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Morality and the Invisible Hand

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Of the questions investigated in the field of business ethics, the most familiar is that of the social responsibility of business. As this question is often posed, the issue is whether a firm is morally required to benefit the community in which it operates—or society at large—in ways that go beyond the provision of jobs, goods, and services as a part of the firm's normal (profit-seeking) operations.<sup>1</sup>

Here, however, I take up a more general and, I think, prior question, which I shall call the question of the morally problematic nature of business. Skepticism about the moral climate of business and the moral character of business people is widespread. Of course, scandals involving illegal campaign contributions and bribes to officials in foreign countries have made headlines in recent years. But many people seem to believe that this is just the tip of the iceberg. They think that the companies which have been prosecuted in this connection have simply had the bad luck to get caught, and that business as usual for almost all firms involves engaging in a wide variety of morally questionable activities. This attitude is epitomized by the quip that the notion of “business ethics” contains a contradiction in terms.

Perhaps the most interesting fact about the belief that business is inherently problematic from the moral point of view is that it is not held solely by critics of business, many of whom appear to think that an acceptable moral climate in the economic sphere can only be achieved by eliminating the free-enterprise system entirely. The view that at

1. See, for example, Milton Friedman, “The Social Responsibility of Business Is to Increase its Profits,” *The New York Times Magazine*, 13 Sept. 1970.

least some ordinary moral requirements do not apply in the business world has also been put forward by writers who are clearly committed to free enterprise.

Thus, for example, in an article entitled "Is Business Bluffing Ethical?" which appeared in the *Harvard Business Review* in 1968, the author compares business to a competitive game such as poker, in which some of the moral constraints that normally govern the interaction between persons are understood to be suspended. As he puts it,

Poker's own brand of ethics is different from the ethical ideals of civilized human relationships. The game calls for distrust of the other fellow. It ignores the claims of friendship. Cunning deception and concealment of one's strengths and intentions, not kindness and openheartedness, are vital in poker. No one thinks the worse of poker on this account, and no one should think the worse of business because its standards of right and wrong differ from the prevailing traditions of morality in our society.<sup>2</sup>

And in his book, *The Functions of the Executive*, Chester Barnard argues that business frequently presents situations in which managers must violate their personal moral codes if they are to discharge their organizational responsibilities, and concludes:

It seems to me inevitable that the struggle to maintain cooperation among men should as surely destroy some men morally as battle destroys some physically.<sup>3</sup>

In what follows I examine this view that a lowering of ordinary moral standards is appropriate or inevitable in business contexts. First I try to account for the perception that business and morality do not mix. Then I take up the question of the extent to which this perception is accurate.

2. A. Carr, "Is Business Bluffing Ethical?" *Harvard Business Review* (Jan.-Feb. 1968): 145. A full reading of this article reveals that Carr is using the term "bluffing" to refer to the violation of a wide range of ordinary moral requirements.

3. C. Barnard, *The Functions of the Executive* (Cambridge, MA: Harvard University Press, 1938), p. 278. Barnard's views suggest that a distinction analogous to that between public and private morality may be involved in the question of the morally problematic nature of business. I shall have more to say about this below.

Before proceeding, let me say a few words about my method in this paper. If the field of business ethics is regarded as the study of all the moral problems associated with free enterprise—or, more broadly, with market systems (including those which are socialistic)—issues of economic justice might be held to fall within its boundary. As I understand the question of the morally problematic nature of business, however, it is concerned solely with issues of ethics per se. Thus I make the assumption that when supporting institutions of various kinds are in place, a free-enterprise system can meet the requirements of justice.<sup>4</sup> The question I address is whether, even assuming the requirements of justice to be met, there are additional moral reasons, having to do with the nature of the interaction between individuals characteristic of free-enterprise or market systems, for rejecting such systems.

My strategy for investigating this question involves a certain amount of oversimplification. As far as I can see, to treat an issue in business ethics adequately, one must take note of the great diversity of actual business practice. What I provide here, however, is essentially an account of how business *as conceived by contemporary economic theory* looks from the moral point of view. I believe that the generality made possible by this approach justifies the blurring of differences between industries, and firms within industries, which inevitably results. Still, these differences must be acknowledged at some stage.

## I

The appearance of conflict between common morality and business is easy to explain if we focus on some salient features of each.<sup>5</sup>

4. Presumably these would include (at least) institutions responsible for administering a just tax policy, and for supporting the unemployed and facilitating their retraining and reemployment.

5. I take the notion of “common morality” from Alan Donagan, *The Theory of Morality* (Chicago: University of Chicago Press, 1977). For Donagan, common morality consists of precepts and principles which are (1) specific enough to guide conduct, and (2) independent of conventional morality (and thus capable of serving as a standard with respect to which conventional morality can be criticized). For our purposes, however, nothing turns on this. Those who accept the relativity of morality can substitute “conventional” for “common” throughout. Similarly, those who believe that conceptions of the require-

Let us begin with morality. One of the principal ongoing projects of moral philosophy is the attempt to define morality—that is, to give a general account of the features a requirement on action must have if it is to count as a moral requirement (as opposed, say, to a law or a rule of etiquette). There is, to be sure, a certain amount of disagreement about what these features are, but many moral philosophers working today seem to accept at least one component of the definition of morality. Many think that there is some connection between acting as morality requires and promoting the interests of others, and moreover, that this connection is such that morality can come into conflict with self-interest.

Since to promote the interests of others is to behave altruistically, to say that there is a connection between acting as morality requires and promoting the interests of others is to say that morality has an altruistic aspect. But this does not mean that altruism and morality cannot diverge. An example is provided by the case of Albert Schweitzer, who gave up a career as a musician to open a hospital in French Equatorial Africa (now Gabon). In doing this, Schweitzer was certainly behaving altruistically, but few would say that had he continued with his career as a musician, he would have been violating a moral requirement. While it is widely accepted that morality requires us to make some effort to help the disadvantaged, devoting one's whole life to this task is generally agreed to be supererogatory.<sup>6</sup> How, then, should the altruistic aspect of morality be understood?

One way to see how morality can be related to, yet different from, altruism is by distinguishing moral requirements from private projects. We all have private ends and projects the pursuit of which makes life meaningful for us. And the requirements of morality can be thought of as a finite set of constraints on the projects we may pursue and the way we may pursue them. As long as we heed the requirements of morality, we may pursue any ends or projects we wish.

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ments of morality are not only relative but also part of the ideological paraphernalia of particular economic arrangements—and who would, perhaps, accord the same status to the sort of economic theory employed here—can think of what follows as an intra-ideological critique.

6. Morality and altruism also diverge when morality constrains the pursuit of altruistic ends.

For some, these projects will be almost entirely self-regarding, for others mainly altruistic. For most people they will be partly self-regarding and partly altruistic, with most of the altruism directed toward relatives and friends. And this means that those who regard the requirements of morality as constraining their projects will vary in the amount of altruism their lives as a whole display. But regardless of the projects pursued, respect for the requirements of morality can be seen as introducing into all lives a basic level of altruism. For respecting these requirements involves, at least sometimes, refraining from actions which would interfere with the projects of others. And this is one way of promoting their interests.<sup>7</sup> Thus even individuals whose projects are purely self-regarding can be thought of as behaving altruistically (to a certain extent) if they heed the requirements of morality.

On the dimension of altruism, then, an ordinary moral life can be regarded as a mean between two extremes. At one extreme will be people whose projects are entirely self-regarding and who, in addition, routinely violate moral requirements when it is to their advantage to do so (that is, egoists). At the other extreme will be people who respect the requirements of morality and also have largely altruistic ends or projects. Those who respect moral requirements and have purely self-regarding projects, or the mixture of self-regarding and altruistic projects typical of most of us, will be somewhere in the middle.

This picture of the relation between morality, self-regard, and altruism is crude, but it will serve for our purposes. It is important to bear in mind, however, that while merely heeding the requirements of morality does not involve sacrifices of self-interest as great as those associated with pure altruism, there is still a potential for conflict between morality and self-interest. Morality is compatible with the pursuit of self-regarding ends, but acting so as to maximize self-

7. Actually, this is too simple, since in addition to ruling out particular ends and means of attaining ends, morality probably requires the adoption of certain ends. The main point, though, is that whatever the requirements of morality may be, they are finite. And after they have been met, we are free to pursue any ends or projects we wish.

regarding satisfaction over one's whole life will almost certainly involve violating moral requirements.<sup>8</sup>

Now let us turn to business. While self-interest is to a certain extent at odds with morality, it appears to lie at the foundation of business. The idea that the general pursuit of self-interest is a good thing from the economic point of view goes back at least to Adam Smith's claim that individuals who intend only their own gain are led by an invisible hand to promote the good of society.<sup>9</sup> And the doctrine of the invisible hand has a counterpart in contemporary economic theory in the form of the basic theorem of welfare economics. This theorem establishes that (under certain conditions) when consumers act so as to maximize utility and firms so as to maximize profits, resources are allocated to producers, and products distributed to consumers, in an efficient way.<sup>10</sup>

Of course, once it is noticed that the doctrine of the invisible hand provides the economic rationale for a free-enterprise system, it is easy to see why business appears to many to be essentially morally problematic. For if the economic rationale for a free-enterprise system lies in the doctrine of the invisible hand, then it seems that consumers and firms are in some sense required to pursue self-interest. Otherwise the economic benefits of free enterprise will not be realized.<sup>11</sup>

8. In discussing the conflict between morality and self-interest, it is useful to distinguish two cases—the hypothetical case in which there is no threat of punishment for violating moral requirements, and the actual one in which this threat is present (and provides a *self-regarding* reason for being moral). The conflict is less pronounced in the second case, but it is easy to overestimate the degree to which morality and self-interest converge in ordinary life.

9. *An Inquiry into the Nature and Causes of the Wealth of Nations*, bk. IV, chap. 2.

10. More precisely, the theorem establishes that a perfectly competitive general equilibrium is a Paretian optimum. A discussion can be found in any textbook on microeconomics or welfare economics. An account I have found helpful is that of D. M. Winch in *Analytical Welfare Economics* (Harmondsworth: Penguin Books, 1971), esp. chap. 5.

11. This normative claim may seem too strong, but until it is shown that an equilibrium which is a Paretian optimum can be attained by a system of production for gift exchange—or some other system which combines decentralized decision making with altruistic preferences—it appears to be an unavoidable implication of microeconomic theory. The nonaltruism assumption may seem to raise questions about the descriptive adequacy of economic theory, but these are typically met by taking the units in an economy to be households, and regarding most altruism as intra-household altruism.

But as we have seen, because of the altruistic aspect of morality, there is a potential for conflict between morality and self-interest. And thus it is natural to suppose that there must also be a potential for conflict between morality and the business practices characteristic of a free-enterprise system.

But although the appearance of incompatibility between business and morality is easily accounted for in this way, it is not clear whether this appearance reflects reality. For the idea that individuals are to intend only their own gain in economic contexts admits of different interpretations. If the point is that economic agents (consumers and firms) are to pursue self-interest in any way they can, then business and morality will indeed be at odds. It is possible, however, that the normative import of the doctrine of the invisible hand is merely that economic agents are not to enter into transactions unless there is some expectation of self-regarding gain, but are otherwise to respect the full set of moral restrictions on the pursuit of self-interest. Indeed, there is a continuum of possibilities here, ranging from unrestricted pursuit of self-interest, through intermediate positions in which some, but not all, moral requirements are acknowledged, to full respect for all moral requirements (with only altruistic ends being ruled out).

In short, while a suspension of altruism in the economic sphere may be required if a free-enterprise system is to function optimally, it is not clear whether this entails a lowering of the standards of common morality as well. If the assumption that individuals will not be altruistic in economic contexts is interpreted as referring only to the ends pursued in such contexts, free enterprise and morality may be fully compatible. But since morality has an altruistic aspect, the possibility that some relaxation of its requirements is desirable from the economic point of view cannot simply be dismissed.

## II

Establishing that the doctrine of the invisible hand admits of interpretations which vary in the degree to which common morality is threatened in a free-enterprise system does not, of course, suffice to resolve the question of the morally problematic nature of business. It must still be determined which interpretation is correct.

One interpretation can be ruled out immediately. The doctrine of the invisible hand clearly cannot be regarded as asserting that the unrestricted pursuit of self-interest is a good thing from the economic point of view. For the result would be a Hobbesian state of nature, and according to Hobbes:

In such condition, there is no place for Industry; because the fruit thereof is uncertain: and consequently no Culture of the Earth; no Navigation, nor use of the commodities that may be imported by Sea; no commodious Building; no Instruments of moving, and removing such things as require much force; no Knowledge of the face of the Earth; no account of Time; no Arts; no Letters; no Society; and which is worst of all, continuall feare, and danger of violent death; And the life of man, solitary, poore, nasty, brutish, and short.<sup>12</sup>

Of course, Smith and Hobbes may simply be in disagreement about the economic consequences of the unrestricted pursuit of self-interest. But in view of the plausibility of Hobbes's account, it seems more reasonable to suppose that Smith did not intend the doctrine of the invisible hand to be understood as asserting that from the economic point of view, the fewer the constraints on the pursuit of self-interest the better (with the ideal being no constraints at all).

We are left, then, with two main possibilities. Either the doctrine of the invisible hand is to be understood as envisaging a situation in which all of the requirements of common morality remain in force in economic contexts (limiting the pursuit of nonaltruistic ends), or a situation in which some but not all of these requirements are relaxed. But which of these interpretations should we accept? And if we accept the latter, which requirements should we consider relaxed?

One way to answer these questions is to develop an account of what I shall call *the implicit morality of the market*. As we have already seen, economic theory can be regarded as having normative implications for the behavior of consumers and firms in a free-enterprise system. But these do not merely direct the maximization of utility or profit. Additional requirements on the behavior of economic agents can be inferred from the different branches of economics. And by the

12. *Leviathan*, chap. 13.

implicit morality of the market I understand the totality and these normative implications of economic theory.

The implicit morality of the market consists primarily of the hypothetical imperatives which are generated by economic theory when the achievement of economic efficiency is taken as an end. Certain conditions must be satisfied if a free-enterprise system is to allocate resources to producers and distribute products to consumers in a Pareto-optimal way. And from these conditions various requirements on the behavior of economic agents—they might be called “efficiency imperatives”—can be derived.

An example of such a requirement is the prohibition on conspiracy in restraint of trade which is incorporated into antitrust legislation. Since resources are misallocated when monopolies or oligopolies exist, the potential for economic efficiency associated with a free-enterprise system cannot be fully realized if economic agents create or maintain such conditions. Therefore the implicit morality of the market requires economic agents to refrain from monopolistic or oligopolistic practices.

The set of efficiency imperatives does not exhaust the implicit morality of the market, however. Economic theory also seems to have normative implications of a different sort. Since I am unsure how extensive this second set of requirements is, I shall not attempt to characterize it in general terms. An example of a normative implication of economic theory which is not, at least in a straightforward sense, an efficiency imperative will be presented shortly.

The principles constitutive of the implicit morality of the market may or may not resemble the principles of common morality. But working out this code gives us a basis for estimating the extent to which the requirements of common morality will be ignored in an optimally functioning free-enterprise system. For by comparing the implicit morality of the market with common morality and noting (1) the cases in which the two codes require similar actions, (2) the cases in which they conflict, and (3) the cases in which some action required by common morality is neither required nor forbidden by the implicit morality of the market, we can determine those components of common morality which must be respected if a free-enterprise system is to function optimally, those which must be suspended, and

those for which respect is optional from the economic point of view (and thus required overall).

It must be borne in mind, however, that what results from comparing the implicit morality of the market with common morality is an account of the extent to which common morality will be relaxed in an *optimally functioning* free-enterprise system—that is, under the ideal conditions assumed by the theory of the firm and general equilibrium theory. Thus any conclusions which an investigation of this sort might reach would be of only indirect relevance in most actual business situations.<sup>13</sup> Nevertheless, such a study would not be without value. For despite its descriptive and predictive inadequacies, general equilibrium theory provides a basic framework for comprehending economic activity, one whose only real rival at present is Marxian.<sup>14</sup> Consequently if we wish to understand the place of morality in business, it is appropriate to begin within the framework. The result can be considered an “ideal” theory of business morality, construction of which is a necessary preliminary to work on a (possibly more relevant) “nonideal” theory.<sup>15</sup>

Since providing a complete account of the implicit morality of the market is beyond both my competence and the scope of this paper, here I shall simply illustrate the sort of study I have in mind by describing what I take to be two components of the implicit morality of the market. This will suffice to advance the argument.

One component can, I believe, be derived from the fact that if markets are to be efficient, there must be perfect information “with respect to the quality and nature of the product and the prevailing

13. Results in the “theory of the second best” seem to show that a set of efficiency imperatives for economic agents in the suboptimal conditions which actually obtain will not soon be found. The principal result in this area of welfare economics is a proof that partial satisfaction of the marginal conditions for a Paretian optimum will not necessarily result in increased welfare. See, for example, Winch, *Analytical Welfare Economics*, pp. 110-116.

14. This point was made by Frank Hahn in a lecture at M.I.T. in the spring of 1979. Hahn also noted that Marxism has descriptive and predictive inadequacies of its own.

15. I take these two notions from Rawls, *A Theory of Justice* (Cambridge, MA: Harvard University Press, 1971), sec. 39.

price.”<sup>16</sup> In light of this assumption of perfect information, it appears that the implicit morality of the market will contain various requirements to facilitate the flow of information.

In the first place, lying about the nature or quality of what is sold, as in false advertising, will be ruled out, as will any effort to deceive by methods other than lying, such as deceptive packaging of products.

But merely refraining from intentionally misleading others will not be enough to meet the requirements of the implicit morality of the market. To do one’s best to bring about perfect information in the respects mentioned, one must also correct any mistaken beliefs which those with whom one deals may have about the properties or market value of what is being exchanged. Thus, for example, if a man who has just found in his attic what he thinks is a relatively worthless painting takes it to an art dealer hoping to get one hundred dollars for it, and the dealer recognizes the painting as a lost masterpiece, he may not go ahead and buy it for one hundred dollars. If the dealer intends to purchase the painting, he must inform his customer of its probable market value.

The implicit morality of the market, then, appears to rule out both deception and exploitation of the ignorance of those who are misinformed (or who lack relevant information).<sup>17</sup> While elements of competition may be licensed by a free-enterprise system, they do not include attempts by buyers and sellers to fool each other about the properties or value of items being exchanged. If a free-enterprise sys-

16. J. Henderson and R. Quandt, *Microeconomic Theory* (New York: McGraw-Hill, 1971), p. 86.

17. It may be helpful if I say a bit more about my reasoning here. As far as I can see, the perfect information assumption can be interpreted in either of two ways. On the first, economic agents are assumed to be economically omniscient, and thus transactions do not involve exchanges of information. On the second, information is exchanged, and the force of the perfect information assumption is that the parties to each transaction always have *between them* all of the required information. Since the exchange of information is a morally relevant feature of actual transactions, the second interpretation is preferable for our purposes. And if the exchange of information can be assumed to be costless, it seems to be an admissible interpretation as well. Thus I opt for it. The components of the implicit morality of the market which require economic agents to facilitate the flow of information then follow. Neither interpretation, of course, is very realistic.

tem is to function optimally, exchange must, in this respect at any rate, be cooperative. In an optimally functioning free-enterprise system, the maxim "caveat emptor" should have no application.<sup>18</sup>

The components of the implicit morality of the market which require economic agents to facilitate the flow of information are examples of what I have called efficiency imperatives. But as I have said, it also appears that economic theory has normative implications of a different sort which bear on the question of the morally problematic nature of business. One such implication concerns the method by which morally laden investment and policy decisions, such as decisions about whether to continue to operate in South Africa, or to invest in Zimbabwe, should be made in a free-enterprise system. Finance theory provides, I think, a basis for inferring that all morally laden investment and policy decisions should be made by the owners or stockholders of a firm, and not by management.

The following two considerations seem to me to lead to this conclusion. First, finance theory makes the assumption that it is the preferences of the owners or stockholders of a firm which are decisive in its management. And second, the results in finance theory which are usually regarded as showing that ownership and management can be rationally separated do not appear to be applicable when morally laden decisions must be made.

The principal such result, the so-called double tangency result, seeks to establish the possibility of rational separation of ownership and management by showing that a problem which appears to stand in the way of rational separation is in fact illusory.<sup>19</sup> The problem is that owners vary in their consumption preferences (some wanting to consume in the present, others in the future), and this raises the question of how management can be sure that it is taking fair account of the

18. A further respect in which requirements to facilitate the flow of information are desirable from the standpoint of efficiency is noted by G. Akerlof in his paper, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism," *Quarterly Journal of Economics* (August 1970): 488-500.

19. The account of the double tangency result which follows is based on unpublished material prepared by Robert Merton and Carliss Baldwin for their classes at M.I.T. I do not know whether they would approve of the use to which I put the result here. The double tangency result is also discussed (although not under this name) in J. Hirschleifer, "On the Theory of Optimal Investment Decision," *Journal of Political Economy* (August 1958).

wishes of all the owners when it makes policy decisions. The double tangency result dissolves this problem by demonstrating that there is a unique managerial strategy which is optimal for all the owners. If management simply follows the strategy of maximizing the net present value of the cash-flow stream associated with the firm (or, if capital markets are efficient, the market value of the firm), this will be best for every owner. For those who want to consume in the present can do at least as well by borrowing against anticipated earnings as they could if the firm were managed for a quick payoff. And those who want to consume in the future can do at least as well by lending out current earnings at the prevailing rate of interest as they could if the firm were managed so as to maximize profits at some particular future date. Thus, it is claimed, management and ownership can, after all, be rationally separated.

An important feature of this result, however, is that its proof assumes that owners have only consumption preferences, preferences for things which can be bought. It does not show that management has at its disposal a criterion adherence to which will guarantee optimal management from the standpoint of those of the owners' preferences which are not consumption preferences. And preferences that express moral values are of this kind.<sup>20</sup> Thus, pending development of a criterion of the appropriate sort, management and ownership cannot be rationally separated when a firm faces a morally laden decision. In such cases, the only way management can be sure that the firm is being managed in accordance with the preferences of the owners is by polling them (and taking, perhaps, the action preferred by those holding a majority of shares).

It seems, then, that a rule prohibiting managers from unilaterally making morally laden policy-decisions will be an additional component of the implicit morality of the market. All such matters must be put to the owners. For according to finance theory, it is the preferences of the owners which are decisive in the management of a firm. And unlike cases in which only consumption preferences are involved,

20. In speaking of preferences which express moral values, I do not mean to presuppose subjectivism in ethics. As the notion of a preference is used in economic theory, preferences could, I think, be based on intuitive perceptions of an objective moral reality.

in morally laden cases there appears to be no single policy management can follow which will be sure to satisfy all the owners.<sup>21</sup>

Before taking up the question of the relation between the implicit morality of the market and common morality, two additional points should be made.

First, although the implicit morality of the market consists of requirements which must be respected if an economic system based on the pursuit of self-interest is to function optimally, it does not follow that self-interest and the implicit morality of the market converge. Conducting business in the way that is best from the standpoint of the system as a whole may involve passing up opportunities to obtain greater profits or more utility. For monopolists, monopoly is more advantageous than free competition.

And second, since there is a potential for conflict between self-interest and the implicit morality of the market, merely promulgating this code will not in general suffice to secure compliance with it. Indeed, competitive pressures may sometimes prevent those who would otherwise be willing to make sacrifices for the good of the system from doing so. Thus if there is no tradition of adherence to the implicit morality of the market in a given industry, legal sanctions may be necessary to ensure that economic agents behave in the required ways.

### III

The components of the implicit morality of the market identified in the previous section vary in their significance for an attempt to determine the degree to which the principles of common morality will be respected in an optimally functioning free-enterprise system. The requirement to facilitate the flow of information in market contexts is, if anything, stronger than the requirement of veracity in common

21. Business people sometimes refer to stockholders as investors rather than owners—intending thereby to treat them as occupants of a role analogous to that of someone who places a side-bet in a crap game. Those who do not like the way the firm is being managed can simply place their bets elsewhere. But this view, which denies that the preferences of the stockholders are decisive in the management of a firm, is not in accordance with the assumptions of finance theory. And in any case, it makes the right of stockholders to replace management inexplicable.

morality, and constitutes a clear case of overlap between the two codes. The requirement to refrain from conspiracy in restraint of trade, on the other hand, appears to have no analogue in common morality.<sup>22</sup> And the requirement that owners or stockholders be polled on morally laden policy-decisions, while making it impossible for managers to ignore the wishes of a certain group of individuals, does not, of course, prevent the owners and stockholders themselves from deciding on morally questionable policies (although the broader discussion of controversial issues which would result from adherence to this requirement might make the adoption of such policies less likely).<sup>23</sup>

A complete account of the implicit morality of a free-enterprise system would no doubt reveal other respects in which the optimal functioning of such a system requires conformity to the principles of common morality.<sup>24</sup> But clearly it would be premature to conclude that the appearance of conflict between free enterprise and common morality is illusory. And indeed, evidence that it is not entirely illusory emerges when the investigation is approached from the other end, so to speak, and it is asked whether there are any requirements of common morality whose acknowledgment would reduce the efficiency of a free-enterprise system.

As far as I can see, there are at least three components of common morality, respect for which could have this effect.

The first is the principle of mutual aid, which stipulates that one is to render assistance to those in need when the cost to oneself is

22. It is, however, not without moral significance, since when it is generally respected, there will be fewer opportunities for morally impermissible coercion and exploitation. (Although if institutions designed to ensure the satisfaction of the requirements of justice are in place, such opportunities should already be at a minimum.)

23. One action the stockholders could not take is to transfer permanently to management the authority to make morally laden decisions. The stockholders of a firm will change over time, and thus any attempt to "vote democracy out of existence" in this way would involve injustice between "generations" of stockholders.

24. The requirement to keep promises may provide another example of overlap. Unless there is some mechanism by which the first performer in an exchange can be assured of performance by the second performer, only simultaneous exchanges will be possible. And this might prevent the achievement of Pareto-optimality.

slight.<sup>25</sup> It is only when the sacrifice is slight that it is appropriate to speak of a moral *requirement* of aid. One is not morally required to run into a burning building to try to save some people trapped inside if there is a danger of losing one's own life. One is, however, required to call the fire department if one encounters a situation of this sort, even though some inconvenience may be involved.<sup>26</sup>

The requirement of mutual aid has the potential to conflict with the implicit morality of the market because, unlike those moral requirements which merely rule out certain ends or means of attaining ends, it actually directs one to adopt a particular end. And this end is, moreover, altruistic. Thus even if the doctrine of the invisible hand is interpreted as requiring nothing more than the abandonment of altruistic ends in economic contexts, it appears that it will direct suspension of the principle of mutual aid as well.

A second component of common morality that seems to be capable of restraining the invisible hand is the principle of nonmaleficence, which requires that one not cause pain, injury, or death (except in special circumstances).<sup>27</sup> This principle appears to stand in the way of such practices as firing unproductive employees, forcing bankruptcy, and closing unprofitable plants in communities which depend on them. That is, it appears that respect for this principle could impede the mobility of factors of production which is necessary for economic efficiency.<sup>28</sup>

25. The principle of mutual aid is discussed by David Richards in *A Theory of Reasons for Action* (Oxford: Oxford University Press, 1971), pp. 185-189.

26. The requirement expressed by this principle is actually difficult to pin down precisely. On the one hand, it seems that what counts as slight cost varies with the amount of good which can be done. Spending a day transporting someone to a hospital might be held to be morally required if it resulted in the saving of a life. On the other hand, however, there is a limit to how far this can be taken. Even if by sacrificing one's career one could do a great deal of good (relative to which the sacrifice would, from the impersonal point of view, seem slight) this would not be a slight sacrifice in the sense of the principle. The requirement is perhaps best expressed as follows. Subject to the constraint that one is not required to sacrifice important life-projects, one must render assistance when the cost is slight relative to the good which can be done.

27. The principle of nonmaleficence is discussed by Richards, *Reasons for Action*, pp. 176-183. The special circumstances are primarily those in which inflection of harm is required for self-defense.

28. Henderson and Quandt, *Microeconomic Theory*, pp. 86-87.

It must be emphasized, however, that while some relaxation of the requirement to refrain from harming others may be unavoidable if a free-enterprise system is to function optimally, it does not follow that this requirement has no legitimate place in such a system. For there are surely many economic situations in which respect for the principle of nonmaleficence would not reduce efficiency. And in such situations, there will be no economic justification for violating it. Firing a productive employee with a dependent family to provide a summer job for the son of a business associate, for example, could not be defended by pointing to the disparity between common morality and the implicit morality of the market.<sup>29</sup>

The final component of common morality which might be held to be at odds with the optimal functioning of a free-enterprise system is that which directs respect for the autonomy of other individuals. This requirement is difficult to cast in the form of a principle. It is perhaps most adequately expressed by the Kantian injunction to treat persons not only as means to ends but also as ends in themselves, although this is still rather vague.<sup>30</sup> Without going into analytical details, however, it is not implausible to suppose that this component of common morality requires that all employees participate in managerial decisions (which determine how they will be “used”). And this, too, seems to have the potential to reduce efficiency.

Whether common morality is at odds with economic efficiency in the area of autonomy depends on how much participation is required by the implicit morality of the market. Initially, involving employees in managerial decisions could be expected to increase productivity, since better use would be made of the skills and knowledge of the people associated with the firm. After a certain point, however, any

29. I take this example from Onora Nell, *Acting on Principle* (New York: Columbia University Press, 1975), p. 140.

30. Kant, *Foundations of the Metaphysics of Morals*, trans. Lewis White Beck (Indianapolis: Bobbs-Merrill, 1959), section 2, esp. pp. 46-49. Kant evidently regards this second version of his Categorical Imperative as a complete moral principle, capable of generating all moral truths. But here I view the requirement of respect for autonomy as more specific. In particular, I see it as primarily a requirement that people rationally consent to the uses to which they are put (satisfaction of which may sometimes involve fostering rationality in those whom one “uses”). The use to which someone or something is put is, of course, fully specified only by the complete plan of the user.

gain in productivity arising from a more complete use of expert knowledge and skills would probably be offset by losses stemming from such causes as the failure to achieve economies of scale.<sup>31</sup> Thus the implicit morality of the market itself seems to require participation by all employees in managerial decisions, but only up to the point at which the marginal gain from participation equals the marginal cost. And while the resulting level of participation might be the same as that which would prevail if the requirement of respect for autonomy in common morality were fully adhered to, there might also be a shortfall.<sup>32</sup>

31. This point is made by Jan Tinbergen in a paper on the Yugoslavian system of self-management entitled "Does Self-Management Achieve the Optimal Order?" in M. Broekmeyer, ed., *Yugoslav Worker's Self-Management* (Dordrecht, Holland: Reidel, 1970), pp. 117-127.

32. Since much has been said recently about the appropriateness of participation in managerial decision-making by interested parties of all kinds, it should perhaps be noted that the justification in common morality for participation by employees is wholly different from that for participation by anyone else. Employees are being used to further the ends of the owners of a firm, and thus the ground of their right to participate is ultimately the requirement that people consent to the uses to which they are put. Decision-making procedures which allow employees (or their representatives) a role in the initial formation of business policy can be regarded as attempting to meet the requirement of consent more efficiently by involving in the process from the start those whose consent will in any case be required in the end (thus making it possible to dispense with iterative procedures).

Members of the community who are not employees, however, are not typically used by the owners of a firm. Any effects a firm's operations may have on them are but unintended side effects or consequences of pursuit of the firm's ends. Thus the moral justification for a right of participation by nonemployees cannot be provided by the requirement of respect for autonomy (at least when this is given the narrow construal described in fn. 30). If such participation is to be justified at all, it seems that it must be as a form of prophylaxis with respect to other requirements, such as that of nonmaleficence. That is, participation by nonemployees must be justified as, say, providing a firm with the information it needs to respect the requirement of nonmaleficence in its dealings with them. And if a firm can be sure of satisfying these other requirements without employing such measures, it is not clear that community members have any moral right (at least in common or private morality) to participate in managerial decision-making at all. (This is not to deny that the citizenry as a whole may, by acting through its legal representatives, force firms to promote ends other than profit.)

## IV

If the preceding argument is correct, the optimal functioning of a free-enterprise system either requires, or is compatible with, adherence to some components of common morality in economic contexts, but is incompatible with adherence to others (at least in certain situations). Acknowledgment of the requirement of mutual aid could prevent the purging of inefficient producers, while acceptance of the principle of nonmaleficence would sometimes have the effect of impeding factor mobility. And full respect for the autonomy of employees might result in failures to achieve economies of scale. Does it not follow, then, that morality requires the elimination of free enterprise?

One way this conclusion can be resisted is by questioning whether the level of moral regard displayed in the economic interactions characteristic of nonmarket systems must inevitably be higher than that associated with optimally functioning market systems.

Doubts that nonmarket systems are necessarily superior from the moral point of view first arise when it is noticed that the profit motive is not the proximate cause of the relaxation of common morality typical of an optimally functioning market system. Rather it is the concern for efficiency which the profit motive engenders. Thus if, as seems frequently to be the case, political considerations force those managing a nonmarket system to be concerned with economic efficiency, the interactions which take place within such a system could display many of the same features that make free enterprise morally problematic. As in the case of market systems, ensuring the optimal employment of factors of production and achieving economies of scale might require managers to violate principles of common morality. Rusticating surplus urban workers seems just as problematic from the moral point of view as firing unproductive employees.

Since the implicit morality of the market applies to economic agents in a free-enterprise system, it would be misleading to attribute the violations of common morality which may accompany the manage-

ment of a nonmarket system to adherence by managers to this code.<sup>33</sup> But there is another distinction that can be employed to characterize any relaxation of the requirements of common morality encountered in a nonmarket system, the distinction between public and private morality.<sup>34</sup>

This distinction marks the fact that the moral requirements to which officials of public institutions are subject may differ from those that apply in private life. The moral requirements of private life are essentially those of what I have called common morality.<sup>35</sup> But the moral requirements imposed on public officials may be either more or less stringent than these. Indeed, they may call for the performance of actions which would be impermissible in private life. Those responsible for punishing convicted criminals, for example, are justified in behaving in ways that are normally prohibited by the principle of nonmaleficence.

Most discussions of the distinction between public and private morality are concerned with the behavior of individuals who direct or apply the coercive apparatus of the state. But in a society with a nonmarket system, the distinction is straightforwardly applicable to the economic sphere as well. When political demands for increased efficiency force the managers of a nonmarket system to violate common moral requirements, they can be described as acting on principles of public morality that take precedence over those of private morality. And doubts about the moral superiority of nonmarket systems can be expressed by saying that a nonmarket system may require the acceptance of a disparity between public and private morality which is greater than the disparity between the implicit morality of the market and common morality.

33. I use the term "managers" to refer to the makers of managerial decisions. As in market systems, this task may be performed by either individuals or committees.

34. A good discussion of this distinction can be found in Thomas Nagel's "Ruthlessness in Public Life," in S. Hampshire, ed., *Public and Private Morality* (Cambridge: Cambridge University Press, 1978), pp. 75-91; reprinted in Nagel's *Mortal Questions* (Cambridge: Cambridge University Press, 1979). The other essays in the Hampshire collection are also relevant.

35. It should perhaps be mentioned that Donagan, from whom I have taken the notion of common morality, seems to deny that public officials are any less subject to its requirements than private citizens (see *The Theory of Morality*, pp. 180-189).

The abridgement of common morality which is apparently unavoidable in an optimally functioning free-enterprise system cannot, then, be regarded as providing a conclusive moral reason for rejecting free enterprise. The fact that the interactions between individuals typical of a particular economic system are sometimes characterized by violations of the requirements of common morality does indeed count against it. But there is no reason to suppose that this phenomenon will be found only in free-enterprise systems. And thus it appears that the identification of the morally preferable economic system must proceed on a case-by-case basis. That is, for each society, an attempt must be made to determine which economic system would abridge common or private morality least extensively or severely, given that society's unique political and economic circumstances.<sup>36</sup>

However, once it is noticed that the distinction between public and private morality is applicable to the economic sphere of a society with a nonmarket system, it may seem that additional arguments can be mounted against free enterprise.

One such argument is the following. A free-enterprise system can be regarded as a single, complex public institution.<sup>37</sup> That is, when economic agents act in such capacities as seller, employer, or investor, they can be thought of as adopting institutional roles. Consequently it should be possible to view the implicit morality of the market as a species of public morality. And when economic agents are led by the implicit morality of the market to violate principles of common morality, it should be possible to see them as discharging the duties of public offices which sometimes require their occupants to behave in ways that would be impermissible in private life. But disparities between public and private morality are permissible only when office-holders intend the public good. And the office-holders in an optimally functioning free-enterprise system always intend their own gain. Thus when adherence to the implicit morality of the mar-

36. In view of the wide variety of possible mixed economies, the choice problem will be quite complex in any actual case. It also must be borne in mind that in a particular society, management of a nonmarket system may require the violation of some of those components of common morality, respect for which is underwritten by the implicit morality of the market—for example, the requirement of veracity and, perhaps, that of keeping promises.

37. This might, of course, be denied, but see fn. 41.

ket leads economic agents in a market system to violate common moral requirements, they cannot legitimately be regarded as sacrificing private morality to public. Rather they must be seen as simply behaving immorally. And therefore a nonmarket system will always be morally preferable to an optimally functioning market system, regardless of the degree to which common or private morality is abridged in economic contexts.<sup>38</sup>

At first sight, this argument may appear to be misconceived. For surely the most important consideration in determining whether office-holders may violate common moral requirements is the degree to which they actually succeed in promoting the public good, irrespective of their intentions. It would be absurd to claim that a nonmarket system the management of which was marked by massive breaches of the requirements of common morality was morally preferable to a market system in which much less serious violations occurred, simply on the ground that those who manage nonmarket systems intend the public good. And economic theory seems to show that an efficient employment of resources, which is at least a component of the public good, can sometimes be achieved when consumers and firms intend their own gain.<sup>39</sup>

On closer inspection, however, the argument can be seen as expressing a legitimate worry. For it is a feature of public morality that

38. Alan Goldman seems to make an argument similar to this one in his "Business Ethics: Profits, Utility, and Moral Rights," *Philosophy & Public Affairs* 9, no. 3 (Spring 1980): 260-286, esp. pp. 285-286. A somewhat longer version of this paper appears as chap. 5 of his book, *The Moral Foundations of Professional Ethics* (Totowa, NJ: Rowman and Littlefield, 1980.) Goldman's paper is concerned with many of the same issues discussed here.

39. Of course, the economic efficiency which is a consequence of the pursuit of private gain in a free-enterprise system is only one component of the public good. Moreover, a system of this sort will promote any other components of the public good which have an economic aspect (components such as environmental integrity and racial or sexual equality) only if economic activity is bent to "unnatural" ends by externally imposed regulation. Thus it might be held that overall, the public good (or those components of it which are affected by economic activity) can be more effectively advanced in a nonmarket system. But it appears that here, too, the matter must be decided on a case-by-case basis. The economic and political circumstances of a particular society will determine both the content of the public good and the best institutional means of promoting it.

office-holders are permitted to violate the principles of private morality in the course of performing their official duties only if they adhere to a rigorous standard of impartiality. This is the price they must pay for the moral elbowroom they are granted.<sup>40</sup> And it is not unreasonable to suppose that if those acting in an official capacity pursue their own gain, they will fail to discharge their duties impartially. So the analogy between the implicit morality of the market and public morality may, after all, provide a basis for thinking that nonmarket systems are always morally preferable to optimally functioning market systems.

But while the pursuit of self-interest by governmental officials no doubt often results in their failing to meet the requirement of impartiality, the situation is different in an optimally functioning free-enterprise system. For if a free-enterprise system is to be economically efficient, consumers and firms must be “anonymous.”<sup>41</sup> That is, the proper names of consumers and firms (and the products of firms) must play no role in decisions to buy or sell. Consumers must purchase a given product from whichever producer offers it at the lowest price, and producers must sell to the highest bidder. Thus the implicit morality of the market itself contains a requirement of impartiality. And consequently the impartiality condition for permitting office-holders to violate the requirements of private or common morality can be met by a free-enterprise system even though the office-holders in such a system intend their own gain.

It might also be thought that the necessary moral superiority of economic institutions in which office-holders intend the public good can be established by invoking the moral value of democracy. For the conception of the public good which guides the actions of economic office-holders in a nonmarket system may be determined by democratic decision. And if it is, any violations of the requirements of private morality which non-office-holders must endure can be regarded as self-imposed.

But this argument is not successful either. In the first place, if the numbers of a society choose or endorse a market system—together, perhaps, with regulatory agencies designed to bend economic activity

40. See Nagel, “Ruthlessness in Public Life,” pp. 76-77.

41. Henderson and Quandt, *Microeconomic Theory*, p. 86.

to the promotion of components of the public good other than efficiency—then any violations of the requirements of common morality which result from adherence to the implicit morality of the market can also be regarded as self-imposed.<sup>42</sup> And secondly, as the moral desirability of constitutional restrictions preventing the tyranny of the majority makes clear, the moral weight of democracy (that is, group autonomy) is not infinite. Thus even where considerations of democracy favor a nonmarket system, the frequency with which the requirements of common morality would be violated in such a system, and the likely severity of these violations, must still be taken into account in determining whether a nonmarket system would be morally optimal.

In sum, if the moral quality of the interaction between individuals characteristic of the various economic systems accessible to a particular society is to provide the basis for choosing among them, there do not appear to be any considerations of a general sort which are decisive. In a given society, the disparity between public and private morality associated with the management of a nonmarket system could be greater (or less) than the disparity between the implicit morality of the market and common morality. And the fact that office-holders in nonmarket systems intend the public good, while those

42. To view the decision between economic systems as a legitimate object of democratic choice—or, what is perhaps the same thing, to view a free-enterprise system as a public institution—is to accept a kind of socialism. It might be called moral socialism to distinguish it from the managerial socialism of nonmarket systems (in which economic administrators intend the public good). But denying that from the moral point of view, economic decisions are ultimately social decisions would not seem to be an attractive option for partisans of free enterprise, at least if they have economic reasons for favoring such a system. For if economic decisions are understood as the private decisions of economic agents—possessing, say, the same moral status as decisions about whom to marry (see Robert Nozick, *Anarchy, State and Utopia* [New York: Basic Books, 1974], pp. 268-271), then it appears that economic interactions must be guided solely by the requirements of private morality. And as we have seen, this can prevent a free-enterprise system from functioning optimally.

The doctrine of the invisible hand presupposes moral socialism. If free enterprise is correctly viewed as private enterprise, then it is morally irrelevant whether the pursuit of self-interest by economic agents results in promotion of (part of) the public good.

in market systems intend their own gain, does not seem to resolve the matter in favor of nonmarket systems.

## V

It would be a mistake, however, to suppose that the conclusions just reached provide a final answer to the question of the morally problematic nature of business. For even when a society's political and economic circumstances are such that an optimally functioning free-enterprise system would be morally preferable to any accessible alternative, the relaxation of common morality necessary to achieve optimal functioning still may not be permissible.

This can be seen by once again exploiting the analogy between the implicit morality of the market and public morality. The distinction between public and private morality has a specific justification within moral theory. It does not license moral laxity on the part of public officials, as if greater moral freedom were one of the perquisites of public office. Rather the point is that the administration of institutions which promote social values themselves of moral significance, values such as social welfare or national integrity, may sometimes leave office-holders with no choice but to violate the principles of private morality (which they are in general required to respect). Thus office-holders may ignore the requirements of private morality only when their doing so can be justified from within the moral point of view itself, by invoking moral considerations of a different sort.

Transposing these points to the economic sphere, it appears that relaxing those requirements of common morality which conflict with the implicit morality of the market will not be permissible unless it facilitates the promotion of some morally significant social value. And this will be true even when an optimally functioning free-enterprise system is morally superior to all the alternatives. Thus before weakened moral standards for business can be accepted in a given society, it must be established that they will have the required moral effect.

There are two main social values of moral significance which market systems have been thought to promote especially well. The first is the value of welfare. It is often claimed that a market system can achieve greater output from a given body of resources than a nonmar-

ket system, and increasing output seems to advance social welfare. Moreover, as we have seen, if a market system is to function optimally, some components of common morality must be relaxed in economic contexts. So if economic agents in a market system can be viewed as promoting the moral value of welfare, it may indeed be possible to justify relaxed standards of morality for business.

It is not the case, however, that the moral value of welfare always justifies increasing output. Or, to be more precise, it is not the case that it always justifies with equal strength increases of equal size. From the moral point of view, increases in output display declining marginal value. Thus in a society plagued by poverty, considerations of welfare will almost certainly justify relaxing common morality so as to increase output (at least if the increases are distributed to those in need). But if the total output of a given society is more than adequate to meet the needs of the population, and increasing output serves, say, mainly to forestall demands for a just distribution, gains in output will be supported much more weakly (if at all) by the moral value of welfare. Therefore, in advanced societies it is unlikely that this moral value can be employed to show that morality itself supports a substantial relaxation of common moral requirements in business contexts.

The other morally significant social value whose promotion is often said to be facilitated by market systems is the value of freedom. Although the concept of freedom does not seem to be ambiguous, freedom certainly has many facets.<sup>43</sup> Moreover, it is not clear that all the facets of freedom support market systems.<sup>44</sup> Nevertheless, the view

43. Here I am following Gerald MacCallum, "Negative and Positive Freedom," *Philosophical Review* 76, no. 3 (July 1967).

44. See, for example, T. M. Scanlon, "Liberty, Contract and Contribution," in G. Dworkin et al., eds., *Markets and Morals* (Washington, DC: Hemisphere Publishing, 1977), pp. 43-67.

Scanlon argues that from the standpoint of liberty, the freedom to control one's productive activity is more important than the freedom to exploit one's undeserved natural and social advantages. But while this may be so, it is not decisive in favor of nonmarket systems. In all existing nonmarket systems, economic power is concentrated in the hands of a few, and thus "some people, in order to gain the means of life, have to devote virtually all their productive energy to whatever tasks and pursuits are desired by those who control the goods necessary for life in their society" (Scanlon's characteriza-

is widespread that in important respects, there is some connection between freedom and markets.

Of the arguments seeking to establish this, perhaps the most familiar is that of Milton Friedman in *Capitalism and Freedom*.<sup>45</sup> For Friedman, markets promote freedom in two principal ways. First, in market systems participation in economic interactions is itself an exercise of freedom, since in such systems economic interactions are voluntary—that is, neither coerced nor coordinated by a higher authority.<sup>46</sup> And second, markets guarantee a separation of powers that is necessary for what Friedman calls political freedom.<sup>47</sup> According to Friedman, political freedom is threatened if those who direct the coercive apparatus of the state gain control of the means of life as well. For then the two main sources of social power will be monopolized by a single group of individuals. But since markets accomplish the economic tasks of allocation and distribution without relying on a centralized (governmental or quasi-governmental) bureaucracy, they prevent such a monopoly from forming.<sup>48</sup>

Let us suppose that Friedman is right about these connections between markets and freedom. Does it follow that the moral value of freedom justifies weaker moral standards for business?

Freedom as voluntariness clearly provides no support for a relaxation of the requirements of common morality in business contexts (or anywhere else). People of good character do not have to be coerced into acting as morality requires, and thus full adherence by economic

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tion of market systems, p. 62). And conversely, when the autonomy of employees is fully respected, workers in a market system will be able to exercise a good deal of control over their productive activity.

45. (Chicago: University of Chicago Press, 1962), esp. chap. 1.

46. The voluntariness Friedman attributes to economic interactions in a market system is fully present only when competitive conditions obtain.

47. It sometimes seems that Friedman understands political freedom merely as freedom from bullying by bureaucrats. But separation of economic and political power may make it easier for individuals who are not members of the government to affect governmental policy.

48. Of course, without effective action to ensure competitive conditions, there is a danger that control over the means of life will become concentrated in few hands (which is objectionable in itself from the standpoint of freedom), and furthermore, that those who control the means of life will be able to influence unduly the use of the coercive apparatus of the state—that is, that precisely the monopoly Friedman fears will be created from the other side.

agents to the principles of common morality would in no way diminish the voluntariness of economic interactions.<sup>49</sup>

Nor does it seem that the separation of important social powers which Friedman says markets make possible presupposes a relaxation of common morality in the economic sphere. For the separation of political and economic power requires only that a free-enterprise system be capable of independent performance of the economic tasks of allocation and distribution. And the only constraints on economic activity that appear to be incompatible with the market's independent performance of these tasks are controls on relative prices. Certainly constraints of all sorts designed to improve efficiency can be imposed on a free-enterprise system without destroying its essential economic character, provided only that they do not include controls on relative prices.<sup>50</sup> And there seems to be no reason why this should not hold as well for constraints which reduce efficiency. Thus full adherence to the principles of common morality in business contexts (which would not, it seems, require the imposition of wage and price controls) should not affect the decentralized economic decision making on which Friedman's separation of powers depends. A free-enterprise system in which

49. This remains true when legal sanctions are required to solve the "assurance problem." Sometimes adherence to a particular moral principle by a given agent is contrary to reason unless most others adhere to it as well. And in such cases, coercive support for the principle in question may be necessary to provide the required assurance of performance by others. But as long as the individuals involved are all of good character, none is actually coerced. For such sanctions do not motivate individuals of good character. They merely provide each with a *reason for believing* that the others will behave in the required way. (The assurance problem is discussed by Rawls, *A Theory of Justice*, secs. 42 and 51.)

50. This point is made by Henry Simons in his essay, "A Positive Program for Laissez Faire," in his *Economic Policy for a Free Society* (Chicago: University of Chicago Press, 1948), pp. 40-77. He writes, "The representation of laissez faire as a merely do-nothing policy is unfortunate and misleading. It is an obvious responsibility of the state under this policy to maintain the kind of legal and institutional framework within which competition can function effectively as an agency of control. The policy, therefore, should be defined positively, as one under which the state seeks to establish and maintain such conditions that it may avoid the necessity of regulating the 'heart of the contract'—that is to say, the necessity of regulating relative prices. Thus, the state is charged, under this 'division of labor,' with heavy responsibilities and large 'control' functions" (p. 42).

common morality is fully respected may perform the tasks of allocation and distribution inefficiently, but it will still perform them by itself.<sup>51</sup>

Once it is made clear, then, that office-holders may violate the requirements of common morality only if this has the effect—intended or foreseen—of facilitating the promotion of some morally significant social value, the case for relaxing common morality in business contexts is weakened. Basically, the poorer a society is, the stronger the case will be, since in poor societies the increased output that relaxation of moral requirements makes possible has clear welfare implications. In wealthier societies, however, where support for relaxation must apparently be provided primarily by the value of freedom, it is uncertain whether any case can be made at all, at least if the connection between markets and freedom is of the sort suggested by Friedman.<sup>52</sup>

This does not mean that there are no circumstances under which even a slight weakening of common morality in the economic sphere of an advanced society could be justified. The marginal cost in inefficiency of adherence to the principles of common morality in eco-

51. If solving the assurance problem (see fn. 49) makes it necessary to legally enforce common morality in business contexts, the role of government in economic affairs will of course be greater than otherwise. But since the constraints of common morality do not constitute controls on relative prices, enforcing them would no more threaten Friedman's separation of powers than enforcing the implicit morality of the market so as to achieve economic efficiency. Thus neither of the two facets of freedom on which Friedman's argument trades would be diminished by legal enforcement of morality in business contexts.

52. Thus I am in substantial agreement with Goldman's conclusion in "Business Ethics" that business management is not "strongly role-differentiated." However, I do not believe, as Goldman may, that business ethics should be considered a branch of professional ethics. This becomes clear, I think, when one reflects on the fact that economic agents need not be managers. It would be stretching the notion of a profession beyond the breaking point to regard the roles of, say, job applicant or investor as professional roles—at least if the characteristic feature of professional activity is performance of a task with significant welfare implications for particular (relatively helpless and ignorant) clients. Public morality seems to me a better model for business ethics than professional morality. A free-enterprise system can be viewed as a complex institution in which we all assume various roles at various times. And the moral requirements to which those occupying some of these roles are subject may differ from those of private life.

conomic contexts may increase as the level of moral regard rises. And if it does, attempts to achieve a uniform level of respect for the requirements of common morality inside and outside of business contexts could run afoul of genuine welfare considerations at some point short of the goal, even in an advanced society.

But while moral uniformity may not be feasible, it does not follow that conflicts between common morality and the implicit morality of the market must always be resolved in favor of the latter. In advanced societies, at any rate, there is no reason why compromise is not possible. That is, there is no reason why those requirements of common morality that conflict with the implicit morality of the market cannot be at least partially satisfied without incurring morally intolerable efficiency costs.

The requirement that the autonomy of employees be respected, for example, could be partially discharged by establishing decision-making procedures which give representatives of the employees a voice in policy formation. (In all but the smallest firms, the efficiency costs of direct democracy would be prohibitive.) Similarly, by following policies designed to mitigate or postpone the shock of firings, bankruptcies, and plant closings, economic agents could partially satisfy the requirement of nonmaleficence. An example of such a policy would be one making it possible for the employees of an obsolete plant to take over ownership of it on favorable terms.<sup>53</sup> And economic agents have many opportunities to act on the principle of mutual aid. They might do this by, say, renegotiating a loan or establishing flexible work schedules. The principle of mutual aid itself guarantees that the efficiency costs would be slight.

One final point. The conclusions reached above concern the general business practices—that is, forms of business behavior generally observed throughout an economy—which are desirable from the moral point of view. I have argued, in particular, that a general relaxation of

53. It has been claimed that the absence of a requirement to pay dividends—together, perhaps, with a willingness to accept reduced compensation—makes this financially feasible. The Japanese system of lifetime employment can also be seen as an efficiency-reducing measure justified by the principle of non-maleficence. Of course, if the requirements of justice are met, the shock of firings and plant closings will already be cushioned to a substantial degree. But the pains of relocation and damaged self-esteem are still morally significant.

the standards of common morality in business contexts is unjustified in an advanced society. In part this is because respect for some components of common morality is actually required if a free-enterprise system is to function optimally. And in part it is because, at least in advanced societies, the promotion of social values of moral significance does not necessitate a relaxation (or at any rate, the sort of relaxation that amounts to suspension) of those requirements of common morality which conflict with the implicit morality of the market.

It may not, however, always be in accordance with reason for individual economic agents to act as morality requires. Much will depend on whether the behavior of other economic agents is such that it is possible to speak of a morally required practice as general or, when such a practice cannot be considered general, on whether unilateral satisfaction of the requirement involved in it would be disastrous for a particular economic agent.<sup>54</sup> And, as in the case of the implicit morality of the market, if the generality of a morally required practice has not been established by tradition or convention, legal enforcement of morality in business contexts may be necessary.

54. These matters are discussed in detail in Goldman, "Business Ethics," esp. Section III.

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