . . [A]mong the ancients the individual, almost always sovereign in public affairs, was a slave in his private relations.<sup>42</sup>

The political and philosophical left in general has, following Rousseau, sought to revitalize the ancient or classical conception of community within the modern context. The firm has become the new locus of democratic community understood in the classical sense:

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<sup>42</sup> Benjamin Constant, *Political Writings*, ed. Biancamaria Fontana (Cambridge: Cambridge University Press, 1988), p. 311. The latest movement on the part of unions to make all voting on whether to have a union public and to do away with the secret ballot is an ominous indication of what Constant was talking about.

According to John Stuart Mill, the ancient view was resuscitated in the early nineteenth century, and it viewed government as the formulator of the common good as determined democratically (which is a version of the general will). Under the influence of Thomas Macaulay, Mill had already criticized his own father, James Mill, and Jeremy Bentham as proponents of this position. What does this position assume? (1) All people are basically the same in their needs, and it is possible to achieve homeostasis both within the individual and within groups of individuals. (2) The human need to be in agreement (homeostasis) with others takes precedence over all other needs. (3) Dysfunctional behavior on the part of individuals or systemic bureaucratic dysfunction is the result of wrong information or asymmetric information. (4) Information symmetry solves every problem and open (i.e., “democratic”) discussion leads to symmetry. (5) Good management = open-ended therapy sessions, the result of which will be to get everyone on board if done properly. (6) If propositions (1) through (5) are true, then the larger social system has a collective common purpose with which corporate purpose links. (7) In the end, there will be only one firm or one world government with many delegated subunits (i.e., democratic socialism).

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In some ways, it may be easier to promote democratic practices in firms than in societies. Organization members tend to have consensus regarding task and mission. Firms have greater socialization capabilities via control over the selection, training, and attrition of their members. Particularly when they are small in size, firms and work groups can often more readily establish familiarity and trust. Last, members' interests and concerns may be easier to comprehend in the more focused environment of work. In contrast, societies are often large, complex and, with urbanization, can become depersonalized.<sup>43</sup>

The foregoing account underscores the disconnection with democracy<sub>1</sub>.

Amartya Sen argues that a critical aspect of democracy is that it gives people a voice in the rules that affect them.<sup>44</sup> And it reflects a salient characteristic of what constitutes democracy that may, in fact, provide better information for a company. Is this problematic? The answer depends on what is meant by "having a voice." Does this mean mere (benign) consultation or does it mean a (malignant) seat on the board or veto power?<sup>45</sup>

Important to democracy<sub>2</sub> is its conceptual link to equality.<sup>46</sup> The origin of this link to equality lies in Rousseau's insistence in the *Social Contract* that the procedure of democracy itself must be ratified unanimously,

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<sup>43</sup> Rousseau and Rivero, "Democracy: A Way of Organizing in a Knowledge Economy," p. 119.

<sup>44</sup> See Amartya K. Sen, "The Impossibility of a Paretian Liberal," *The Journal of Political Economy* 78 (1970), pp. 152-57.

<sup>45</sup> Evan and Freeman suggest a "board of Directors comprised of representatives of five stakeholder groups, including employees, customers, suppliers, stockholders, and members of the local community. . . . Whether or not each representative has an equal voting right is a matter that can be decided by experimentation"; see Evan and Freeman, "A Stakeholder Theory of the Modern Corporation: Kantian Capitalism," p. 104.

<sup>46</sup> Tom Christiano explicitly links democracy to equality by calling it "a method of group decision making characterized by a kind of equality among the participants at an essential stage of the collective decision making. . . . [T]he equality . . . may be more or less deep. It may be the mere formal equality of one-person one-vote in an election for representatives to an assembly where there is competition among candidates for the position. Or it may be more robust, including equality in the processes of deliberation and coalition building"; Tom Christiano, "Democracy," *Stanford Encyclopedia of Philosophy*, accessed online at: <http://plato.stanford.edu/entries/democracy/>.



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that is, everyone has an equal say in decision-making. Peter Singer and Jeremy Waldron both connect democracy to equality.<sup>47</sup>

The advocates of democracy<sub>2</sub> are at odds with Lockean big-picture explication and the centrality of autonomy. What we have here are two competing world views. We have identified one as Lockean-libertarian, based on an explication of current practice,<sup>48</sup> and the other as Rousseauan-communitarian, based on an exploratory account of what institutional practice “should be,” itself based upon a different set of assumptions about fundamental truths.<sup>49</sup>

With regard to the Rousseauan-Communitarian approach, R. Edward Freeman suggests expanding the community to those outside the firm, including such external stakeholders as “customers, suppliers, local community leaders, labor unions, and special interest groups.”<sup>50</sup> In Freeman’s universe, everyone is on the inside. Four observations are worth noting here. First, Freeman’s position is evidence of the extent to which democratization<sub>2</sub>

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<sup>47</sup> See Peter Singer, *Democracy and Disobedience* (Oxford: Oxford University Press, 1973); and Jeremy Waldron, *Law and Disagreement* (Oxford: Oxford University Press, 1999), ch. 5.

<sup>48</sup> See Milton Friedman, *Capitalism and Freedom* (Chicago, IL: University of Chicago Press, 1962); Friedrich A. Hayek, *Law, Legislation and Liberty, Volume 2, The Mirage of Social Justice* (Chicago, IL: University of Chicago Press, 1976); and Stephen M. Bainbridge, “Community and Statism: A Conservative Libertarian Critique of Progressive Corporate Law Scholarship,” *Cornell Law Review* 82 (1997), pp. 856-58.

<sup>49</sup> See Rawls, *A Theory of Justice*; Charles Taylor, *Sources of the Self* (Cambridge, MA: Harvard University Press, 1992); Evan and Freeman, “A Stakeholder Theory of the Modern Corporation: Kantian Capitalism”; Jurgen Habermas, “A Discourse-Theoretic Justification of Basic Rights” and “Citizenship and National Identity,” in Jurgen Habermas, *Between Facts and Norms* (Cambridge, MA: MIT Press, 1996); Richard Rorty, “The Priority of Democracy to Philosophy,” in *Reading Rorty*, ed. Alan Malachowski (Oxford: Blackwell, 1990), pp. 279-302; and Rousseau and Rivero, “Democracy: A Way of Organizing in a Knowledge Economy.” Freeman quotes Rorty on pragmatism with approval: “[P]ragmatists . . . hope instead that human beings will come to enjoy more money, more free time, and greater *social equality* [italics mine], and also that they will develop more empathy, more ability to put themselves in the shoes of others;” see R. Edward Freeman, “Managing for Stakeholders,” in *Ethical Theory and Business*, ed. Tom Beauchamp, Norman Bowie, and Denis Arnold, 8<sup>th</sup> ed. (Upper Saddle River, NJ: Prentice-Hall, 2009), pp. 66-67.

<sup>50</sup> Freeman, “Managing for Stakeholders,” p. 53.

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within the firm is closely tied ultimately to democratic socialism.<sup>51</sup> Second, there is nothing in a market economy that prevents groups of individuals from forming a firm, organizing it along communitarian lines, and competing as such. These sorts of communities have existed since the nineteenth century (e.g., Owen Fourier, etc.).<sup>52</sup> Contrary to Freeman, looked at from that broader time slice, such communities have not been very successful. Third, forgotten in much of this is the investor/shareholder. Would investors choose to invest in firms structured along the lines of democracy<sub>2</sub>? If such firms were successful economically, investors would certainly buy in. But given the second observation, it is clear on the whole<sup>53</sup> that they don't and why they do not. Finally, are not customers in a position to signal their preferences by choosing to buy or not to buy? As Ludwig von Mises puts it:

With every penny spent the consumers determine the direction of all production processes and the details of the organization of all business activities. This state of affairs has been described by calling the market a democracy in which every penny gives a right to cast a ballot. It would be more correct to say that a democratic constitution is a scheme to assign to the citizens in the conduct of government the same supremacy the market economy gives them in their capacity as consumers. However, the comparison is imperfect. In the political democracy only the votes cast for the majority candidate or the

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<sup>51</sup> This was part of Friedman's original critique of the CSR movement; see Friedman, "The Social Responsibility Is to Increase Profits."

<sup>52</sup> Limited partnerships and small software start-ups in which all of the employees are shareholders hardly reflect the kind of thing that advocates of democratization<sub>2</sub> have in mind, not least because what the latter have in mind is the socialization of profits (i.e., including the employees in "profit sharing") and the privatization of losses (to be suffered by investor-owners, not employees). The small software start-up exposes its employee owners to risk. Henry Hansmann recites the standard observation that Anglo-American corporate law provides a set of off-the-rack rules of governance that the organizers of firms are free to deviate from in constructing the firm's by-laws; see Henry Hansmann, *The Ownership of Enterprise* (Cambridge, MA: Belknap Press of Harvard University Press, 1993). Hansmann also observes that the thrust of American public policy since World War II has been toward encouraging the formation of firms in almost every structure *except* the investor-owned one. Thus, there have been tax breaks and subsidies for the formation of employee-owned firms, producer and consumer cooperatives, etc. Not only are they "free" to pursue these other forms of organization, they have actually been encouraged through incentives to do so.

<sup>53</sup> Socially responsible investing accounts for a very small percentage of investing. It also consistently fails to outperform the rest of the market.

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majority plan are effective in shaping the course of affairs. The votes polled by the minority do not directly influence policies. But in the market no vote is cast in vain. Every penny spent has the power to work upon the production processes.<sup>54</sup>

The communitarian perspective is not based upon scientific empirical evidence. Nor is it based upon the actual practice of management in the current knowledge economy. Rather, it is an account that hopes to see management conform to an “independently” determined model. It is largely an account of what is to be pursued without consideration of how it is to be pursued. If management education were based upon it, then management education would become indoctrination in how to articulate and implement the model. But the “independently” determined model is really an abstraction from an entirely different kind of practice. It is a secularized version of what management would be in a religious monastery (i.e., an enterprise association encompassing the whole of society). This is wholly inappropriate and irrelevant to modern commercial societies. Analogizing businesses to not-for-profits with “public good” missions is equally misguided.

We would contend, further, that experience shows that the foregoing assumptions about humanity just are not true. On the contrary, what distinguishes us from animals is that we are free to choose how we interpret experience. This is what post-modernity has emphasized. To be human is to be free in employing our imagination and intelligence, and it is these faculties that we use to define ourselves as individuals and give meaning to our experience of the world we inhabit. Individuals freely choose meaningful ways of understanding themselves and the world around them. Even our cultural inheritance involves an act of selective appropriation and choice, including the possibility of rejection. Hence, while we may all be born into a social and cultural context, it is simply not true to say that we are products of that context.

### **5. The Nature of the Firm**

In order to understand the firm we must introduce a distinction between civil associations and enterprise associations.<sup>55</sup> In an *enterprise association* individuals are related by the pursuit of a collective substantive goal (e.g., the defense of the state from external aggression, the achievement of religious salvation in the next life, the production of harps, etc.). The role

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<sup>54</sup> Ludwig von Mises, *Human Action* (Irvington, NY: Foundation for Economic Education, 1996), p. 271.

<sup>55</sup> See Michael Oakshott, *On Human Conduct* (Oxford: Clarendon Press, 1996), pp. 108-14.

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of management (or government in an enterprise association) is to manage the relationship of the individuals to the collective goal.

In a *civil association* the individuals do not share a collective substantive goal. On the contrary, what the individuals acknowledge are a personal good and a common good, where the latter is understood to encompass rules prescribing the conditions to be observed in making choices about how to pursue one's chosen purposes. The role of government is to be the guardian of the common procedural conditions. The connection between personal autonomy and the civil association should be obvious. Individuals in a civil association may thus share a common good in the formal conditions to be observed, but it is not a substantive collective good in which their interests are subsumed. Within an enterprise association, the law (or rules) that are instrumental in advancing the collective goal are articulated by the government (or management). The politicized, managerial, and/or totalitarian implications of law within an enterprise association are manifest. Within a civil association, the law (or set of rules) is formal, not instrumental, and the rule of law prescribes the conditions within which individuals pursue self-chosen purposes.

Firms are to be understood as *enterprise associations* within a larger civil association. A firm is an enterprise association, that is, individuals are voluntarily involved in the pursuit of a common substantive purpose, specifically a productive undertaking. In a free-market economy, the goal of the firm is usually to produce a profitable product or service. The goal cannot be equality, fulfillment, etc., because these are not substantive purposes. Moreover, as an enterprise association, a firm cannot have two or more discrepant purposes; if there are multiple purposes, then they must be prioritized or systematically related.<sup>56</sup>

The enterprise association that constitutes a firm is an historical artifact, the creation of contracting individuals. The firm is, therefore, a nexus of contracts.<sup>57</sup> Given the need for and the nature of limited liability, the core of this nexus is management. This is essentially Stephen Bainbridge's view.<sup>58</sup>

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<sup>56</sup> See Michael E. Porter and Michael R. Kramer, "Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility," *Harvard Business Review*, December 2006, pp. 78-92.

<sup>57</sup> See Ronald H. Coase, "The Nature of the Firm," in *The Economic Nature of the Firm*, ed. Louis Putterman and Randall Kroszner (Cambridge: Cambridge University Press, 1997).

<sup>58</sup> See Bainbridge, "Community and Statism."

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In his director-primacy view of the firm, top management is the firm's core and that core has fiduciary duties to equity owners because that is the best way to constrain their self-seeking behavior and to focus them upon the success of the enterprise.

### 6. Understanding Management

There must be a decision procedure for deciding how to pursue the common purpose, that is, there must be management. Neither the structure of management nor specific managerial decisions are entailed (i.e., deducible) from the common purpose. They are contingent, and therefore subject to evaluation and re-evaluation. Nevertheless, whatever the structure of management, its decisions, once made, are *compulsory*, for the same reason that no divergence is permitted from the common purpose. Management is, therefore, *hierarchical* even when the managers themselves are chosen by others. The issue is not how and when management consults the staff; the issue is who makes the final call when the consultation is over.

Managerial decisions involve a response to external factors and to internal factors. The overarching external factors are the Technological Project (which in principle cannot be planned and is unpredictable<sup>59</sup>) and the actions of others in a market. No firm will remain profitable and therefore in existence, unless it accepts the constraints and discipline of both the Technological Project and the free-market economy.<sup>60</sup>

The major internal factor is the presence of other agents (e.g., employees or associates). One of the consequences of the Technological Project is the development of what is now called a knowledge economy; the most important contribution of employees is not their physical labor but their technical skill and knowledge as well as their imaginative capacity. The most desirable employees are therefore autonomous ones; however, this means that they have their own personal goals and, if they are inner-directed and creative, are autonomous beings whose cooperation and productivity cannot be coerced. Therefore, dictatorial management models are inherently defective. Our general conclusion is that in a knowledge economy we necessarily have a management structure characterized by hierarchy with delegation. Totalitarian societies committed to the Technological Project (e.g., the former Soviet Union and an earlier Communist China) eventually found it necessary to cater to such individuals. A knowledge economy implies hierarchical but non-dictatorial management.

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<sup>59</sup> Which is Hayek's thesis about why planning will not work.

<sup>60</sup> See Oliver E. Williamson, *The Economic Institutions of Capitalism, Firms, Markets, and Relational Contracting* (New York: Free Press 1985).

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Does the need for a non-dictatorial management imply democratization<sub>2</sub>? The answer is no. What we have is a situation in which firms (organizations) cannot replace markets.<sup>61</sup> The reality is a dynamic market of trial and error with the continuous re-grouping of firms and individuals within those firms. Good management can only exist within a firm that has a clear conception of its present collective goal. At the same time, that clear conception is subject to modification because of the dynamics of the market process, something over which no manager can have control or unerringly predict. Good management of employees consists in choosing people who either have the “right” preferences vis-à-vis the overall common purpose of the firm (which involves judgment) or who can be persuaded through incentives to shape their own preferences to be consistent with that common purpose or at least not antithetical to it (which requires bargaining skills). Neither the managerial judgment nor the skills can be imparted simply through information. Moreover, a successful team under one set of market conditions is not guaranteed success under another set of conditions.

The personal autonomy of the individuals involved is preserved through voluntary contracts. In a knowledge economy, a skilled individual can and does negotiate a relationship with management that is far more satisfactory to that individual than something deliberated according to democracy<sub>2</sub>. Such negotiation is easier precisely in those cases where management has a clear conception of its goal or agenda. One may question whether the kind of fulfillment sought by communitarians in an enterprise association is either possible or desirable.<sup>62</sup> What a knowledge economy permits and calls for is an ever-increasing need for autonomous professionals who relate to each other contractually. It is the Technological Project that promotes the knowledge economy and autonomy.

### **7. Implications**

#### ***a. Investors are more important than all other stakeholders***

There can be no progress in the Technological Project if there is no market flexibility. The market works because people are willing to invest in a

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<sup>61</sup> See Ronald H. Coase, “The Problem of Social Cost,” *Journal of Law and Economics* 3 (1960), pp. 1-44; and Coase, “The Nature of the Firm.”

<sup>62</sup> Oakeshott says, “Almost all modern writing about moral conduct begins with the hypothesis of an individual human being choosing and pursuing his own directions of activity. . . . [T]his autonomous individual remained as the starting point of ethical reflection. . . . [W]e may promote the ‘happiness’ of others, but we cannot promote their ‘god’ without destroying their ‘freedom’ which is the condition of moral goodness”; see Oakeshott, “The Masses in Representative Democracy,” pp. 367-68.

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limited-liability system; they are willing to invest because of the prospect of profit, and not because they value profit as an end but because of the projects that profit in turn permits them to pursue. Whatever additional motives guide investment, profit remains supreme qua their relationship, as investors, in a specific firm. There is no way to avoid this, short of a planned economy, and then the Technological Project suffers. We might like a greater say on our jobs, but we want cures for cancer and AIDS more.

This is a systemic feature of the relationship between the Technological Project and a market economy. In the nineteenth century some hoped for a world in which the major resources were widely owned and not held by a few individuals or families. This would permit greater opportunity for individuals to define their own economic projects. Ironically, we do in large part have such a world today. Few individuals are in a position to own a major enterprise. Ownership is much more widely diffused.<sup>63</sup> Major corporations are “owned” by thousands of individuals, including employees. This widespread ownership, by the way, is much more prevalent in American-style capitalism than it is either in the E.U. (Rhine model) or in Japan. However, the nature of the Technological Project and its present scale requirements lead to the existence of management operating as an enterprise association.

It will be objected that since shareholders vote by the number of shares they hold, not all investors have an equal voice. True enough, but is there an alternative? Would investors allow “equality” of voice? Again, followed to its logical conclusion, the only real alternative is a centrally planned economy with public ownership. Marx was right about that. However, we have tried that alternative, and it fails to maximize the benefits of the Technological Project and leads to other undesirable consequences.

### ***b. Customers are more important than employees***

Markets are responsive to consumer demand. You cannot sell a product or a service profitably without catering to the needs of consumers. As Mises pointed out long ago, a greater form of democracy prevails in a free market precisely because producers cannot dictate to consumers.<sup>64</sup> Myths about subliminal marketing aside, neither management nor employees can dictate to consumers; both must respond to consumer demand.

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<sup>63</sup> Technically speaking, investors are not owners of the enterprise but of shares. This merely reinforces my point that systemic requirements of the Technological Project must be taken seriously before any discussion of the structure of management or suggested changes to it.

<sup>64</sup> See Mises, *Human Action*, n. 54 above.

***c. Autonomy is more important than democracy***

If the capacity to be free is a fundamental feature of humanity and if once autonomy is achieved,<sup>65</sup> I would venture to affirm, it is an irreversible state, then all institutions, economic and political, must reflect this autonomy. Politically speaking, democracy is not itself a positive expression of autonomy but a negative means of maintaining it. Autonomy is preserved for investors, customers, and contracting employees. The freedom to hire and fire at will preserves the vitality of firms, but it also permits potential employees to change jobs and even careers.<sup>66</sup> It also creates more durable and reliable relationships with employees on a case-by-case (contractual) rather than an all-or-nothing (union model) basis. A knowledge economy within the Technological Project makes this possible to a greater and greater extent. As a contracting employee to whom some responsibility has been delegated through negotiation, I have greater autonomy than I would have if every conceivable stakeholder had to pass judgment on what I have negotiated.

***d. The foregoing system maximizes individual choice***

It does not guarantee unlimited choice and preference to all, but it does maximize choice as compared to rival systems.

***e. Globalization: If we want to encourage political democracy, then we must encourage a free market economy***<sup>67</sup>

A non-democratized<sub>2</sub> free market system maximizes the potential for the rule of law and political (i.e., representative) democracy<sub>1</sub> in a global economy. There are no democratic regimes in the fullest sense that are not underpinned by a free-market economy. Some will claim that there are market economies that do not lead to political democracy. This is not the case. The foregoing claim identifies a market economy only with the existence of private property. A market economy implies private property,

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<sup>65</sup> Accepting one's freedom and the responsibility that goes with it is a cause, to some, of great anxiety. It can appear as a serious burden.

<sup>66</sup> Defenders of the Rousseauian equality narrative oppose employment at will (see Patricia Werhane and Tara Radin, "Employment at Will and Due Process," in *Ethical Theory and Business*, 8<sup>th</sup> ed., pp. 266-74), whereas defenders of the Lockean liberty narrative are in favor of employment at will (see Richard Epstein, "In Defense of the Contract at Will," *University of Chicago Law Review* 34 [1984], and Alexei Marcoux, "The At-Will Doctrine in Employment and Employee Rights," Society for Business Ethics Session, American Philosophical Association Central Division Meeting, Chicago, IL, April 23, 2004).

<sup>67</sup> See Thomas Carothers, "The Democracy Nostrum," *World Policy Journal* 11 (1994), pp. 47-53; and Valerie Bunce, "Democratization and Economic Reform," *Annual Review of Political Science* 4 (2001), pp. 43-65.



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but the converse doesn't hold. There are many places in the world where private property exists within a quasi-feudal and mercantilist structure and without the rule of law (e.g., China).<sup>68</sup> It is not private property *per se*, but private property in a true free market protected by the rule of law that maximizes the benefits of the Technological Project. By a free market, I mean a system in which private property is freely alienable and freely acquirable, and there is no central allocation of resources. The rule of law is operative only in societies that are civil associations and that therefore recognize the primacy of personal autonomy. Achieving the rule of law and personal autonomy may be the most serious obstacles to participating in the benefits of the Technological Project, free-market economies, and limited government. The introduction of democracy into a culture that is not characterized by autonomy leads to the use of the political process to redistribute wealth, by which the many poor despoil the rich. This was Aristotle's warning, the concern of Alexis de Tocqueville and John Stuart Mill,<sup>69</sup> and it has more recently been reiterated by Arthur Okun.<sup>70</sup>

### ***f. The serious obstacles to the benefits of the Technological Project are cultural, not economic or political***

Vast numbers of people both at home and abroad have failed to realize their autonomy, and this incapacitates them for full participation in the creation and enjoyment of the benefits from the Technological Project. Non-autonomous people<sup>71</sup> are accustomed to having others direct their lives, to

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<sup>68</sup> See Hernando de Soto, *The Other Path* (New York: Basic Books, 1989); and Hernando de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: Basic Books, 2000).

<sup>69</sup> See Alexis de Tocqueville, *Democracy in America* (Baltimore, MD: Penguin, 2003 [1835]); and John Stuart Mill, *On Liberty and Other Writings*, ed. Stefan Collini (New York: Cambridge University Press, 1998 [1851]).

<sup>70</sup> See Arthur Okun, *Equality and Efficiency: The Big Trade-Off* (Washington, DC: Brookings Institute, 1982).

<sup>71</sup> See Oakeshott's analysis of the "anti-individual" in his "The Masses in Representative Democracy." The rise of the autonomous individual "bred envy, jealousy, and resentment" in others. "And in these emotions a new disposition was generated . . . [F]rom the frustrated 'individual manque' there sprang the militant 'anti-individual', disposed to assimilate the world to his own character by destroying the individual and destroying his moral prestige"; *ibid.*, p. 372. Oakeshott notes as well that the morality of the anti-individual is "not of 'liberty' and 'self-determination', but of 'equality' and 'solidarity . . . the love of the 'community' . . . All must be equal and anonymous units in a 'community'," *ibid.*, pp. 374-75. He says further, "The rights called for on his [anti-individual] behalf [include] . . . [s]ecurity against having to make choices for himself and against having to meet the vicissitudes

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living under a feudal system of influence-seeking rather than a legal system that protects their rights, and to seeing political democracy as a means of increasing economic advantage at someone else's expense through redistributive policies rather than as a means of protecting and promoting economic growth.<sup>72</sup>

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of life from his own resources . . . [and] the right to live in a social protectorate which relieved him from the burden of 'self-determination,'" *ibid.*, pp. 377-78.

<sup>72</sup> One of the reasons for the success of the "Asian Tigers" (Singapore, Taiwan, Korea, etc.) and the present high growth in China is that the quasi-authoritarian element in many Asian cultures serves as a barrier to democratic redistributive tendencies.