Teaching Business Ethics: A ‘Classificationist’ Approach

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Teaching business ethics: a ‘classificationist’ approach

Walter Block and Paul F. Cwik*

Introduction

It is imperative that business ethics be taught at all MBA programmes, and even at the undergraduate level. While no graduate of law, dentistry, veterinary, medicine, engineering, social work or other professional schools can take a degree in any of these respective subjects without being made aware of the case for the propriety and general beneficence of their calling, the same, unfortunately, cannot be said in the case of business schools. In the latter case, all too often, students are allowed to graduate without ever once being confronted with the argument that business too, and even pre-eminently so, makes an important contribution to society, and is a worthwhile pursuit. All too often, despite even having a course in business ethics, students emerge believing that commerce is either vaguely disreputable, or even that it is totally dishonest per se and exploitative. No graduate school from anthropology to zoology has to suffer any similar ignominy.

Business ethics is seen by many graduate schools of commerce or management as a luxury, which can be jettisoned in favour of other, and sometimes more fashionable, courses. When a business ethics course is offered, the content of the course pays very little attention to the essential ethic of business. Instead, the focus of many business ethics courses is the ethical dilemmas that arise in a business setting. There is a fundamental difference between the ethics of a market and behaving ethically in a business. A market is a process by which individuals interact with one another. Thus, the former examines the actions, interactions and consequences of those actions between individuals as a system, while the later examines the dilemma before an individual and the morality of the choices to be made.

There are 38 unique business ethics titles under the top six textbook publishing companies, 22 of which were published in 2005 or later. (Appendix I lists the publishers and the respective textbooks.) Upon reviewing these textbooks in business ethics, we see a tremendous number of chapters that address corporate social responsibility, the collective responsibility of an organization, how the corporation should treat its employees and personal decision making. (Of the 38 titles, most followed a very similar format, while seven followed the casebook format.) Typically, there is an initial chapter introducing the student to business ethics. Newton & Ford (2006), for example, entitle their first chapter ‘Is Capitalism the Best Route to Human Happiness?’ It then contrasts readings from Adam Smith and Karl Marx, leaving the student with the false impression that philosophical arguments supporting the ethics of the market have not progressed in the past 225 years. Throughout the rest of Newton & Ford (2006), the issue is dropped and the focus shifts to the modern issues that address ethics of business decisions, like corporate responsibility, etc. The exclusion from the discussion of the ethics of business is absolutely typical among these textbooks. Furthermore, in other textbooks (e.g. see Chapter 3 in DesJardins 2006), utilitarianism and private property rights are castigated.

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as Classical Theory that do not withstand modern stakeholder criticisms. Finally, there are the sections of the various textbooks that pit the individual against the corporation. The individual finds himself in conflict with his employer because the company wants him to deviate from his personal code of ethics. For example, a person who is trying to sell a product must lie and say that it is a great product, even though he does not like it himself.

The unfortunate aspect of focusing so much on ethics in a business situation is that it gives scant attention to the underlying morality of voluntary exchange. In short, business ethics classes rarely mention the ethics of business – the ethics of commerce. When the courses do address the topic of whether business is ethical, business is usually cast in a negative light. How can a society’s commerce function at all, let alone in a meaningful and efficient manner, if its practitioners are apologetic about their professions, or even ashamed of them?

There is a difficulty in advocating what might be considered by some as ‘boosterism’ for business and free enterprise and this must be faced right at the outset: How can this difficulty be reconciled with academic freedom? After all, there are, no doubt, many professors – both within business schools and outside of them – who see business in precisely this light: a dubious undertaking at best and an exploitative one at worst. It is at this point that the economist can contribute to the dialogue. The economist looks at the economy from both the micro-level and the macro-level. At the micro-level, the economist examines the relationship of trade among individuals and, at the macro-level, the economist takes a systemic perspective. From these vantage points, the economist is able to draw conclusions about the ethicalness of commerce. Unfortunately, not all economists agree; thus, an answer is sought by the ‘classificationist’ approach.

**Classificationism**

To classify is to categorize. To a great extent, the contribution of the science of biology is based upon classifying. To place every living thing in its proper species, genus, order, phyla, etc., is to profoundly explain the functioning of life. Although there is of course more to biology than mere categorization, this categorization accounts for a great deal of knowledge in this field, and is a necessary precondition for its advancement. Without it, the discipline would be slowed down significantly, if not be forced to a grinding halt.

It is our contention that business ethics must borrow a leaf from biology. The ethics of business is critiqued from many points of view. We would like to create a framework to categorize them. It is helpful to the student to organize these points of view. The categories to be used must be tailored to the concerns of business and commerce. Specifically, we propose that business ethics courses compare and contrast how each of the main schools of political economic philosophy analyses the various moral issues that arise in the context of commercial relationships. Specific issues could then be analysed from each point of view. We propose the use of a grid where the various points of view are arranged along the top row and the issues are along the side. The grid’s purpose is to acquaint the student with how each of the contending philosophies would fill in the various boxes that arise on the grid. Appendix II is an illustration of this idea.

We start our classification with the usual political spectrum between left and right. The former is understood to see a limited role for markets, in its moderate stance, and no role for them at all in its more radical aspect. In the latter case, radicalism implies a complete reliance on markets, while moderation translates into a great but far from total confidence in this institution. As in all continua, there are no hard and fast distinctions between the classifications. Consider the colour-wheel: red bleeds into orange, which imperceptibly becomes yellow, etc. While we can certainly distinguish between red, orange, yellow, green, indigo and violet, and these characterizations make sense in the centre of each colour, on their peripheries they shade into one another. So it is with our distinctions pertaining to matters of political economy. At the edges, scholars in these groupings resemble one another; but there are still
differences between them, the analysis of which is facilitated by dividing them in this manner.

There are several ways to characterize our four-part distinctions, and we shall mention a few to attain clarity in our classification system. As the contribution of this paper is from the point of view of the economist, the four categories that we shall use will be labelled according to their respective schools of economic thought: the Marxists, the Keynesians, the Monetarists and the Austrians. The categories are amenable to other names, so a business ethics professor may use whichever ones seem most comfortable.

On the left are the Marxists and the Keynesians, on the right are the Chicagoans (Monetarists) and the Austrians. The schools on the left have an inherent distrust of the market, while the opposite can be said of those on the right. A further division between the schools is possible. The Keynesians and the Monetarists employ a positivist methodology. They reach their conclusions about the market by examining the data. Thus, while each school has a general tendency to trust or distrust the market’s efficacy, they are not wedded to that position. Hence, a Keynesian may (begrudgingly) accept the principle of the Laffer Curve, and the Monetarist may (begrudgingly) accept the Efficiency Wage Model.

The Marxists and the Austrians arrive at their respective positions from a derivation of theory from first principles – specifically value theory. (Unlike our colour wheel analogy, which fits the Keynesians and the Monetarists, the Marxist and the Austrian Schools’ positions tend not to overlap.) At the core of the Marxist School is the labour theory of value. It posits that labour is the source of value, i.e. the more labour that is used, the more valuable is the product. While this analysis is a simplification of the Marxist theory, the general conclusions that are derived are that labour (the working class) is exploited by the employer and all market transactions are inherently unjust.

The Austrians also begin with value theory stating that all value is subjective. They point to the voluntary nature of the market and show that while each exchange is unequal, both sides gain. Exchange is a mutually beneficial process. They contrast the voluntary nature of the market with the coercive nature of government. Thus, it comes as no surprise that the Austrians view the market as inherently moral.

The result of these divisions yields a 2 × 2 matrix. Starting at the bottom left, we have the Marxists and continuing clockwise are the Keynesians, Monetarists and the Austrians. This is illustrated in Figure 1.

As mentioned above, we may instead use their philosophical names. Starting in the lower left corner and moving clockwise, we have the following: socialism, (American) liberalism, conservatism and libertarianism. Additionally, each has a person who, more than most, has come to be synonymous with the four viewpoints: Marx, Galbraith, Friedman and Rothbard.

The pedagogical benefit of this matrix is that a student should be able to take a policy and fit it into one of the four boxes. Thus, the student is able to ‘classify’ the policy and recognize the differences between that and the other policy positions. Each student should benefit from the ability to recognize the origin of the argument. Additionally, the biases of the instructor would be curtailed, allowing each position ‘equal time’. In the preceding section, we reviewed the content of the business ethics courses and found them deficient in covering the nature of commerce as an ethical relationship. Of the four schools of economics, only the Austrians consistently defend the market as an optimal allocation mechanism of

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<tr>
<th></th>
<th>Left</th>
<th>Right</th>
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<tbody>
<tr>
<td></td>
<td>(Inherently distrusts the market)</td>
<td>(Inherently trusts the market)</td>
</tr>
<tr>
<td>Positivists</td>
<td>Keynesians</td>
<td>Monetarists</td>
</tr>
<tr>
<td>Praxeologists</td>
<td>Marxists</td>
<td>Austrians</td>
</tr>
</tbody>
</table>

Figure 1: Schools of Economic Thought
resources and consistently promote exchange as an ethical relationship. The pedagogical benefit of this approach is apparent, and this approach is used in some principles of economics textbooks. For example, in his principles-level textbook, Colander (2006) incorporates six different economic schools of thought. He states,

One of the pedagogical choices I made in writing the book was to concentrate almost exclusively on the mainstream view. However, I also believe that students should be aware of the diversity in economics and know that the mainstream view is not the only view out there. [Some economists] wouldn’t necessarily say that [my] presentation is wrong; they are more likely to see it as misleading, or as diverting the discussion away from other, more relevant, issues.

(Colander 2006: xii)

This sentiment is precisely what this paper attempts to stress. We hope that through a classificationist approach business school students will at least be exposed to the idea that business – voluntary exchange – is inherently moral along, of course, with (three) other views as well.

**Application**

To illustrate the use of this approach, we use three issues that have been in the popular media and that tend to raise the emotional level – minimum wage, property rights and the role of profits. By using the classificationist approach, the student will get a better understanding of not only the position that each school takes but also the underlying ethics of the issue. In Appendix II, the four positions are labelled a1–a4, d1–d4 and g1–g4, respectively.

The Marxist view (a1): According to Marxist theory, there is no need for a minimum wage law. ‘From each according to his ability, to each according to his needs’ is the guiding principle. All production quotas, all remuneration and all services rendered will be set by the central planning authority. Taken to its extreme, someone with several children would get more pay than someone who is single.

The Keynesian view (a2): Wages are set not on the basis of productivity, but rather are due to ‘bargaining power’, of which the poor have too little, and the rich too much. Minimum wage legislation rights the balance, without creating any discernible unemployment effects (Card & Krueger 1994: 772–793).

The Monetarist view (a3): Empirical evidence speaks with a clear voice: wages tend to be determined by marginal revenue productivity. Setting up minimal levels thus leads to unemployment for the unskilled, precisely those intended to be aided; there are few beneficiaries among the poorly paid.

The Austrian view (a4): It is not a matter of evidence: it is rather a dead certainty that no one with a productivity level below that imposed by this law will be able to find or keep a job. The main beneficiaries are competing factors of production with unskilled labour, mainly workers in unions.

The second topic centres on property rights and the government’s power of eminent domain.

The Marxist view (d1): The slogan of the Marxists is, ‘Property is theft.’ For this school, property is the root of all evil. If humankind were to eschew property rights and all of its excrescences, it would be far better off.

The Keynesian view (d2): To the centre-left, human rights are far more important than property rights. When the two are in conflict, we must always support the former, not the latter. Commercial free speech is to be relegated to a very inferior position vis-à-vis political free speech. Nevertheless, there are large arenas of the economy over which it is entirely proper for the rights of property to be respected, but regulated to ensure they are used for the public good.

The Monetarist view (d3): Private property rights are important. They should be extended, even to lighthouses, television and radio bandwidths, and to intellectual property (patents, copyrights). However, they are to be distributed in such a manner as to maximize wealth. Thus, under the right conditions eminent domain laws are useful tools. The rights are to be established through auctions, organized by government. Wherever possible, quasi-markets are to be utilized. Some recent
examples are tradable emissions rights, individual transferable quotas (ITQs) and school vouchers.

The Austrian view (d4): Property rights are the basic building block for the entire economy. Trade and exchange is the transfer of such rights. Without these rights, there could be no economy and no economic calculation. As a result, property rights should be extended literally to the ends of the earth – to all scarce resources. Candidates for privatization include oceans, rivers, highways and streets, libraries, universities and parks. Property should be based on home-steadying and ‘capitalist acts between consenting adults’ (Nozick 1974: 163) such as trade, inheritance, gifts and gambling.

The final example is that of the role of profits. This topic is often presented in a business ethics class. Unfortunately, the different perspectives are not always covered. The classificationist approach attempts to make sure that every position is given its fair attention.

The Marxist view (g1): Profits are evil, and have no redeeming qualities whatsoever. They promote, and are promoted by, the basest of human emotions, greed. They exacerbate relations between people, both within a country and between countries. In the movie ‘Reds’, the Warren Beatty character was asked the cause of war. ‘Profits’, he replied, succinctly and eloquently.

The Keynesian view (g2): Profits do have a small role to play in allocating resources, but they are like fire: extremely dangerous when out of control. There ought to be heavy excess profits taxes, and maxima imposed, lest profiteering become the order of the day.

The Monetarist view (g3): Profits have a large role to play in allocating resources. With the exception of when they emanate from ‘market failure,’ they should be based on market forces.

The Austrian view (g4): Profits are the reward for correctly coordinating the market to meet the consumers’ desires. They have such a large role to play in allocating resources that they should be based solely on market considerations. It is a violation of property rights, moreover, to interfere with profits, as they are based on the voluntary actions of market participants.

Certainly, there is far more to be said about each issue, from each perspective, than can be done here. Admittedly, these brief comments are signposts, not a complete discussion. Nevertheless, we believe this example clearly shows the value of the recommended approach.

In addition to categorizing each issue into the four boxes, we can arrange a host of issues for the student and go through each in turn. Appendix II provides a $n \times 4$ matrix, where we have picked 21 different topics that can be reduced or expanded as the instructor sees fit. The topics offered for consideration are organized under seven categories with three examples of each and are for illustrative purposes only. An instructor for a course on business ethics can substitute other subjects for these, but here an attempt has been made for inclusiveness of coverage. It would be surprising were any professor to want to eschew all of these topics and replace them with different ones.

The way the instructor reports on the views of the four perspectives need not be considered definitive. Not every adherent of each of these four perspectives will fully agree with the views ascribed to it. Any instructor is free to consider his own judgment in this regard. However, the instructor should attempt to be informative; to depict each view in such a way to at least roughly satisfy its adherents. Then, and only then, is real disagreement possible.

This system is flexible, as substitutions can be made to fit the specialties of the instructor and other issues can be added; there is surely more than enough material for a one-semester course. The goal of the course, in its most basic aspect, is that the students become familiar with each of the four perspectives on each of the 21 topics.

It must be understood that any given ethicist need not ‘vote the straight party line’. That is, no one need accept all the positions from any one column. It is reasonable if, for example, an analyst were to align himself with 18 answers in one column of Appendix II, two in another and even one in a third. It cannot be denied, however, that this pigeon hole system will be a failure if there are no broad correlations between positions in political economic philosophy and analyses of
these questions. If the majority chooses five answers from one column, five answers from another, five from the third and six from the last, then these distinctions will not be of much value at all in simplifying the field of business ethics.

Conclusion

What is the justification for organizing a course in business ethics based on 84 different categories, and attempting, as a first step, before trying to determine the correctness or incorrectness of any of them, merely to be clear on what they are? Students, if they are to be able to defend, expound upon, and ultimately contribute to any position in this arena, must be at least aware of the viewpoints held by their intellectual opponents. If they are not, they will scarcely be in a position to take any point of view themselves.

John Stuart Mill stated in this regard:

If all mankind minus one, were of one opinion, and only one person were of the contrary opinion, mankind would be no more justified in silencing that one person, than he, if he had the power, would be justified in silencing mankind. . . .

The greatest orator, save one, of antiquity has left it on record that he always studied his adversary’s case with as great, if not with still greater, intensity than even his own. What Cicero practiced as the means of forensic success, requires to be imitated by all who study any subject in order to arrive at the truth. He who knows only his own side of the case, knows little of that. His reasons may be good, and no one may have been able to refute them. But if he is equally unable to refute the reasons on the opposite side; if he does not so much as know what they are, he has no ground for preferring either opinion. The rational position for him would be suspension of judgment, and unless he contents himself with that, he is either led by authority, or adopts, like the generality of the world, the side to which he feels most inclination.

(Mill 1947 [1859]: 16)

One implication of this perspective is that the best-prepared lawyers know not only their own side of the case, but that of their opponents as well. This preparation is no less important in the world of business or in the study of business ethics. If the ethicist is not intimately aware of the position of his intellectual opponents, both of its weaknesses but especially its strengths, then it would be difficult, indeed, to do justice to his own side of the debate. The same applies to business people. They, too, upon occasion, are called upon to argue with buyers, sellers, workers, suppliers, banks, insurance companies, etc. If they cannot empathize with positions other than their own, they will be less able than otherwise to pursue their own objectives.

When taught according to the classificationist approach, students will, at least, be exposed to the idea along with many, many others, that business is a career that is beneficial to society and a worthwhile pursuit. No longer will they only be acquainted with the position that creates the need to have to apologize or feel ashamed for their chosen profession. For students embarking upon such careers, such knowledge will likely be valuable.

It is for these reasons that a classificationist approach to the ethics of business can contribute to the profession.

Appendix I: Listing of business ethics textbooks published during or after 2005

McGraw-Hill – nine textbooks


**Pearson – Prentice Hall – six textbooks**


**Thomson South-Western Publishing – five textbooks**


**Houghton Mifflin Company – two textbooks**


**HarperCollins – zero textbooks**

Macmillan, which is affiliated with Worth Publishers – zero textbooks

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**Appendix II: A grid of schools of economic thought and various issues**

<table>
<thead>
<tr>
<th>Spectrum</th>
<th>Left (Anti market)</th>
<th>Right (Pro market)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree</td>
<td>Radical</td>
<td>Moderate</td>
</tr>
<tr>
<td>Economic</td>
<td>Marxist</td>
<td>Keynesian</td>
</tr>
<tr>
<td>Philosophical</td>
<td>Socialism</td>
<td>Liberalism</td>
</tr>
<tr>
<td>Person</td>
<td>Marx</td>
<td>Galbraith</td>
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<tr>
<td>Labour</td>
<td>Minimum wage</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a1</td>
<td>a2</td>
</tr>
<tr>
<td></td>
<td>Sweatshops</td>
<td></td>
</tr>
<tr>
<td></td>
<td>b1</td>
<td>b2</td>
</tr>
<tr>
<td></td>
<td>Unions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>c1</td>
<td>c2</td>
</tr>
<tr>
<td>Commerce</td>
<td>Property rights</td>
<td></td>
</tr>
<tr>
<td></td>
<td>d1</td>
<td>d2</td>
</tr>
<tr>
<td></td>
<td>Inside trade</td>
<td></td>
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<tr>
<td></td>
<td>e1</td>
<td>e2</td>
</tr>
<tr>
<td></td>
<td>Corporate raiding</td>
<td></td>
</tr>
<tr>
<td></td>
<td>f1</td>
<td>f2</td>
</tr>
<tr>
<td>Industrial Organization</td>
<td>Profits</td>
<td></td>
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<tr>
<td></td>
<td>g1</td>
<td>g2</td>
</tr>
<tr>
<td></td>
<td>Monopoly</td>
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<tr>
<td></td>
<td>h1</td>
<td>h2</td>
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<tr>
<td></td>
<td>Responsibility</td>
<td></td>
</tr>
<tr>
<td></td>
<td>i1</td>
<td>i2</td>
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Notes

1. The authors of the present paper would like to thank a long-suffering editor, and two unusually helpful and active referees, for comments made on an earlier draft of this paper. The paper was greatly improved as a result of their efforts. However, the usual caveat applies: we alone are responsible for any remaining errors or infelicities.

2. The notable exception has been the rise of business ethics discussions in accounting courses (see Bampton & Cowton 2002). Cummins (1999) and Cowton & Cummins (2003) present research that suggests that business ethics has been on the rise in the UK.

3. While the authors of this paper think that the market is the most moral system of cooperation (e.g. see Rothbard 1978, 1998), we are not attempting to make that case in this paper. However, we do see a deficiency in the representation of our point of view in business ethics classes. Our present purpose is to propose a method of approaching business ethics that allows for a more equal representation of the many different perspectives.

4. We have looked at the textbooks that are published by the leading publishers. McGraw-Hill has 15 unique titles. Pearson-Prentice Hall has 13. Thomson/South-Western (which includes Dryden and Harcourt Publishers) offers eight different ones. Houghton Mifflin has two separate titles. HarperCollins and Macmillan, which is affiliated with Worth Publishers, have no textbooks on business ethics.

Of these 38 different textbooks, only Heath (2002) includes the position that markets are moral. Indeed, the publisher states, ‘[I]t is a business ethics anthology unlike any other’. While we, personally, would like to see more textbooks like this one, it too is not balanced. Pointing out that there are many different kinds of textbooks fails to address the issue, unless the student is required to buy several different textbooks for one class.

Furthermore, there was only one textbook, Hoffman et al. (2001), that comes close to a classificationist type approach. Additionally, this textbook is more than five years old and seems to be the exception and not the rule.

5. This, of course, is an exaggeration, for effect, but there is a kernel of truth in the claim.

6. ‘If I had to answer the question “What is slavery?” and if I were to answer in one word, “Murder”, I would immediately be understood. I would not need to use a lengthy argument to demonstrate that the power to deprive a man of his thoughts, his will and his personality is a power of life and death, and that to enslave a man is to murder him. Why, then, to the question “What is property?” may I not likewise reply “theft”, without knowing that I am certain to be misunderstood, even though the second proposition is simply a transformation of the first?’ (Proudhon 1966 [1840]: 131).

7. As an example, the economist James Tobin is a staunch free trader who opposes tariffs, quotas, etc., and yet takes left liberal stances on many other issues.
8. Another complication is that not all four political traditions may have announced positions on each of the 21 issues. When they have not, one should either leave blank a box on the chart in Appendix II, or, if extrapolating (e.g. positing the position a perspective might take) to be clear and explicit that this is in fact being done.

References


