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## Ethics in a capitalistic society

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ETHICS IN A CAPITALISTIC SOCIETY

by

Stanley I. Garnett

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Submitted in partial fulfillment of the  
requirements for the Senior Scholars Program

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What influence can the small share-  
holders in a railway company, or a great  
corporation, or a labor union, have?  
They unite with ease upon one point only:  
they want dividends or results. When an  
illegal policy is to be pursued, or a leg-  
islature or jury is to be bribed, or a  
non-union man is to be 'dealt with', the  
head officials likewise seek only results.  
They turn over the responsibility to the  
operating or 'legal' department, or to the  
'educational' committee, and know nothing  
further. 1

This rather dismal view of American business practice  
was propounded by John Dewey and James Tufts during the  
period of the infamous "trusts" in steel and tobacco.  
Corporate abuses were many during this stage of indus-  
trial development. The giant trusts such as United States  
Steel and American Tobacco were unscrupulous in their  
dealings with competitors and in effect considered them-  
selves the law. Such men as Judge Gary of the steel in-  
dustry considered price-fixing to be a necessary and  
ethical part of business.



Perhaps this attitude on the part of business can be best explained by drawing an analogy with the development of the rules of football. When the game of football was first devised there were few rules, and the rules varied from locale to locale. As the game grew in popularity it became obvious that a standardized set of rules would be necessary. Various changes in the rules were introduced and these changes themselves were constantly being re-adjusted. Several practices that were previously legal such as the flying wedge were outlawed as being too dangerous. The National Collegiate Athletic Association was formed to regulate football and other sports on the inter-collegiate level.

Changes in the rules were often met with hostility and various penalties were devised to punish offenders. Modern business evolved in a similar manner. At first, businessmen were concerned with making as large a profit as possible, and this led to the formation of monopolies that aided in this goal. At the time there were no laws against this practice and monopolists may very well have believed that they were not harming the public interest. Gradually it became obvious that monopolies were detrimental to the public and laws were passed to correct the situation.

Tremendous controversy arose from these and similar decisions which have not really subsided today. Through

the years there have been a succession of cases testing these laws and it has been generally accepted that trusts are harmful in the absence of extensive regulation. We cannot really blame the early corporations for their practices because they were operating in an unexplored field. Their development was guided by trial and error, and any such development is subject to the normal course of abuse and mistakes. While we can be optimistic about the motives of businessmen during this period of development, we must be pessimistic when we consider the development of ethical thinking that has accompanied the industrial revolution.

The difference between the world view of a settler in the Massachusetts Bay Colony and that of a modern day inhabitant of Boston is probably as great as the physical difference between the two periods. The Puritans believed in hard work, but for the work's sake, and not for the material rewards that result. The Proper Bostonian also believes in hard work, but he is also concerned with the "finer things of life". The Puritan saw the world as a testing place for his character, a course of obstacles that must be cleared if he wishes to deserve Heaven. Excluding the existentialists that are now moving into Boston, the average Bostonian can easily see the world as a very rewarding environment where he can live in comfort in exchange for forty hours a week.

The Industrial Revolution of the Nineteenth Century

has made possible a life of relative ease. Mass production and automation enable man to perform many previously arduous tasks with a flick of a switch. The resultant leisure time provided has allowed mankind to develop the arts to a new height of development. While man has been improving his cultural side his ethical nature has also been changing with the advent of industrialism. The economies of scale coupled with the normal rise in population has produced a vast, almost faceless society. In the small Massachusetts Bay Colony each citizen was familiar with almost every aspect of life in the colony and also with his fellow inhabitants. We could expect him to know the names of local officials and merchants, the local laws and customs almost in entirety. However, we would be very lucky if we found a modern Bostonian who knew half the members of the school board.

The use of the word neighbor in the two periods probably best describes the differences in the prevailing thought. In the Massachusetts Bay Colony one's neighbor was not only the person who lived nearby, but also a person who was as familiar to you as your own back yard. He lived in a house that was similar to your own, and the chances are that he had a garden that furnished him with food. He went to the same church and generally had the same interests. In modern Boston there is generally no such similarities between two "neighbors". Because of the lack

of common pursuits among neighbors in Boston, and especially between neighborhoods, there has tended to be a lack of communication, an estrangement between people.

The Irish, the Italians and the blue-bloods live practically side by side and have little understanding, granting the desire to understand, of each other. When we group these highly differentiated peoples in one category we must expect a great deal of speciation such as the "Boston Irish". Different cultural groups living under the same representative government have a different identification with that body than a community made up of one nationality would have with their government.

The similarity of culture in a one nationality locale would tend to cause the people to identify more closely with their officials. For example, let us assume that a man named Olancy were Mayor of Dublin. We would identify the name Olancy more closely with being Mayor of Dublin than we would the name Smith. The unfortunate, although true, rivalry between nationalities within cities as manifested in the racial and cultural makeup of teenage gangs strengthens the identification with one's own group. While not trying to propound a racist viewpoint, I am attempting to draw a parallel between the rise in nationality groups within a community with the tremendous numerical growth. As a community grows in size and complexity it becomes harder for its inhabitants to consider themselves

average members of the community. They are more apt to consider themselves average Boston Irishmen or some equivalent.

The secondary groups are growing at the expense of the primary group, the community. It is an attested fact that a secondary group shifts the focus of its members from the primary group to which they belong. It becomes more important, or as important, to please the members of the secondary group. The primary group becomes progressively less important as the secondary groups grow in stature. Since the citizens are generally more concerned with the events in their own group they tend to become less concerned with the actions of the primary group.

Such is the case with modern communities. It is harder for a man to identify his own interests with the mayor and his staff than it was for the Puritan to identify with the town meeting. The unfortunate consequence of this loss of identification is the lack of a feeling of responsibility that the average citizen has for any actions promulgated by his government. On a national basis, each voter could be held one ninety-millionth responsible for any government action if we took a purely statistical standpoint. Such an infinitesimal fraction is meaningless in itself, but applied to our society becomes an important factor in thought.

The individual is far more estranged from his fellow

man than ever before. Not only have societies grown in population, but also in complexity. It is impossible for any one man to have more than a vague idea of the varied institutions that abound in civilization. The ancients lived in a world that they did not understand, but they also did not seek to understand it. With the advent of civilization mankind began questioning his environment, and each new discovery only caused new questions to be asked. We do not know any more than basic cause and effect relationships, and even these rest upon assumption. The vast amount of technical matter that is now necessary to our industrial society has caused specialization. We now have heart surgeons, pediatricians and opticians where we previously had general practitioners.

This diversification of mankind into many fields of endeavor has lessened our understanding of one another. The problems that beset a doctor are usually very different from those that are faced by a farmer. Their work demands a great deal of their time and energy. The average farmer would know little of the intricacies underlying medical practice. A farmer conversing with a doctor would have to accept the doctor's opinions on medicine as having more worth than his own. He, in other words, is accepting the doctor's authority in the medical realm.

In the same vein this authoritarianism is manifest in modern day life. We cannot cope with all the problems

basic to our complex lives relying only on our somewhat meager knowledge. We must accept the auto mechanic's word that we need a new fuel pump if we cannot analyze the problem alone. In short, we have come to rely on "experts" and tend to content ourselves with being an expert in some other narrow field. Such specialization is inherent in any industrial society and is not necessarily harmful. But we have had other unfortunate consequences.

We have become "other-directed". Etiquette is prescribed by Emily Post. Positive thinking is supplied by Norman Vincent Peale. All this with very little dissension. On a more serious level, however, the law has come to represent morality. A saint in modern life has come to be the man who pays his taxes and doesn't speed. While not quibbling over the morality of the existing laws, it is quite obvious to see the danger in accepting the law as the absolute in morality. We could, in effect, be perfectly moral persons if we never broke a law, if we consider the law to be the absolute moral code. Unfortunately there are many examples of actions that are perfectly legal and also detrimental to the public welfare. In some areas we have even come to the point of judging people to be perfectly honest until they are caught for doing something we were aware of all along. Of course, we may have inwardly considered them dishonest, but would never have said so until they were publicly disgraced. Witness

cheating on expense accounts.

When we combine the normal separation of people and government in a vast society such as ours, with the substitution of the legal for the moral, we can only expect a weakening of ethical behavior. Mankind, with little understanding or interest in fellow man, and substituting law for conscience, can be a dangerous entity. This state of mind has had an interesting effect upon the assessment of responsibility for wrongdoing.

It often seems that the guilty one in the public's eye is the one who gets caught. The failings of a society are often blamed on one individual such as Hitler. This is no more valid an assessment of responsibility than to say that a baseball pitcher was totally responsible for a loss because he threw a home run pitch in the ninth inning. Just as a team could have scored more runs, a society could prevent such a situation from arising through their own strength. While it is often true that one man is cardinally responsible for some action, it is necessary for his group or society to place him in a position of power. All power ultimately rests with the group or society.

In many cases members of a group may believe that they had nothing to do with an action taken by their group. They knew that it was to be done, or that it was being done, but they considered it wrong and did not help. Are these people moral merely because they did not participate



in the physical action. This is a common plea from members of an offending group. If we judge them morally innocent we must conclude that one is only unethical if he violates a law.

An accessory before the fact in legal terminology is a person, who not being present, contributes as an assistant to the commission of an offense. He may be prosecuted under law. This closely parallels a non-acting member of an offending group. While not actually committing the offense, the member aids the offenders by not revealing their intentions to the public. He is therefore being unethical by remaining silent.

This analogy can be carried too far, however. We may be unreasonably harsh with an accessory before the fact if we do not consider his situation in its entire context. The person may be in a dilemma.

...it is easy in dealing with civilized man to lay too much stress on conscious purpose and too little on the importance of spontaneous impulse. The moralist is tempted to ignore the claims of human nature, and, if he does so, it is likely that human nature will ignore the claims of the moralist. 2

We must temper our judgements with understanding. Although a man may be technically unethical, he may be well intentioned. Often the very size of a group creates hopelessness on the part of its members. They may feel that even if they did speak out against some practice they would be one

against thousands.

The average man desires to be in concord with his group. He may disapprove of several group practices, but usually chooses to take the good with the bad and not expect too much. His group furnishes him not only with an outlet for his energy, but also with the many rewards that he seeks. To speak out against the group would be to risk his position within the group, and such a risk merits a very strong stimulus. While not trying to be overly pessimistic, human beings act mainly upon reasons of self-interest. What may be harmful to others need not be harmful to oneself.

A man who risks his position within his group for the benefit of others is making a sacrifice. We cannot realistically expect people to be self-sacrificing. A system of ethics based upon an expectation of perfection can only be applied to the gods, not to man. Occasionally there are some people who qualify as genuine crusaders, but they must not be used as an average, only as an example. If we considered a Rolls-Royce an average car, we then must judge practically all other cars as "poor".

A more practical approach to an evaluation of a member of a group would be to first analyze the group, and then apply the findings to the individual. A group essentially functions as a single unit. It has its moods and goals just as any individual. These moods and goals are a syn-

thesis of the moods and goals of its members. Each member acts on the group, and the group acts on each member. Since everything within a group rests on the interaction among its members, it would be pointless to attempt to isolate the role of any one person.

A group can be basically divided into the leaders and the followers. The leaders play an active role while the followers are generally more passive. The leaders usually originate the ideas, and the followers typically carry out instructions. To say that the leader of a group is the most important member is technically true, but only within context. He is the center of attention quite naturally, but he must have followers. The followers support him and lend importance to his views because they have transferred their power to him. We have long judged the leader of an offending group as the one who should bear the most guilt on the basis of his active role. His followers, however, as a group, are equally or more responsible than the leader. It is the absence of an active role that allows the followers in a group to partake of less than their share of the praise or blame.

Generals are either glorified or castigated for their respective successes or failures. Their brilliant strategy or terrible blunders are considered to be the determining factors in battles. Soldiers, however, the ones who actually win or lose the battles, are seen as pawns.

A solitary <sup>soldier</sup> cannot see himself as the determining factor in a battle because there are so many thousands of soldiers involved in the contest. He may believe that his battalion or regiment holds the keys to victory, but he considers his own role in the light of his membership in the group, rather than in his individuality.

There is a tendency toward group thinking today, and a resultant decrease in the importance of individuality. This tendency to go along with the group has made it increasingly difficult for a person to buck the stream of popular thought. Such an environment is not conducive to ethical behavior and we must judge any erring person in its light. A stockholder in a corporation is in a similar position. Not only is he a member of his community and therefore susceptible to their views, but also he is a member of the typically large group of owners of the company.

A small shareholder may well have the same feeling of futility when he compares how the company is being run with the way he would like it to be run as a voter has when he sees the new superhighway bearing down on his property. He may own several shares of the ten million outstanding but he cannot say that he really has any voice in the manner in which it is run. We could easily imagine his astonishment if we planned him for some scandal perpetrated by management. Since he has no say in the company, how could

he be at fault? We could certainly not convict him in a court of law and certainly would be missing the point if we took this viewpoint.

The individual stockholder is shielded by the great mass of owners. In union there is strength, and similarly in union there is anonymity. Very few convictions result from a lynching or riot. It is very hard to single out the responsible individuals, or even to ascertain if any one man was more responsible than the others. The stockholder is protected in a similar manner by his numbers. If only one man owned a giant corporation he would be exposed to considerably more public censure than the stockholders as a group receive.

It would be pointless to examine this point on an individual basis for, as previously mentioned, the stockholders do not operate as individuals within the group. We must, instead, analyse the role played by the stockholders as a group. Basically, stockholders provide the equity for a corporation through their purchase of stock. They are entitled to select the corporate officers, and thereby choose the type of men they wish to run the company. There has been a great deal of controversy lately about the separation of ownership and control in the modern corporation, but we are not concerned with the active role played by the stockholders, only their demands.

Almost without exception corporations are formed to

produce profits from the generation of services which people are willing to buy. Stock itself is valued on the size of present earnings, or the predicted size of future earnings. Management is selected which is expected to produce the results demanded by the owners. Although this point is sometimes debated, the search for profit motivates the growth and actions of the corporation. The actual workings of the company are generally beyond the knowledge, or even the interest, of the stockholders since they cannot be expected to afford the time to put into the lengthy investigation that such an understanding would require.

Management is certainly aware of the importance of the profitability of the corporation and this profitability determines, to a great extent, the security of their jobs. The voice of the ownership is clear, they want profits, and this voice, while not demanding profits at any cost, often succeeds in accomplishing just that. If we were to assume for the moment that all corporate officials are well-meaning men, how could we explain any corporate abuse? We have eliminated the possibility that some of them may be dishonest for the sake of being dishonest. Why then, would a well-meaning man break a law? He must be stimulated or motivated to a considerable degree before he would take an action that would conflict with his way of life. His motivation may be to retain his job, or to be pro-

moted, and this relates directly back to the stockholders. If there is no way short of dishonesty to produce a profit, and such cases have occurred, and a man's job depends on profitability, we may then say that he has a very strong motive to be dishonest.

The stockholders have created the environment in which management operates, and thus are major causal factors in any situation involving the company. It seems rather odd that the role of the stockholders is constantly being overlooked in examinations of corporate scandals. Merely analyzing the actions of management in such situations makes as much sense as describing the operation of a motor and omitting the function of gasoline. It appears that the public contents itself with making scapegoats of the men indicted and thus negate their own share of the responsibility. The fairly simple actions of management are much easier to understand and discuss than the overwhelming complexity of the situation in its entirety.

The individual stockholder, as previously stated, is excused from responsibility for corporate actions for three reasons: the fact that he is only one of a vast number of owners and therefore has little say in the affairs of the company, the lack of physical control exercised by stockholders over the company's actions, and the general lack of knowledge of corporate practices and affairs. It is clear that these excuses are only superficial

and are of little importance compared to the energy supplied by the stockholders' desire for profit. A somewhat crude analogy would be to compare the stockholders' contribution to the situation with that of a man who leaves an inflammable fluid in an unmarked container. While not actually touching off the fire, this man has provided its basis. To describe the reason for the resultant fire as a match being dropped into a container of inflammable fluid would be ridiculous. Yet a very similar viewpoint is often taken when scandals are examined.

If we continue to overlook the role of stockholders in corporate scandals it will be almost impossible to hope to remedy the situation in the future, and very probable that it will become worse. Now, having examined the causal function of ownership, can suggestions be made to improve the situation?

As with any unsatisfactory problem, improvements are nearly always possible. However, the mental attitude of mankind is an extremely indefinable entity and any suggestions must be based on generalizations and assumptions. It would not be practical to say that the problem lies in man's self-interest, and that the problem would be solved if he were less interested in profits. The incentive for profits provides the impetus in a capitalistic economy, and to remove this incentive would also be to destroy capitalism as we know it.



To also say that the problem would be solved if the stockholders were more conscientious would be too vague to be of any practical use. To be conscientious requires a full understanding of a situation or problem, and it would be a highly optimistic person indeed who could expect stockholders to be well-versed in a company and its respective industry. Stockholders may know that profits were lower in 1964 because the company failed to obtain the patent rights on a new product, they may even be familiar with the case, but they cannot know the complete story for the simple reason that the majority of them do not have the time to launch an extensive investigation of the facts.

Management is judged on results, and the results are reflected in the income statement. If management does not produce they face with certainty one of two alternatives: either they will be replaced or the company will fail. The stockholders do not remove management because they wish to injure them, but only to protect their investment. However, their motives do not alter the result, people lose jobs and careers are ruined. To say that the tremendous pressure brought to bear on management is the fault of the stockholders would only be technically correct.

Stockholders function in a system and play by the rules. An athlete very rarely means to injure an opponent. However, injuries are a part of sports, and must be traced

to the very nature of the game. Similarly, ruined careers and tremendous pressure are a part of capitalism, and it is extremely doubtful that they will ever be eliminated. The very nature of capitalism creates the pressure for profitability. Therefore, this pressure coupled with management's normal self-interest are the culprits in the problem. We cannot hope to reduce their magnitude or importance, but rather cope with them.

We believe that capitalism is the best workable system for the greatest utilization of resources. If its motivation were eliminated, it would be unworkable. Since we believe in the system, and since its inherent problems are inescapable, we can only hope for greater public awareness of the danger. Just as considerable attention is given to informing the public about the potential dangers involved in driving an automobile, the public should also be aware of the problems that can arise from unquestioning and insatiable profit-seeking. The stock market crash is a good example of such unbounded profit-seeking. The public's hunger for quick profit during the 1920's led to an overextension of credit and a ridiculously high level of prices. The resultant crash caused a bleak period of economic crisis. This time of chaos and poverty undoubtedly led many men to take actions that they never would have considered previously.

The public, through their greed and lack of understand-

ing of the system, created an extremely unhealthy environment in which to practice ethical behavior. A starving man is more apt to steal than a well fed one. Similarly, a man who is under great pressure to produce profits is more apt to break a law to further this aim than one who is not. While understanding does not automatically alleviate a problem, it does allow men to consider their actions in its light. Furthermore, a general atmosphere of comprehension of the cause and effect relationship between the stockholders and corporations should breed concern, instead of the apathy or acceptance that is prevalent today.

This court...is not at all unmindful that the real blame is to be laid at the doorstep of the corporate defendants and those who guide and direct their policy...for one would be most naive indeed to believe that these violations of the law...involving so many millions upon millions of dollars, were facts unknown to those responsible for the corporation and its conduct. 3

This statement was issued by Judge J. Cullen Ganey at the close of the electrical price-fixing conspiracy trial in Philadelphia in 1961. This conspiracy involved General Electric and 27 other companies and had been carried on over a period of nine years. The essential feature of the scheme was an agreement among the companies to maintain prices on heavy electrical equipment at a "fair" level. This was accomplished through the submission of identical or nearly identical bids on contracts for machinery. The prices to be quoted were previously agreed upon by high echelon officials of the "competing" companies in secret conclaves.

The scandal first broke when a public utility company complained about identical bids submitted on contracts by electrical companies to the Justice Department. The Justice Department then launched an investigation which uncovered the vast aspects of this conspiracy. The men named as conspirators in the plot were mainly high level officials in the industry, the plant managers and vice presidents, but interestingly enough, not the presidents and chairmen of the board. The plant managers and vice

presidents allegedly fixed prices through telephone conversations and secret meetings. In some cases elaborate codes and signals were used to signal the whereabouts and times of meetings.

This plot was really a highly refined version of the celebrated Gary Dinners of the turn-of-the-century steel industry. The heavy electrical industry had become, in effect, a benevolent monopoly. The executives who were indicted maintained for the most part that even though they were technically violating anti-trust laws, they were not harming the public interest. The Chairman of the Board of General Electric summed up the case before the trial in this manner.

General Electric's Chairman Ralph J. Cordiner last week gave his verdict on the great price-rigging conspiracy in the electrical industry. Before a packed \$7-a plate dinner meeting of the New York Society of Security Analysts, he said: "We don't think anybody's been damaged."

Cordiner said that he had talked to more than a score of Government officials and officers of private utility companies that had been victims of the nine-year-long bid-rigging conspiracy by G.E., Westinghouse and 27 other companies, and "I've yet to encounter the first man who said, 'Cordiner, we've got a complaint, we've been damaged.' We intend to resist. It will be a neat problem to prove damages." 4

In spite of the confidence in the favorable outcome of the trial held by the executives in the electrical companies, nearly all the officers tried were found guilty and sentenced to either large fines, short terms of imprisonment, or both. Most of the men, on the advice of

their lawyers, merely pleaded guilty in the hope of lighter sentences. The results of this trial were widely heralded as a governmental victory against collaboration in big industry, but even more important than this was the fact that businessmen could be put in jail for business malpractice, instead of only paying a large fine.

Furthermore, Cordiner's prediction that it would be almost impossible to prove damages was wrong. Many of the affected utilities sued, and quite successfully. The vital point of the case is that the men who were jailed or fined were not the top officials, the ones responsible for the corporation. Instead, the subordinates were punished. The heads of these gigantic companies stated that they knew nothing of the conspiracy. Witness the change in Cordiner's attitude after the trial.

To the stockholders of General Electric Chairman Ralph J. Cordiner clearly had some explaining to do about the conviction of 16 executives for price fixing. As the company's 69th annual meeting convened in Syracuse last week, Cordiner got right down to it, and with no apology in his voice. "It has been said by some," he said, "that I, as chairman and chief executive officer, either knew of these violations and condoned them or that I was derelict in not knowing of them. Neither is true," said Cordiner, "We were diligent in the light of the facts as we then knew them." 5

As Judge Ganey stated, it would seem rather odd that the heads of these companies would not know of such conspiracies, and even more odd that subordinates would dare enter into them without the consent of their sup-

eriors. In addition, several convicted men stated at the trial and during the investigation that the scheme was actually common knowledge in the higher echelons, and directions as to procedure were issued to them from the top. It is quite difficult to assess how much of the testimony is actually truthful and does not merely attempt to cover up guilt, but it does pose an interesting question. Just who is responsible for the corporation?

This problem is best examined by first tracing the development of the role played by the chief executive and top officials in corporations. With the advent of the Industrial Revolution it became desirable to combine several smaller companies into larger ones to take advantage of the economy of scale. Cloth could be manufactured more economically by a large mill utilizing machinery than it would by single, hand operated looms. However, the grouping of many men in one company necessitated specialization. To become as efficient as possible some men had to devote full time to operating the machines, others would sell the cloth, and some had to oversee the entire process. In the beginning of industrialization, most companies manufactured a single product, or at best variations of the same product. It was very possible that the president or owner of an early, rather small concern that made only a few products could know everything about the company. Chances are he would know by sight most of

the workers, and certainly all of the foremen and executives. He would understand the machinery as he probably had worked his way up through the ranks in the company.

But as the Industrial Revolution progressed and technology advanced, bigger and bigger companies became desirable. Small companies could not afford the expensive machinery that greatly lowered production costs, and consequently either merged or dropped by the wayside. A good example of this would be the tremendous decrease in the number of steel-making firms since the 19th Century. As average corporate size grew the jobs of the top officials became more complex. The complex duties confronting the president became too numerous for him to handle alone. He had to relinquish some of his previous duties to subordinates and rely on their judgement. Where the president previously dealt directly with the labor force, he now had a personnel man and a labor relations specialist. In delegating duties he also had to delegate power. Although the president was ultimately responsible to the stockholders for success, his subordinates were responsible to him. In effect, the personnel man was responsible for the qualifications of men hired and the labor relations man responsible for dealings with the labor union or workers.

As any system becomes more complex, the functions of the individual parts become simpler, as in a production



line, but the parts thereby become more dependent upon each other to turn out the finished product. Where the president used to have his hand in almost all aspects of a business, he now is much more indirectly involved. His decisions are typically composites of the views of his subordinates. A project may fail because the sales manager provided an inaccurate forecast of demand. In such a situation it is extremely hard to assess responsibility for the failure. At first it would seem that it would be entirely the sales manager's fault for his mistake, but a deeper analysis would stress a wider aura of responsibility.

The president could be charged with fault for placing trust in the man. Although we cannot expect a president to be able to predict that the man would make such a mistake, he did place him in a position of power. Because he has done this he must share some of the blame for the failure. The stockholders can even be said to share in the fault because their demands for profit or growth have led the president to take such an action. We must examine every situation in context and not always look for a scapegoat. This example is not meant to imply that we must not find fault with just one person, or even lay blame in a great degree on his shoulders, but rather to imply that in a typical modern corporation there are too many components to situations to look for a simple explanation.

Corporate presidents, the boards of directors, and

other top executives are very similar in function to the top officials in government. Their duty is to fulfill the wishes of the shareholders. Government officials are charged with fulfilling the wishes of the voting public. In administering their duties, government officials appoint politicians to local agencies to provide information and to oversee implemented programs. They are typically entrusted with power to make decisions. This power may be abused, as in the Sherman Adams case of the Eisenhower Administration. Such misuse of power necessarily reflects back upon the administration even though the guilty parties may have acted without permission.

The public cannot be blamed for this reflection, and they have a valid point. Someone had to put the corrupt official in power, or someone had to leave loopholes that could be taken advantage of, and as the administration holds the ultimate power for the good or bad, they are seen as the energy source. In a very similar manner the top officials in a corporation are held responsible for their subordinates. Although, as in the electrical price-fixing conspiracy, the top officials are seldom convicted, they are subjected to considerable public censure. To determine the validity of this censure two different situations can be created.

We can assume that either the top executives knew and approved of abuses on the part of their subordinates, or

that they did not. In the first case the subordinates would be little more than tools in the hands of top management, their shields. The position of middle management would be quite similar to that of a gunman in a gang. The gunman is typically the one who gets caught. He is a small cog in the machine and his job is to do the dirty work. If a corporate president orders his sales manager to fix prices with another firm or else lose his job it would be quite difficult to be sympathetic with him. Of course, we could resort to his environment to gain an understanding of the reasons behind his actions but we still would have to conclude that he was flaunting the law entirely on his own. A more significant yardstick to compare his action to would be prevailing industry practice.

Generally, a president of a corporation is well versed in the industry in which his company competes. Typically he has worked his way up the ladder through a variety of different positions and is conversant in the industry's way of doing things. A survey taken by the Reverend Raymond C. Baumhart, S.J. for the Harvard Business Review was summarized as follows:

Every industry develops its own way of doing things, its generally accepted practices. Since industry climate is an important influence on unethical behavior, how does this influence manifest itself in specific practices that are generally accepted in the industry?

To find out we asked:

In every industry, there are some generally accepted business practices. In your industry, are there any such practices which you regard as unethical?

Taking away those who "don't know", we

have the startling finding that four out of five executives giving an opinion affirm the presence in their industry of practices which are generally accepted and also unethical! 6

This startling survey lays the groundwork for the familiar "If I don't do it someone else will" rationalization. Unethical behavior almost always is designed to give oneself an advantage, whether it is cheating at cards, telling lies, or fixing prices. To remain ethical in an unethical industry necessitates putting oneself at a disadvantage. If competitors use bribes to secure large contracts at lucrative prices there would certainly be a great temptation to do the same thing. If the president of a company in an industry that has unethical practices orders his subordinates to accept these industry norms as rules of action, is he less guilty than a man who originates an unethical practice?

This point may be argued from many different viewpoints; the pragmatic, the idealistic, and a utilitarian one for example. If most people use an unethical practice to their advantage, and a man had no way to stop these practices, and he would be materially harming himself if he did not follow these practices, then a man could be excused for being unethical on the basis of his environment according to a pragmatic approach. An idealist would condemn such an action on the basis of its very nature and would give little heed to the context of the situation. Finally, a utilitarian

would examine the consequences of such an action to determine whether or not it would add to or detract from the public good. The purpose of this paper, however, is not to select a particular viewpoint and then pass judgement, but rather to determine responsibility in situations and environments, and to question whether it is possible to always be ethical in a capitalistic society.

It is not seriously questioned that a man is physically responsible for his own actions.

A man overpowered by superior force might be physically compelled by some ingenious device to shoot a gun at another, knowing what he was doing, but his act would not be voluntary because he had no choice in the matter, or rather because his preference was not to do the act which he is aware he is doing. But if he is ordered to kill another and told that if he does not he will himself be killed, he has some will in the matter. He may do the deed, not because he likes it or wishes it himself, but because he wishes to save his own life. 7

Unfortunately the physical aspect of responsibility is too often stressed in judgements although there has been a trend in recent years in jural matters to weigh heavily psychological considerations. If it can be said that a particular industry has a mental attitude, it can also be said that this mental attitude is a composition of the mental attitudes on its constituents, its traditions, and its environment. Vestiges of such mental attitudes may be seen in industry codes, industrial organizations such as the Associated Builders and Contractors of the

construction industry, and lobbies in Congress.

Such union of individuals and organization tends to bring about a gradual blending of ideas and viewpoints. Organizations tend to discourage individuals who insist on standing by their own ideas when they are in opposition to those of the group. Members refer most decisions back to those of the group. Members refer most decisions back to group values and precedents as a yardstick for their judgements and rules of action. The wider scope of public rightness and wrongness tends to lose importance when a person has the pragmatic yardstick of his own group. The corporate president, caught in the workings of his own group, understandably bases most of his decisions within the framework of his group. The immediacy and urgency of corporate life clouds the issue further and all but makes it impossible to base action upon contemplative thought.

Decisions, therefore, tend to be based upon facts; the existing law, practices, and needs of the company rather than upon careful inspection of the non-material results of an action. Morality can be forgotten in the heat of battle in the business world. I would say that morality is best defined as a group action. Idealistic morality has scant chance of succeeding in our all too human world. Practical morality, however, has, for the simple reason that it does not expect too much from society. If we soundly condemn a corporate president who "goes along with the crowd" and orders prices to be fixed,

there is little chance that he will listen to us. He, as are most businessmen, is a practical man. A stinging condemnation would most likely arouse him to anger and cause him to state that we had no business castigating him in the first place for an unavoidable action. He may point out that everyone else was doing it and that he could not afford to refrain. He may agree that his action was not "right", but he would probably also add that there are a lot of things that are not right, and are also widely practiced.

He would have made a valid point. Why should he be a martyr when by doing so he would not rectify the situation? We could make a valid point by stating that if many men like him refused to follow this practice it would cease to be a problem. Again he would agree with this point but could easily rebut this argument by asking us what assurance we could give him that such an event would ever come to pass, and even if it did what would stop it from occurring again. It would be impossible to answer this question in a practical and factual manner, and indeed most difficult to find examples to use as parallels. The Pure Food, Drug and Cosmetic Act eliminated many of the prior abuses in these industries, yet examples of malpractice still occur.

Social institutions and laws may indeed regulate men's outeracts. So far as men externally conform, their conduct is legal.

But laws cannot regulate or touch men's motives, which alone determine the morality of their behavior. 8

The tendency to unethical action provides the energy for men to commit immoral acts. As the law cannot eliminate this tendency, the basic root of the problem remains unchanged. Indeed extensive law and regulation may increase the problem.

This identification of morality with the legal and jural leads to a reaction which is equally injurious: the complete separation of the legal and the moral, the former conceived as merely outer, concerned entirely with acts, not at all with motive and character. The effect of this divorce is perhaps more serious upon the moral than upon the legal. The separation makes morals sentimental and whimsical, or else transcendental and esoteric. 9

People become accustomed to basing their actions upon tradition and law. Motorists watch for speed limit signs to determine how fast they will drive rather than using their own judgement. Of course, there is a point to speed limit signs in that the people who lay them out generally know more about safe speeds over a particular section of road than the average motorist. However, this does point out the great extent to which the average person relies upon authority.

Men accustomed to authority, and utilizing a pragmatic and utilitarian approach to life, are very susceptible to imitating unethical practice if it is widespread. They often act without thought as to its inherent rightness



or wrongness, but rather its practicability. A top corporate officer in an industry in which unethical practice is prevalent is in a morally complex situation. We have determined that each man is totally responsible for his physical actions. We can also assume that he judges the prevalent unethical practice as being distasteful. There is considerable pressure on him to produce a profit, or to improve the company's standing in some way. By incorporating this unethical practice into his company he will be able to attain these goals. With this set of assumptions we can now analyze the situation in context.

By strict ethical standards the commission of any immoral act is unethical. By these same standards we may judge this man as being ethical if he refrains from the practice, and unethical if he enters into it. The officer has willfully entered into an immoral action. He was not physically compelled and he had a choice. Yet such an evaluation does not include all the facts of the situation. The man is a human being and thereby open to temptation. Other people are being unethical and profiting while he is being ethical and suffering. He may lose his job if he cannot attain the goals set by his company. The easy way out would be to accept them as unavoidable accompaniments of his business. I would venture to say that many corporate officers who condone unethical practice have this attitude whether these practices are false advertising,

patent-stealing or price-fixing.

If the officer decides that the pressures for an unethical action are too great to refrain from it, shall we immediately condemn him as an unscrupulous person? We can say that he has done the "wrong" thing and that it would have been far better if he had not done so yet this does not answer the question. The human being is not a creature of blacks and whites. He has emotions and these tend to distort clear cut facts. Facts can be seen in many different lights depending upon the viewpoint of the observer. The officer reacts to a great many stimuli and one of the weakest of these stimuli often is higher thought. The world of abstract thought frequently lacks in immediacy, and certainly cannot be said to be present in most aspects of our lives.

The man who decides to accept an unethical practice can be seen as a person who is reluctantly going along with a trend that he sees himself incapable of affecting for the good or for the bad. In most instances it would be true that one individual could not stem the tide. Again it will be necessary to evaluate the executive using his group as a background. A more realistic evaluation is possible in this manner because we are not attempting to base decisions upon iron clad rules of action, only upon subjective surveys. Such rules tend to separate a man from his environment, and certainly tend to play down

the importance of the psychological aspects of the situation.

We can first define the group to be studied as the men who run the corporations of the United States. They are at the top of their profession and for simplicity's sake we shall say that they cannot advance any further in the business world. This specification eliminates from this group the middle executive who must be considered separately. These top executives are held accountable for all aspects of their business while a middle executive is typically responsible for one phase or another. Being in charge of such a diversified organization as a modern corporation necessitates a great deal of general knowledge on the part of the executive and certainly a thorough knowledge of his industry. Ideally, the president of a company should be the person within the organization who is most capable of utilizing its potentiality to the greatest degree. He must deal with a gamut of problems throughout his tenure, and his ability is evaluated on how well he handles these problems.

The modern corporate president typically has an intricate organization behind him to assist in coping with the problems and decisions that must be made daily. He has to rely upon the opinions of his subordinates and a great deal of his success or failure as president depends upon the value of these opinions. In addition, the president

is the liason between the stockholders and management. This position naturally places a great deal of pressure on him for he must satisfy both groups. Management, in seeking its own interests, often desires generous stock option plans and higher salaries. The stockholders, on the other hand, often react adversely to such action. The tremendous burden of responsibility placed upon the president can understandably cloud his responsibility to the community.

The burden of responsibility of his position does not excuse the president from his responsibility to the public, but it does provide a basis of understanding for actions he may take that appear to be against the public interest. He is caught in his own world of pressure and has difficulty understanding or even seeing the effects of his decisions upon the community. He may decide to move a plant from one area to another in good faith. In so doing many people in the area vacated would lose their jobs. The pressure to operate the plant in a more suitable area overrides the best interests of the community. Of course, people in the area being moved in to will be provided with new jobs that will compensate for the jobs that are lost, yet this still does not alleviate the ill effects of the move. It would be ridiculous to suggest that no company should ever move because people will lose jobs for that would go against the nature of capitalism, but it does suggest that the

interests of the owners can be harmful to the community without any harm being meant.

In the area of the acceptability of unethical practices a difficult problem is encountered. We have taken as agreed that such practices are widespread and that it would be unusual if any one person could alter the situation. Legislation is helpful in preventing such practices, yet it does not remove the basic cause of the problem. Humans are prone to imitate undesirable actions if they feel that everyone else is doing the same thing. Although it would be pure speculation to attempt to define a reason for the development of an unethical practice, it would be accurate to say that such a practice consists of compensation for inability to achieve goals through legitimate means. For illustrative purposes we can assume that a man is considering to implement extravagant advertising methods to aid in product sales. The advertisements would not be strictly fraudulent, but would overstress the quality of the product. We shall also assume that this will be the first time that this has been done.

This false advertising will increase sales by generating greater public interests in the product. This practice is clearly a compensation for the company's inability to attain its goals through legitimate means. The executive's initiation of this practice was unethical in every respect yet we still may be able to feel sympathetic towards him.

He undoubtedly was under great pressure to produce a profit and may have felt that the only way this goal could be attained was through false advertising. He probably would have preferred not to have done this, but could see no other way to remedy the situation. Much of the point would be missed if we only looked at the factual aspects of the case for we would be omitting the psychological stresses.

We cannot validly say that this man was original in his behavior and therefore subject to greater castigation. He was certainly aware of the existence of unethical practice in other aspects of life. He may well have viewed his action as an unfortunate but unavoidable concomitant of the business world. There are few men who prefer to attain their goals through immoral acts, although many do. It would be better to say that man is a product of his environment and through his and other's efforts was placed in this dilemma. Many people never face such a problem simply because they have either been lucky or they have not had the ability or desire to rise to a position of importance. It is rather hard to judge another if one has not been in a similar position. As with many other things the severest critics often have never been involved with the object of their criticism. They realize there is a problem and then lay blame without understanding.

A good example of the public's lack of understanding

of the problems confronting businessmen are the penalties that are assessed for infractions of business law. These penalties usually amount to little more than a slap on the wrist and have little, if any, corrective effect.

Traditional morality is too much concerned with the avoidance of "sin" and with the ritual of purification when "sin" has occurred. 10

Typical punishments are corporate fines although the electrical price-fixing conspiracy resulted in minor jail terms for some executives. In spite of the punishment that is levied, however, one cannot help but feel that the convicted executives were unlucky. They were subjected to an unfortunate quirk of fate. Often these convictions are a result of some federal investigator deciding that a particular industry should be investigated, and indeed, this is the only practical way such proceedings could be carried out for there are far too many examples of business abuses to allow the authorities to prosecute at one time.

The standard solutions to corporate abuses has been the imposition of government regulation in the form of commissions.

Have you ever tried to figure out why government is meddling in your affairs and the affairs of the public through its regulatory bodies? Have you ever made an effort to understand why there are so many agencies to inspect meat, poultry and other foods, to inspect tenements and other types of housing in the interests of health, sanitation and safety? Have you asked why we have a Federal Trade Commission, Securities and Exchange Commission, Federal Power Commission or

### Interstate Commerce Commission?

If you study the origin of these agencies, you will have to draw the conclusion that all these things, troublesome and expensive as they may be, become necessary to modern, thoughtful government because a minority of people in professions, businesses and other groups act unethically, act illegally, or fail to do what the public - and responsible businessmen - regard as the correct and proper thing to do.

...where government regulates, someone has failed to self-regulate. 11

As previously mentioned, regulations serve as a deterrent to abuses, but do not remove the causal factor. The presence of a great many regulations does not point out an ethical society, but rather one which needs extensive rules of action and punishments to coerce it to act in a moral manner. We cannot even say that the presence of these regulations decreases the volume of unethical practice. Before the Industrial Revolution there were few laws that applied to business, and business abuses mainly consisted of shortchanging customers, spectacular advertisements, and fraud. Today there are extensive regulations applying to such practices yet there still are many abuses of this nature.

The answer to the problem of unethical business practice does not lie in extensive regulation, for this is only a deterrent. It would be as sensible to suggest that a toothache could be cured solely by the use of novacaine as it would be to suggest that laws create morality. Laws only serve to prevent the symptoms of unethical behavior



from appearing too frequently, just as novacaine serves to block the pain messages from being transmitted to the nerve center. The cause of unethical behavior in a capitalistic society is man's inability to cope with all the problems he encounters within the framework of the system through legitimate means.

Caught in our misty business morality is the middle executive, that decidedly twentieth-century American who holds such fascination for journalists, sociologists and novelists. Not high enough in the organization to profess innocence, yet too high to practice it, he must continually interpret management policy, make the daily decisions and do, or order others to do, the sometimes dirty work of the market. 12

It is necessary to our discussion to define what is meant by a middle executive. The term is frequently applied to those who are near the top, yet not at the top, of modern corporations. Such positions as vice president, plant manager and sales manager would be included in the group if such were the definition. However, such a definition would exclude too many other positions, and certainly the vast majority of businessmen, for a discussion of present business practices. A better definition for our purposes would be all men engaged in business who perform one of the five basic management functions; that is planning, organizing, staffing, directing and controlling.

These limitations would create a group that included not only the previously mentioned positions, but also foremen, clerks and their supervisors, and salesmen. By widening the scope of the group we are able to have a diversified selection of business roles to study, and still have a group with one common characteristic: their primary function is to carry out orders from their superiors, or at least base their actions on corporate

policy. Their role sharply contrasts with top management for they put into action policy formulated by their superiors. Middle executives are very similar in function to soldiers whose duty consists of following orders dictated by the general and his staff.

Middle executives typically win promotions by successfully completing programs or actions ordered by top management. Career men within a company win top positions by working their way up in the organization, and doing this requires many years of correctly following orders. Until a man is at the top his job is passive in policy matters. He receives orders and then executes them. Discounting factory workers, the middle executive is on the end of the chain of responsibility typical of business. The stockholders communicate their wishes to the president, board of directors and other top executives. These executives then formulate what they consider to be the best means of carrying out these wishes, and then order their subordinates to follow the plans they have laid.

To simplify matters we shall assume that these middle executives have little power to influence the decisions of the top executives. They may be asked for an opinion, or to make a report, but they do not sit in on policy meetings. If we assumed that they had the power to influence policy decisions we would be giving them the power of the top executives. It is essential to clearly separate

top and middle management when attempting to delineate the responsibility each position bears although there are many cases in the business world where such a separation would be difficult if not impossible.

In the electrical price-fixing conspiracy middle executives were convicted. Almost all of them exercised little if any control in their organizations. It was rather clear that they were carrying out orders or at least following established company or industry practice. Most of them had spent many years with their companies and undoubtedly had a large stake in retaining their jobs. As a middle executive's ability is most often judged by how well he carries out orders, or at least by how well he can interpret and apply company and industry practice, we may assume that these men would be in some danger of losing their jobs if they refused to collaborate. We shall have to assume for simplicity's sake that these men were faced with the latter situation. By doing so we will be able to make many distinctions that otherwise would be impossible.

In attempting to assess a person's responsibility for a given act it is necessary to determine the amount of control he had over the situation. If a person has no control over a situation and has only one course of action he is most often not held accountable for his action. However, if a person has no control over a situation, and

a choice as to his action, he is usually held responsible in some respect. The final case would be to have a person in control of a situation and a choice of action. On first thought we may be tempted to place the top executive in the latter category for he is the one who determines corporate policy. Yet this corporate policy is not the situation he is in, for it is only an action that he chooses to take. His situation is a composite of pressures from the stockholders and the prevailing business environment. The policies he creates become a part of the environment, yet are not a part of the situation at the time of creation. He does not have complete control over the situation by any means, although he does exercise limited control in some cases.

The middle executive also has some control over the situation although it does not fall within the realm of determining company and industry policy. His control lies in the fact that he joined the company, or entered business, and he would have to be very naive indeed if he had not anticipated the possibility of being asked to perform an unethical action. However, the control exercised by the middle executive is best classified as unavoidable control, for the only way to avoid the situation would be to not enter the business world. The more appropriate form of control held by the middle executive would be the role his ambitions play in the situation. Without ambition,

a man would have little reason for breaking a law. Similarly, an executive who had no desire for advancement, or even a desire to retain his present job, would have little of the motivation that an ambitious man would have to perform his job at all costs. The presence of ambition is so manifest in the business world that it is always taken for granted and ignored in examinations of the causal factors in scandals. We may say that he was a greedy man, or an unethical man, but rarely is it stated that he was a victim of his own ambition.

If we created a hypothetical business community that was devoid of ambition, (although ambition and industry go hand-in-hand), there would very likely be little incentive for corrupt practice. Ambition is a very important point in our discussion for it is the very thing that leads them into positions where the businessman sees no alternative except unethical practice. Many businessmen who are convicted for an unethical practice maintain that they were forced into it by their environment. They do not recognize the role their own ambition played for they assume, and quite correctly, that everyone else has ambition and would end up in the same circumstances if he were placed in the same position. This statement is probably true. Many people would end up in the same position as the General Electric executives if they had the ability, ambition and luck that characterized these

men.

The attitude that is most probably held by the majority of executives who are confronted with a conflict between company orders and practices, and their own feelings of morality is one of hopelessness. They have had little, if any, say in the matter. They cannot hope to walk into the president's office and persuade him to change his mind and if they attempted to do so would probably lose all chances of future advancement. Finally they know that if they do not do it "someone else will". The man knows the consequences of any action that he may take in the situation with a great deal of certainty. It is quite understandable that these practical consequences frequently outweigh the moral implications of an action.

Modern executives are caught in what has aptly been termed a "rat race". They have heavily invested their lives in their careers and to falter or slow down would be to fall by the wayside. Modern businessmen are further hampered by the excessive competition among them for the top positions. They realize that if they criticized or questioned their superiors when conversing with their peers, their words may very well reach the men they criticize if an enemy were present. The competition among middle executives, which is generally fostered by companies, causes most of them to become very neutral in character in dealings with others within the company. An

air of comradeship is frequently exuded by a company's employees, but one wonders what ambitions are hidden behind the masks. Dictators commonly play their subordinates against one another to shift their focus of attention from him. When these subordinates are busy competing with each other they have less energy to devote to analyzing the dictator and his policies. The competition among the subordinates also tends to divide them and thereby make them easier to control.

The modern business organization also has the same effect upon employees. Each man, entrusted with a segment of the business, yet generally lacking an overall viewpoint, cannot question management decisions with much factual knowledge. They may believe a decision to be wrong in some respects but usually realize there may be other compensating factors of which they are not aware. Furthermore, the division caused by the natural competition for favor restricts the amount of personal confidences exchanged by employees. They tend to keep all but the most trivial criticism to themselves, criticism which they know would not be worth repeating to the man criticized. Again, speaking in general terms, the amount and serious nature of criticism increases directly with the distance separating the speaker and the object in the corporate hierarchy. It is not at all unusual to hear a factory worker condemn the president of his company when speaking



with a fellow worker. However, it is more unusual for a factory worker to condemn his foreman. The logic behind the level of criticism is simple. If the other factory worker were to tell the foreman that his companion had spoken ill of the president, the foreman would probably either content himself with delivering a lecture to the know-it-all worker, or else ignore it. However, if the foreman were told that he had been criticized by an immediate subordinate there undoubtedly would be a rather unpleasant reprisal.

The unfortunate effect of the critical practices of corporate employees is that most people only dare criticize that which they are separated from by many levels of hierarchy. The employee's most immediate superior is usually the one who affects the employee's promotion to the greatest extent. It is important to be liked and respected by this man and therefore it would be unwise to offend him. Most people are very offended when criticism is directed at themselves, and thereby it would be most unwise to criticize him. However, we know more about the job our immediate superior is filling, or should be fulfilling, and therefore would have the soundest factual knowledge upon which to base criticism. We know less about a position separated by many layers of hierarchy and therefore have much less right to criticize him. Therefore, a great deal of criticism that is delivered

within an organization tends to be superficial and subjective.

Organizations are, however, through the committee process, able to arrive at sound decisions pertaining to operating policy. Individuals are usually willing to listen to objective criticism and corrective suggestions. Ethical matters are not so detached from emotion. Discussions in this area between two individuals are on very sensitive ground. To even question whether an action or policy is ethical constitutes a challenge to the person who is asked. A subordinate may ask his superior if he did not think it better to have more salesmen in the Cleveland area. However, if he were to question the same superior on the morality of a current practice, it would be another matter. A man who acts in a certain fashion accepts that action. For another to question the acceptability of that action is also questioning the acceptability of the actor.

Unfortunately, ethical questions are a sensitive subject, and for this reason are seldom paid more than lip service. I would venture to say that a man would much rather question another's accounting procedure, than his practice of overstating his expense account. The semantic difficulty encountered in arguing moral questions further stymies attempts to debate such matters. To state that a certain practice is "bad" means little more than that it

is disagreeable in the eyes of the beholder. Being "bad" may describe a condition that is detrimental to the public welfare, a condition that is harmful to the practitioner, or an aesthetically inadequate work. An unethical business practice generally is considered one which is illegal or one which is contrary to commonly accepted community or business practice. It is contrary to the public interest.

Typically, questions of morality are settled by consulting the law. If the law permits, it is moral, or at least moral enough. If it is illegal, it is forbidden, although not necessarily immoral. However, questions of an extralegal nature are not as easily solved. The law does not forbid a man to buy land at a pittance, otherwise worthless, which he, and he alone knows contains a valuable mineral deposit. He could do this and be perfectly legal, yet both Kant and the Golden Rule would condemn because he would have acted in a manner he would dislike if it were practiced on him.

Although there has been a marked trend among businesses in recent years to shoulder greater public responsibility, there still is a tendency to consider the law the final determinant of morality. The factors that prohibit intelligent and meaningful discussion of moral business practice within a company are great, and are greatest upon the middle executive. He is in, by no means, a position

to question the ability of his superiors, let alone question their morality. He exists in an environment that is not conducive to philosophical thought. He is committed to the "rightness" of accepted business practices. A young executive that questioned the acceptability of established practice would quickly be singled out as a "troublemaker".

We admit the importance of environment in our dealings with criminals. The courts have generally established a sympathetic attitude toward offenders coming from slum areas and disturbed families. Their reaction against society is attributed to an unsatisfactory upbringing. However, the business community which produces more than its share of offenders is seldom held in the same light. The electrical price-fixing conspiracy case, involving some of the biggest and most respectable companies in the United States, seemed to indicate that a different set of rules are being used in judging offenses. The court recognized that "the real blame is to be laid at the doorstep of the corporate defendants and those who guide and direct their policy" 3 . However, it failed to recognize or state that the men convicted were simply at the wrong time in the wrong place. It would be naive indeed to assume that the problem would never have arisen if these men simply had not been born.

It is almost certain that other men would have taken their place in the conspiracy. The situation and the en-

vironment in which these men worked was every bit as much of a moral slum as any underprivileged area of the country. The respectability of the business community tends to disguise the fact that it is, and has been, a breeding ground for corrupt practice. This does not mean that the majority of businessmen are intentionally unethical, or that even more than a few are, but it does mean that the business environment provides many temptations for unethical action.

Perhaps one of the reasons the business world is not seen in such a light is that its offenses are generally against the public welfare, an insidiously difficult term to grasp. It is easy to see the harmful effects of mugging and to comprehend the malice behind such an action, however, it is far more difficult to visualize the detrimental nature of price-fixing since it is both complex in scope, and not directed against any particular person or group. A person normally would be angered if he were struck by another, yet the same person would not necessarily feel the same emotion if he was watching a fight and was accidentally hit. He was the intended object in the first circumstance, and a victim of chance in the latter. In a similar vein, it would be rather difficult to feel that he was the intended target of General Electric when it entered into collusion with the other electrical companies.

He may feel indignant that General Electric chose to pursue this policy, yet he could not have the same emotion as he would have if someone tried to rob him. If the public had the same indignation for corporate abuses, which are certainly more harmful to the general public welfare than a solitary robbery, as they felt toward a criminal, it is very likely there would be a correspondingly different attitude toward the business community as a whole.

It would not be desirable in a capitalistic economy for the public to be hostile toward business. It would be desirable, however, for the public to be more inquisitive. Unfortunately, the public apparently is contenting itself with government determination of the morality of business practice. This public attitude is similarly borne by the middle executive, although frequently of necessity. If the middle executives, as a group, were more critical of company and industry practice, they would certainly be able to put pressure upon their superiors to not attempt to coerce or compel them into performing unethical practices. However, this brings us to the same conclusion we reached when considering the stockholders and top management: it must be a group action to be successful.

We have concluded that business morality lies outside the control of the individual. Although he himself could remain ethical by refusing to participate in an unethical action, others would take his place. We are not concerned

with determining how an individual may be ethical in the business community for the answer is simple: refuse to be unethical. However, we have also determined that the problem will not be solved unless group action is taken, and as it is not being taken to any great extent at the present we must determine the responsibility of those who are presently engaged in unethical practice.

The single businessman cannot prevent an unethical practice from being performed either through his entreaties or his refusal to participate. In either case he will be replaced by another willing to act in the immoral manner. The middle executive is caught in a dilemma, and one which may well be compared to the old adage, "he cut his nose to spite his face". Owing to his environment, we cannot really blame a man who has fixed prices. We may say that it would have been better if he had not, yet we cannot say that he acted without good reason. He may have been faced with a decision that had unpleasant consequences connected with both alternatives. Should he sacrifice his career or his convictions?

The great moral improvements of the world have been tied to men sacrificing their self-interest for their beliefs. We can indeed say that the price-fixers were lesser men than the great martyrs of history, but to conclude the inquiry with such a statement would do little justice to the situation. Every man who concluded

his judgement with an opinion of this nature would have failed to place himself in the place of the incriminated. It is important to empathize with the person studied in order to assimilate the psychological factors of the case. A hypocrite is defined as a false pretender to virtue or piety among other things. One would indeed be hypocritical if he condemned another without truly knowing that he would not have fallen prey to the temptations that swayed the condemned.

One may counter this argument by stating that the morality of an act has nothing at all to do with what another person would have done in the same situation, and the point is well taken. However, the condemner is only separated from the position of the condemned through fate. He was not in the same place because of the barriers of time, place and inclination. If the condemner cannot truly say that he would not have surrendered to the same temptations, he is just as unethical. Condemning men for their actions using black and white standards of judgement, is little more than searching for scapegoats.

The middle executive has been the scapegoat in almost all investigations of business abuse. The top executives are roundly blamed for their part in the situation, but the middle executives are fined, jailed or fired to protect the company image. Little consideration has been given the fact that many people would very likely have



done the same thing had they been in a similar position. When a city experiences a crime wave, or when a particular area has a high crime rate, various agencies normally begin investigations of the causal factors behind the crime. In some cases slums are torn down and replaced with modern housing. The authorities seldom content themselves with merely punishing the offenders for modern penal theory discounts the deterrent effect of such punishment. The penalty may deter the recipient from repeating the action in the future, but it is also believed to have minimal effect upon others contemplating similar action.

Unfortunately, the dissimilarities between the slum neighborhood and the business environment prevent the same therapeutical techniques from being applied to both. The business world is respectable while the slum is not. We can well imagine the indignation that would arise if a social worker attempted to work with businessmen. Yet the survey of accepted unethical business practices mentioned earlier would seem to indicate that immorality is as widely accepted in the business world as it is in a slum area. It would almost appear that respectability is determined by the type of crime being committed.

One of the difficulties encountered in viewing the business world as a morally unhealthy clime undoubtedly lies in its appearance. The typical businessman is an educated, informed and concerned person. He supports

charitable institutions and participates in community projects. It is difficult to imagine that this person works in an environment, peopled mainly with others as himself, that daily provides temptations for malpractice. This difficulty is encountered because we have been examining the people that participate in the system, and not the very nature of the system itself.

The reasoning and moralizing that evolved from the electrical price-fixing trial in 1961 was systematic and very much in accord with other investigations of business malpractice. The middle executives, who were punished, committed these violations either because they were told to do so, or because they believed that it was the best way to accomplish their objectives. They felt that they were not actually acting unethically.

In both the price-fixing conspiracies and the conflict of interest cases which enlivened our recent corporate history, the principals maintained to the end that there was no victim; they may have violated a law, they conceded, or committed a faux pas, but they had harmed no one. A Westinghouse sales manager explained: "I assumed that criminal action meant damaging someone, injuring someone, and we did not do that." 13

However, they should have known better, and as educated men are not entitled to such rationalization. The top executives, the men behind the plot, are even more guilty for they had the power to prevent such action.

The court, in its decisions, failed to acknowledge

that the very same scandal would probably have occurred even if the Cordiners and Browns had not been born. The court chose to examine the case by analyzing the men involved and their motives. The court, of course, was fulfilling its function: try the case and punish the guilty. Unfortunately, however, weeks after the decision identical bids were still being submitted to public utilities. The punishments levied had failed to prevent a recurrence of the action. We are then left with the rather incongruous situation of several executives confined in jail for a crime which would have occurred in any case, to serve as a warning to others who considered a similar course of action. While these men are in jail the same crime is being carried out by the men who have replaced the convicted.

The Sherman Adams case pointed up the most worrisome aspect of all instances in which improper conduct becomes a public scandal. Inevitably, each disclosure leads to a weakening of public confidence in whatever segment of society is directly involved. And, more important, we are presented with a bad example that will lead some people to conclude that lax morality is a way of life in high circles. If such thinking gains currency, individuals may lower their own standards without even realizing it, because they think that this is the way the world moves for successful people. 14

Unfortunately, the American public is constantly being provided examples of lax morality in all walks of life. The constant stream of convicted government employees who took bribes, altered reports or concealed information has undoubtedly given the government a black eye. The frequent Justice Department proceedings against monopolies in big business has hurt the corporate image. The fixes in sporting events during recent years produced a storm of skepticism. In each case, only a few of the people participating in government, business or sport were guilty of unethical action, but the effects were almost as great as they would have been if everyone had been involved.

The occurrence of an immoral action generally reinforces the likelihood that it will recur. Men usually prefer examples to follow, whether they be for the good or the bad. Cases of immoral practice provide us with the latter, and make it easier for us to follow a bad impulse. Very few people would care to be the first to

do something, whether it would be climbing a mountain or robbing a bank. It is comforting to be sure of the consequences of an action before taking it. The inclination to practice an action generally increases with the number of practitioners. If only a few women wear a bikini bathing suit, others are somewhat reluctant to do likewise. However, if many women wear bikinis, others are much more willing, (granting the necessary requirements!).

If most men in a company cheat on their expense accounts, a man would know that if he were caught he could also point out examples of others doing the same thing. He would feel that the company did not have the right to punish him unless it also punished the other offenders. If, however, no one cheated on their expense accounts, a man who did so, and was caught, would have no support to fall back on to protect himself. The existence of many forms of unethical practice in the business world similarly provides a basis of rationalization for practitioners. A price-fixer can point to the false advertiser or the secret rebater. He is able to soften his own guilt to a degree in the light of the practices of others. And indeed, he has a valid point. He is neither worse nor better than many other men.

His environment provides many temptations for such unethical practice. Men, being human and therefore prone to weakness, understandably fall prey to these temptat-

ions. Unfortunately, the very nature of the capitalistic system reinforces man's weakness. Capitalism is powered by man's self-interest in search of profit.

The distinctive feature of the modern development has been the tendency to abandon moral restrictions and to substitute a wage system, freedom of exchange, and free contract. . . . . To prevent extortionate prices on the one hand, or unduly low prices or wages on the other, the reliance was on competition and the general principle of supply and demand. 15

Although the concept of a "fair profit" has recently come into vogue, particularly with respect to public utilities and other government regulated industries, businessmen seek to maximize profit in the long run. A corporation guides its actions along lines determined by prerequisites for accomplishing this goal. Some corporate actions may seem to be entirely benevolent such as large donations to charity or public institutions. However, the company is quite aware that such action is received favorably by the public who are the ultimate consumers of the company's products. This is not to say that all corporate actions are Machiavellian, but to suggest that the good of the company and the good of the public coincide in such matters.

Almost any action, system or person can be seen as bad if considered from a cynical point of view. It may seem that many of the opinions and examples hitherto used have been produced by a cynical observer. Such is not the case,

however, because the very nature of capitalism is prone to devaluating the importance of theoretical value. The search for profit is, and must necessarily be, the primary consideration in corporate action. Companies are more concerned with the most profitable location for a new plant, not with placing it in an area that most needs new employment. A corporate president is not necessarily chosen for his exemplary moral conduct, but certainly for his supposed ability to run the company. Capitalism would certainly not work as well, if at all, if it had to choose its leaders entirely upon their character. An unsympathetic, demanding man who considered ethics to be the equivalent of law may make an excellent corporate president granting the ability in other matters. On the other hand, a man who considered ethics to be more than the law, which they should be, may not be able to produce the results that the other man could. He may be reluctant to fire an old friend who was inefficient and costing the company many opportunities, or unwilling to enter into a price war with a small competitor.

Although not always true in the long run, the saying that "nice guys finish last" has some validity in capitalism. Although it is possible to counter the previous arguments by saying that the harsh man is being extremely ethical to his stockholders by removing an inefficient cog in the machine, there are many other examples that

can be used to further the point. In an industry where a certain unethical practice is being used to great advantage by most of the companies, is the president being fair to his stockholders by not following the example? This point again can be argued forever from different viewpoints, but the consequences of an action either way are clear. If the unethical practice is not copied by the company, it will be at a disadvantage. Typically, profits will be lowered and the stockholders will be dissatisfied with the company's standing in the industry. The president will be vulnerable. His unwillingness to follow the practice may expose him to a storm of criticism from his fellow officers who feel their jobs threatened.

The president would not be in danger of losing his position because he refused to be unethical, but rather because his refusal had resulted in lower profits. The unsatisfied stockholders probably know nothing of the reason for lower profits other than lowered sales. We cannot really blame the owners for their dismay as they are only protecting their investment, not trying to harm the president or promote immorality. Capitalism is synonymous with the search for profit. The stockholders quite naturally unconsciously favor the unethical practice, although they may be shocked if they were told this, as it will raise profits. In this manner, the capitalistic system reinforces the practicability of an unethical action.



The practitioners may not be acting willingly but they are forced to do so by their own self-interest, the power that propels the system.

Any machine that uses some form of energy for power should also protect against the excess energy leaking out and having harmful effects. Unfortunately, in human systems, it is impossible to create exhausts and converters. Energies that propel men also may destroy them. The capitalistic system, utilizing men's self-interest, also heightens it to a point where it is not always controllable. Instead of the exhaust systems and converters we implement laws to control expressions of self-interested acts we deem detrimental to public welfare. The inherent dangers of capitalism are inescapable. There is no practical way to decrease the degree of self-interest essential to insure the working of the system. If man were less interested in procuring material comforts for himself, and thereby less concerned with making a profit, he would also be less motivated to acquire a practical education that would enable him to insure his goal.

Without the ability to sacrifice present pleasure for future gain, businessmen would not put in the long hours and hard work essential to the functioning of our dynamic economy. We must accept the problems that inevitably accompany capitalism. As with almost anything, the good aspects of an entity are almost invariably accompanied

by problems. The scandals and abuses that have occurred in American business have often overshadowed the beneficial contributions. Big business has made it possible for Americans to enjoy the highest standard of living in the world. Sacrificing the capitalistic system to prevent abuses would also mean giving up its advantages, material though they may be. The comfortable mode of life experienced by the vast majority of Americans has provided us with a stable government, for comfortable people are not apt to revolt. Some may say that comfort is not everything but they would do well to observe the conditions in the underprivileged countries in the world. Their citizens live in an atmosphere of political ferment due to their dissatisfaction with conditions.

There is little doubt that there will always be examples of unethical practice, and reformers should not set their goals upon completely eliminating its occurrence. Instead of seeking to punish unethical action we should seek to reward ethical practice. Regulation frequently only causes immoral practice to reappear in non-regulated areas. While regulation has proved helpful in deterring some practices, it should not be regarded as the end all. Problems involving a large segment of society are not solved or bettered unless there is group participation. Capitalism, through its workings, has created a cynical image to many people. They view it as a battle, with the

survival of the fittest. Cynicism with respect to other's motives begets an unhealthy, although realistic, attitude.

The survey taken for the Harvard Business Review by the Reverend Raymond C. Baumhart, S.J. contained another startling finding. Most of the executives responding to the poll stated that they considered a majority of their equals to be unethical, and that they considered themselves to be ethical. This indicates a cynical and pessimistic attitude, and one which is not conducive to ethical practice. Perhaps the businessman should not be faulted for his pessimistic outlook, but business in general would do better without it. Morality connotes cooperation among members of society, and this cooperation is made difficult by the lack of trust. The capitalistic system demands competition, and competition can easily lead to hostility if the stakes are high. Unfortunately, this has been the case in our society, and in some respects it seems that the urge to express hostility, or to beat the game, has replaced the profit motive.

However, capitalism has worked, and worked well. It admittedly gives rise to many forms of abuses, yet I would say that this is true of all workable economic systems. Critics of the system point to the discrepancy between labor and management with respect to standard of living. They use examples of bad business practice as norms. Yet their criticism has not reached the heart of

the matter. These abuses are natural consequences of the system. Men, motivated by reasons of self-interest, and operating in a system that determines actions through reasons of self-interest, are prone to actions that are detrimental to the general public welfare. Capitalism has worked because it is powered by man's strongest drive. It cannot always be expected to harness this energy.

We are led to the final point. Is it possible for a man to be a capitalist, and to also be ethical? If we define being ethical to mean that a man must always follow iron-clad rules of conduct, then we can also ask whether it is possible for a man to be human, and to also be ethical. I do not believe that a man could always be ethical, even though he may violate only minor points. If we stated that a man could not be judged moral if he ever told a lie, we would eliminate all men. Tact and discretion forbid us from giving honest opinions as to another's mode of dress or taste if so asked. A man who constantly expressed displeasure with his friends' clothing would soon find himself alone. Ethics are better defined from a broad point of view.

A businessman, believing that he will lose his job if he does not fix prices with competitors, in so doing would have acted in an unethical manner, yet he would not have acted in an unforgivable way. He was caught in the system. Any other man may well have ended in the same

position if they had his job. If he were convicted for price-fixing he would be serving as a scapegoat for capitalism, but scapegoats are required to serve as examples. The seeming paradox of capitalism and ethical behavior is unfortunate, yet normal. Man has not yet invented a system that precludes immoral action. The question is not whether capitalism is bad because there are many examples of abuse, but rather does capitalism fulfill its goal as well as other systems?

It is unfair to evaluate the worth of the capitalistic system on the basis of the moral practices that it promotes. Man has managed to be immoral in every environment yet devised. Changing the system will only serve to alter the physical manifestation of unethical behavior. Nations run on socialistic principles are at least as susceptible to bribery and collusion as capitalism. In many respects we have tried to look beyond ourselves in searching for reasons causing unethical behavior. The capitalistic system, in many respects, only reinforces our inherent weaknesses. A great deal of the recent rise in publicity concerning cases of corporate malpractice lies directly in the size of the modern corporation.

Little interest would be generated in eighteenth century America if the newspapers carried a story relating to collusion among cobblers in a city. Yet imagine the controversy that would arise if several modern shoe comp-

anies were convicted of price-fixing. Giant corporations are more newsworthy than small business. Our economy is increasingly being dominated by large firms, and therefore are in the news more often. We are apt to think that modern America is more unethical than its forerunner simply because one reads of such abuses with great frequency.

In addition, two similarly motivated and practiced unethical actions are equal in immorality regardless of the scope of their consequences. The eighteenth century tailor would only be affecting several hundred consumers if he were in collusion with other tailors in his locale. A modern clothing company, however, would be affecting a great many times that number if it acted in a similar manner. The tendency to relate the morality of an action and the size of its physical manifestation blurs impartial judgment. A man who cheats on his income tax statement or expense account is acting as immorally as a company that seeks to evade taxes.

It may appear that I am attempting to play down the importance or necessity of moral thought in our society. Such is not the case, however. I have tried to stress the importance of fully understanding the environment in which the modern businessman works, and how this environment often leads him into unethical ways. It is one thing to criticize, another to improve the situation. Judgment of only the acts, and not the psychological aspects of a

case, is not valid judgment for it contains little understanding. We cannot hope to improve the ethical nature of capitalism unless there is also an understanding of its workings on the part of businessmen.

## FOOTNOTES

- 1 Dewey, John and James H. Tufts, Ethics, p.501
- 2 Russell, Bertrand, Human Society in Ethics and Politics, introduction
- 3 Smith, Richard Austin, The Incredible Electrical Conspiracy, from Fortune Magazine, April 1961
- 4 "After the Great Conspiracy", New York Times, F.24, 1961, p.68
- 5 "Confidence in Cordiner", Time Magazine, May 5, 1961 p.77
- 6 Smith, George Albert Jr., Business, Society, and the Individual, p.53
- 7 Dewey, John and James H. Tufts, Ethics, p.202
- 8 Ibid., p.433
- 9 Ibid., p.467
- 10 Russell, Bertrand, Human Society in Ethics and Politics, p.19
- 11 Hodges, Luther H., The Business Conscience, p.96
- 12 Goodman, Walter, All Honorable Men, p.24
- 13 Ibid., p.11
- 14 Hodges, Luther H., The Business Conscience, p.17
- 15 Dewey, John and James H. Tufts, Ethics, p.158



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**A B S T R A C T**

**ETHICS IN A CAPITALISTIC SOCIETY**

**Stanley I. Garnett**

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The problem of semantics is inherent in any discussion of ethics. The general term "ethics" is itself commonly confused. In addition, systems of ethics must be built upon assumptions, and assumptions are necessarily subject to lengthy debate. These two problems are encountered in my investigation of the ethical practices of the modern business community and to remedy the situation I have taken two steps: the first being an attempt to clarify the meaning of terms used therein; and the second being a clear description of the assumptions utilized to further my analysis. To satisfy those who would disagree with these assumptions, I have attempted to outline the consequences of differing premises.

The first assumption in my discussion is that the capitalistic economy is powered by the motivation supplied by man's self-interest. We are conditioned to basing our courses of action upon an orientation toward gratifying this self-interest. Careers are chosen by blending aptitude, interest, and remuneration. Of course, some people are less materially inclined than others, but the average member of our capitalistic society is concerned with the physical rewards derived from his employment. Status and happiness are all-important considerations in pursuing a chosen course of action, yet all too often they are measured in physical terms.

The normal self-interest natural to mankind is height-

ened in capitalism, due to the emphasis placed upon material compensation. Our thinking becomes mechanistic as life devolves into a complex game played by the rules. We are accustomed to performing meaningless or unpleasant duties to fulfill our gratifications. Thought, consequently, interferes with the completion of our everyday routines. We learn quickly not to be outspoken, as the outspoken one threatens the security of his fellow man. The majority of the people are quite willing to accept other's views on morality, and indeed this is the sensible thing to do as one does not risk his own neck.

The unfortunate consequence of this situation has been the substitution of the legal and jural for the moral and ethical. Our actions are guided by legal considerations and nowhere has this been more evident than in the business community. The large legal departments of modern corporations devote full time to inspecting the legality of corporate actions. The business community has become preoccupied with the law, yet this is necessarily so. Complex, modern, capitalistic society demands an elaborate framework of rules and regulations. Without this framework it would be impossible to have an orderly economy, to say nothing of protecting the best interests of the people.

However, the inherent complexities, contradictions, and sometimes unfair aspects of our legal system can tempt men to take things into their own hands. From time to time

cases arise where men have broken laws while acting in good faith, and other cases where men have been extremely unethical without being illegal. Examples such as these foster the growth of cynicism, and generally create an antagonistic attitude toward the law on the part of business.

My second assumption is that the public, on the whole, has adopted an apathetic attitude toward business morality. When faced with an ethical problem, far too many people choose to cynically assume that, "if I don't do it someone else will." The danger of such an assumption lies in that it eliminates many of the inhibitions that normally would preclude unethical action. The preventative factor in contemplating an unethical act not only lies in it going against the "right course of action", but also in that it would display the actor as one of the few, immoral practitioners. However, if the contemplator feels that many other people follow the same course of action, he would not feel himself to be so conspicuous.

These two assumptions underly my entire discussion of modern business ethics, and in my judgment are the two most important causal factors in unethical acts perpetrated by the business community. The future elimination of these factors seems improbable, if not futile, yet there is no reason to consider things worse than they ever have been before. The heightened public interest in business moral-

ity undoubtedly lies in part in the fact that examples of corporate malpractice are of such magnitude in scope, and hence more newsworthy.