

Business and Ethics

by *Edmund A. Opitz*

Mr. X manufactures gizmos in a plant which uses the varied skills of a thousand employees. These people might cheerfully acknowledge that they'd rather be sailing, or fishing, or whatever; but when it comes to supporting themselves they have chosen to work with Mr. X in preference to any known alternative. They are free to leave whenever a better opportunity offers, and many have indeed "graduated" into other forms of employment, to be replaced by people who have chosen to work with Mr. X as the best opportunity available to them. A lot of people find gizmos useful, and they are offered for sale at a price consumers can afford. So people buy, and Mr. X prospers.

The relations between Mr. X and his employees are amicable; they are completely non-coercive and all arrangements are voluntary. Likewise all arrangements with customers. Mr. X is wholly dependent on willing customers, over whom he has no leverage except the appeal of his product, plus the persuasiveness of his advertising. Mr. X has a profitable business, and his customers profit too; owning a gizmo makes life more pleasant. There is an overall upgrading of the level of human satisfactions on the part of everyone involved: Mr. X, his

employees, and the users of his product. By any definition of the term, Mr. X is performing a public service; everybody profits, nobody is coerced.

Mr. Y manufactures thingamajigs. There was once a brisk market for this gadget, but times have changed and the item is no longer fashionable. Sales decline steeply and the firm slumps into the red. Mr. Y's firm is on the verge of failure. Now, no one likes to go down the drain, although in the profit and loss system of the free economy—usually called "capitalism"—some firms are bound to fail; customers simply stop buying, an act of free choice on their part, consumer sovereignty in action.

Mr. Y, although he has lost most of his former customers, has friends in Washington; so he lobbies for a handout. The politicians and bureaucrats respond by bailing him out with taxpayers' money. What does this mean to the average citizen? People who had refused to voluntarily pay their hard-earned dollars for one of Mr. Y's thingamajigs now have a portion of their earnings confiscated by the taxing authority in order to keep Mr. Y and his company afloat. Doesn't seem right, does it?

As long as Messrs. X and Y operated in the private, voluntary sector of society they had no power to coerce anyone. Neither man could force anyone to work for him or buy his products. The rules of the marketplace forbid this. Under these rules Mr. Y faced failure, so he entered into an arrange-

The Rev. Edmund Opitz is a contributing editor and a former member of FEE's staff and board of trustees. This is reprinted from the December 1983 issue of The Freeman: Ideas on Liberty.

ment with government, and now the law forces every taxpayer to spend a fraction of his time working for Y, and another fraction to subsidize the sale of Y's product.

There are many real-life situations that parallel the case of Mr. Y. Most recently in the news, and therefore fresh in our memories, is the Chrysler caper. The firm is a large one, and its products have merit. But for a complex set of reasons the American public turned to other makes of automobiles. The free market—which is the playing field where the rules of business hold sway—began telling Chrysler to go into some other line of business, or fail.

This adverse business judgment on its products turned Chrysler toward politics. The several hundred thousands of people who make up Chrysler—management, labor, and stockholders—refused to accept the verdict of consumers, who chose to buy other makes of cars. Instead, they turned to Washington and got help. They got a political remedy for economic failure, as have countless others.

Unbusinesslike Conduct

A business or industry endures only so long as it pleases customers. When a business ceases to please customers it ceases to exist as a business. At this stage of the game it may succeed in pleasing politicians, who have the power to force taxpayers to support the new operation. This is a different ball game. A failed business propped up by a government handout is no longer a business; it's a hybrid which deserves criticism as an unethical raid on the public treasury. It doesn't matter much what you label this politicized industry, so long as you realize that it operates in defiance of the rules which define a business or industry in a free society.

A businessman *per se* operates within the framework of rules laid down by "the market"; when he operates outside this framework, and by a different set of rules, he is something other than a businessman. "The market" describes the process of social cooperation under the division of labor, where

free and virtuous people specialize in a complex variety of tasks in anticipation of a consumer demand for the goods and services they produce. This is stage one of the market, and it is followed by stage two—multiple voluntary exchanges of these goods and services where people give over something they value for whatever it is they value more. The end they have in view is maximum satisfaction of creaturely needs for food, clothing, shelter, recreation, or whatever.

Most of those involved in business, industry, and trade operate within the framework laid down by "the market." They have a genuine desire to serve consumers; they take a craftsman's pride in the honest workmanship embodied in quality products which make the life of all of us safer, healthier, or more pleasant. And they feel a moral obligation to give value for value received; they have adopted and try to live up to a code of "business ethics," a praiseworthy effort, at which most businessmen succeed far better than many in other walks of life.

I was discussing this ethical point with a friend who had taught economics to a generation of students at a fine midwestern college, where he also served for some years as Dean. We were talking about our two professions—teaching and preaching—some of whose seamier sides we had experienced from the inside. "You know, Ed," he said to me, "a thoroughly dishonest man can last longer as a professor or a preacher than as a used car salesman!" I had to admit that there was more than a grain of truth in Ben's cynical observation; and further, that these same intellectuals have a tendency to look down their noses at business, industry, and trade, as if the people involved in commercial activity are a lesser breed—a mean and mistaken opinion which I reject completely.

The Customer Is Boss

In a genuinely free society, a *laissez faire* society in the early sense of this much-abused phrase, the businessman is a mandatary of consumers; the customer is boss. Consumer sovereignty! Is this the way the

businessman likes it? Of course not. Our businessman would like to think of himself as the man in charge, hands on the reins, running a tight ship. But who is he kidding? He doesn't have even the power to set wages in his own factory, or fix the prices he'll charge for his products! His competition, his employees, and his customers make those decisions for him. If he tries to lower wages he will lose his best workers to his competition who pay the going rate or more. If he tries to raise prices people buy elsewhere. He's stymied, and that's why he's tempted on occasion to persuade some politician to bend the rules in his favor, just enough to give him a little "fair advantage." But when a businessman yields to this temptation he forfeits his standing as a businessman and becomes something else—a branch of the government bureaucracy with a status similar to the postal service.

Wealth has a universal appeal, but wealth production is a dull affair. There's nothing about work to make the adrenalin flow or the heart to leap; there's no poetry, dash, or glamour about commercial transactions—which is why the literary tribe turns its back on the realm of trade. John Ruskin, for example, admired the buccaneer and freebooter type, calling him the Baron of the Crags—the knight with his castle atop a hill. The modern man of wealth Ruskin referred to contemptuously as the Baron of the Bags—moneybags, that is. The businessman tends to accept this caricature of himself and his function, vainly trying to conceal it under a false and somewhat ridiculous image.

If only business radiated some of the magic that invests royalty, or reflected some of the panache of the military! So dreams the man of business, who then finds wish fulfillment, of sorts, in assuming titles such as The Spaghetti King, The Chewing Gum Czar, The Fast Food Tycoon, and so on. Captains of Industry meet with their Lieutenants at the Admirals' Club to work out the strategy and tactics of the next "trade war." Inside the plant or in the boardroom our tiger is referred to with affectionate dread as The Boss, or The Old Man.

The Function of the Businessman Is to Serve the Customer

There is an inversion of values here, as well as a gross misunderstanding of the role of the businessman in society, a misunderstanding on the part of the businessman himself, which is shared by friends and enemies alike. Kings and dukes in the precapitalistic ages did not produce or earn the wealth they enjoyed; they seized the wealth produced by others. They lived by "The good old rule, The simple plan, That they should take who have the power, And they should keep who can."

Royalty and the nobility exercised vital functions at the time, but work was not one of them; and the same might be said of the military. As necessary as a military establishment is for the defense of the nation, is it not obvious that military action results in the consumption and destruction of wealth? The businessman appeared on the scene as a different breed altogether; the businessman *earns* whatever wealth he obtains, and the method he employs increases the well-being of others. He is on an ethical par, to say the very least, with those who rule and those who fight!

"I take what I want," said Frederick the Great. "I can always get some pedant to justify my actions." The thief also takes what he wants, and so does the pirate and the racketeer. The king, the crook, the buccaneer and the gangster pursue their naked self-interest directly, operating in terms of a ruthless egoistic hedonism. Bemused by these glamorous figures, apologists for capitalism have explained the motivation of the businessman in terms of the same egoistic hedonism. With friends like this the businessman doesn't need enemies!

It is a truism to say that everyone tries to improve his circumstances, to upgrade his level of well-being. The question is How? Pursuing one's self-interest directly, at the expense of other people, is the way of the powerful and the crooked. Serving one's self indirectly by advancing the well-being of other people is the operational principle of the free-market economy.

To illustrate: the successful buggy manufacturer with a deep personal commitment to this means of transport and pride in his product finds business falling off. Consumer taste is gravitating toward the new-fangled horseless carriage. Our entrepreneur, if he wants to stay in business, must swallow his pride and put his time, talents, and capital at the service of those who want automobiles. The ruler of this tiny industrial empire, as he fancies himself, surrenders, and agrees to put himself at the disposal of consumers. Everyone's welfare is upgraded in the only way possible for this to occur.

The Good Society

The latter part of the 18th century marks a watershed in human history. Walter Lippmann, writing about the capitalistic era which opened two hundred years ago, utters an incandescent truth about this startlingly novel way of conducting our economic affairs: "For the first time in human history men had come upon a way of producing wealth in which the good fortune of others multiplied their own." Read that one again, for it is the basic axiom of the free market economy, so fundamental that it is overlooked by friend and foe alike. Lippmann continues: "For the first time men could conceive a social order in which the ancient moral aspiration for liberty, equality, and fraternity was consistent with the abolition of poverty and the increase of wealth" (*The Good Society*, pp. 193–94).

This was the social order originally known as Classical Liberalism, built around the conviction that there is an inviolable essence in each person, which it is the function of the Law to protect. When the Law is

limited to the administration of justice by securing the life, liberty and property of all persons alike, then people are free to peacefully pursue their personal goals, each respecting the right of every other to do the same. This is the good society operating under the moral law, the only kind of society in which a complex division-of-labor economy can flourish.

There is a moral law whose mandates are binding on every one of us. The moral law within each person—his individual conscience—instructs us to "injure no man." It obligates us to work for justice and fair play in human affairs; to speak the truth in charity, keep our word and fulfill our contracts. This ancient code forbids murder, assault, theft, and covetousness. These are the most important items in any ethical code, so universal as to seem part of human nature itself, and so compelling that most of us acknowledge them as binding even while we fail to obey them.

There is not a separate ethic or set of moral principles trimmed or adapted to this group or that in society, even though our common speech seems to suggest this. It is improper, strictly speaking, to talk about "legal ethics," "medical ethics," "business ethics," or the like. Lawyers, doctors, businessmen are judged by the same moral law that applies to all the rest of us. Free-market rules of business fall well within the moral law; and individual businessmen, large as well as small—so long as they stick to their last—measure up at least as well as members of other trades and professions. Only when a government grant of privilege is obtained is a moral principle violated. But when this happens the violator is no longer a businessman. □