ABSTRACT

The question of whether capitalism’s promises can be achieved across a global economy in a manner that serves all of human kind is demanding a second look. This paper contributes to this discussion by framing the challenge in terms of the broader societal and ethical frameworks within which capitalism operates.

Key Words: Capitalism, Ethics, Economics, Social Responsibility
INTRODUCTION

In the immediate post WW II era, the US, building on its social and economic achievements forged in the flames of the great depression and its two continent war victories, sought to demonstrate that capitalism could be both a premier engine of wealth creation and a stimulus of just and egalitarian societal values and institutions around the world. Now, decades beyond that triumphal period and its broad successes across Europe and Asia, the question of whether capitalism’s promises can be achieved across a global economy in a manner that serves all of human kind is demanding a second look.

Clearly questions concerning capitalism’s benefits and costs have both material and ethical roots. Capitalism is a three legged stool. One leg is private ownership and deployment of the resources required to produce the goods and services a society requires. The second is a free market in which sellers and buyers can agree to an exchange. The third is a political system equipped to maintain the institutions the first two legs require to remain standing (Baumol, Litan & Schramm, 2007). One of those required institutions is a legal system dedicated to the protection of the rights of both sellers and buyers, including criminal justice processes to contain the more egregious market acts. But this system must be supported by a set of ethical standards that go beyond the law to define just buyer and seller behavior within policed markets.

However, ethics, in the business and management literature, is usually a micro topic, an appendage on the theory of the firm and discussions regarding firm performance: e.g., does firm performance include measures of fair treatment of the firm’s stakeholders, including workers and the community? Clearly, however, micro measures both combine to create macro trends and they occur within the broader macro context of societal values and theories and the economic policies they generate. Thus, if we are to understand and evaluate ethical issues and behaviors related to capitalism at the firm level, we need to explore the ethics of a given firm within the context of macro measures of societal ethics. Indeed, the current state of capitalism across the global marketplace appears to be one in which the legal issues generated by free market exchange are institutionally accommodated, but the ethical questions associated with the inequalities created by the system are not only growing but seem resistant to traditional correction approaches.

Ethical issues are often embedded in larger economic success. For example, the US clearly leads all advanced nations in terms of macro economic performance, and by virtually all the economic measures usually applied it is number one in the world. However, the US slips to 4th among advanced nations (behind Norway Australia, and the Netherlands) if one takes into account societal average measures of life expectancy and educational achievement along with per capita income (UN Human Development Report, 2011). Moreover, if one examines these statistics more closely, as the United Nations has recently done exploring the extent to which all segments of national populations enjoy equal benefits and economic opportunities, the US slips from 4th to 23rd, reflecting the unequal achievements of minorities in all categories and women in upper organizational positions and income (UN Human Development Report, 2011).
Clearly, if a firm discriminates openly against women and minorities, not only will its ethics be called into question, it will be vulnerable to possible legal action. However, if a society generates national statistics which suggest broad patterns of wage and promotional opportunity discrimination across sex and ethnic categories, can it claim to be behaving ethically as a national economy or should it too be the target of moral and even legal redress?

At an even more macro level, can a global economy with a pattern of clear segmentation featuring a very small number of “advanced nations” generating and consuming the majority of the globe’s high end products and services and a vast group of emerging, often beleaguered nations, with populations working long hours to create and consume a tiny fraction of that enjoyed by the advanced few, be viewed as behaving ethically? Indeed, the issue of economic ethics appears to be becoming increasingly complex and it is beginning to attract broad and often heated attention, including the recent rash of revolutions in the middle-east. In the U.S., the “occupy” movement, originally directed at Wall Street and increasingly focused on main streets across the country, has attempted to simplify its quest by pointing to the disparity between the 1% of wealthy Americans and the 99% struggling over the past three decades to maintain their piece of the American Dream. The occupy movement condemned this pattern as the result of a combination of illegal (e.g., some aspects of the foreclosure process) and unethical (e.g., the housing loan process prior to 2008) policies, practices and behaviors supported politically by the 1%. Whatever the cause, many are startled to see statistics that illuminate the decline of the American middle class, with income and wealth inequality reversing much if not most of the progress from the mid-1930s through the 1970s to levels last seen in 1929, and apparently on their way toward those of the 1890s (Norton & Ariely, 2011). While there is debate as to whether inequality is continuing to worsen (see Anand & Segal, 2008 for one review), there does appear to be growing consensus that there is not likely to be improvement without significant action.

The purpose of this paper is to explore the interaction of economic and ethics measures of achievement within the US and the global society, leading to an effort to suggest those that might provide ethically sound economic criteria by which a capitalistic nation’s “advanced” status might be evaluated. At the most macro level, the United Nations, as referenced, has begun this process by reformatting an economic issue into an ethical issue through the creation and application of the Inequality Adjusted Human Development Index, the measure that relegates the U.S. to 23rd place among the world’s nations. This index measures the differentiation within a country’s population segments on income, life expectancy, and other core well-being statistics, while also exploring the differences in opportunities to advance on these measures as evidenced by access to educational opportunities and professional training. In doing so, it shifts the focus clearly from who has advanced to who has had the chance to advance. Thus, differences in economic achievement begin to become not just measures of what one has accomplished in terms of wealth accumulation, but what opportunities did one have or not have along the way. That is, these measures shift advancement from an economic issue to an ethical issue.

Across the next few pages, we will first trace the economic and ethical pillars that supported the US from the mid 1930s into the 1970s and then explore how they have been altered by the economic and social policies of the last three decades. Within these shifts we will attempt to trace both their economic and ethical impacts. We then turn to ideas regarding how to begin to
address these issues and how to put capitalism back on a path that is not only economically stable, but also sustainable and defendable from an ethical and social viewpoint.

THE U.S AND THE RISE AND SPREAD OF CAPITALISM

While other countries have certainly contributed to the spread of capitalism over the course of history, the U.S. has played a central role over the last 100 years or so (Stiglitz, 2012). In the section that follows, we trace that development, pointing out not only the economic issues but also what that has meant for ethical and social issues both in the U.S. and the world.

Combined Economic and Ethical advances in the 1930s and 40s.

The US moved to the economic forefront among global advanced nations in the midst of its most challenging period across the last eight decades, the depression years of the 1930s and the war and reconstruction years of the 1940s. The driving force behind this comparative economic progress was an often hesitantly applied set of economic stimulants, including the Works Progress Administration, the Civilian Conservation Corps, the Federal Housing Authority, the Tennessee Valley Authority, the Rural Electrification Administration, etc. Programs such as these, working in fits and starts, reduced some of the pain of the great depression and laid the foundation for the U.S. to assume Allied leadership during WW II when first lend lease programs and then wartime military expenditures brought the nation to full employment.

Perhaps the biggest achievement of the depression era economic programs was in fact their acknowledgement that economic issues, at least their uneven impact, were indeed both a societal level political and ethical issue, an appropriate target for legislative and ideological redress. Thus, the policies of the 1930s and early 1940s were aimed clearly at a level of income redistribution that would generate a middle class capable of the educational and business advancement that could allow some members into the upper regions of economic achievement.

While the public policies and investments helped alleviate some of the economic stress of the great depression and laid the foundation for a new era of economic achievement for the lower societal levels, it was the forced investments and regulations of the wartime economy that brought both an end to the depression and the full emergence of a racially and sexually diverse middle class. Not only did Rosie the Riveter find a responsible working role building warplanes, lower class white and minority workers along the Gulf coast and in California built ships of high quality and mixed race and sex workforces in Detroit and elsewhere crafted the armored tanks and jeeps that assured the Allied victories in Europe and Asia. Not only did women and minorities find jobs in an expanding economy with a military service depleted supply of younger white males, they also found wartime service themselves, though often in segregated units, not only in lower military roles, but also in prestigious flying assignments. The work and military successes achieved by women and minorities during WW II laid the foundation for advances, slowly, in education and jobs in the post war period. Thus, the wartime opportunities that were afforded women and minorities were both an economic and an ethical achievement.
Continuing the Trends: From the 1950s to the Early 1970s.

The advancement of women and minorities continued at a slower pace throughout the post-war period, with signal moments such as the flood of veterans into college during the late 1940s and early 1950s under the GI Bill, the Supreme Court decision on school segregation in 1954 and various state enhancements across job and educational opportunities. The civil rights movement in the U.S. paralleled efforts in many countries around the world to make all people equal before the law. These movements, while not without strife, helped make the discussion of equal treatment and equal opportunity a national and global issue and led to a variety of gains over time.

The country may have reached its peak in terms of ethical advancements in the early 1960s by electing a President who belonged to what was in the U.S. at that time a minority religion and who ran on a platform promising a further push for racial equality and educational and income advancement for those at the lower end of these categories. The assassination of that President and the expansion of the Vietnam conflict, of course, plunged the country into internal turmoil. Through this turmoil, though, substantial advances were still being made in terms of racial and gender equality. The Civil Rights Acts of 1964 and 1968, as well as the push for affirmative action, helped solidify gains in not only equal treatment but equal opportunity. And the 1970s saw the effects of this as minorities and women took more prominent roles not only economically but in politics, entertainment, and other avenues of society.

The 1980’s to today.

In retrospect, perhaps nearly four decades of progress across a range of issues that combined economics and societal ethics may well have been more than most complex societies can expect to achieve and the plunge into political scandal and the slowing of opportunity enhancement in the 1970s might well have been anticipated. Of course the major shift away from the political policies that encouraged and facilitated progress toward the advancement of the lower economic ranks began in the 1980s and has continued, with short term alleviations, into the present (Stiglitz, 2012). The politics of the 1980s, best characterized by the presidential terms of Reagan, brought a resurgence of nationalism in Western societies and a push toward Cold War victory through a glorification of the virtues of capitalism as the means of advancement for nations as well as individuals. Deregulation, tax cuts, and other measures were used to “free up the markets” in the belief that capitalism would serve to accomplish what diplomacy and nuclear stockpiles had not.

In one sense, these efforts were clearly a success as economic gains from capitalism brought pressures that led to the fall of the Soviet Union. As the success of these efforts became clear, a broad following of such policies emerged and the global economy has expanded and seen the rise of developing countries such as China and India. At the same time, however, this same period ushered in a shift in the distribution of wealth, at least within the U.S., with most of the gains being captured by a small percentage of the population (Kopczuk, Saez & Song, 2010). And while it has brought a variety of opportunities for the most advanced groups in the most advanced societies, it has not to this point “trickled down” either to most nations or most individuals.
CAPITALISM, A MEANS TO WHAT END?

Clearly certain advantages of capitalism are undeniable. Free markets are clearly efficient guidance mechanisms for transforming resources into desired goods and services in many arenas and private ownership and direction of the machinery required for that transformation in appropriately private sectors generally enhances responsiveness (Baumol et al, 20087). However, while the machinery of capitalism is superior to competing approaches in many settings, the appropriate criteria for its evaluation, as noted, are not always clear even to those focused on its material achievements. Indeed, prominent U.S. neoclassical economists such as Samuelson (1937) and Galbraith (1958) have challenged using simple profit or production criteria as measures of success, and many current European economists either admit uncertainty about appropriate evaluative criteria or suggest abandoning material yardsticks of performance for such non-quantitative measures as “happiness” (c.f. Frey, 2008). Of course, even such criteria as happiness fail to deal with the possible inequities associated with the process of their achievement.

If we are to evaluate capitalism’s performance, we need to consistently apply criteria that are intellectually and politically supportable. For example, there are health and education criteria that advanced nations must achieve, for example, being in the top group of nations in terms of life expectancy and average achievement in terms of educational level. However, average measures of life expectancy do not reflect the ease of access to adequate medical care, a measure far more likely to be achieved by the 1% as opposed to the lower 20% in nations such as the US without, at the present at least, full assurance of access to medical care for the total society. Similarly, access to education, while guaranteed in countries like Denmark and Finland, is unequally distributed in many countries. In the US, for example, access to a high school diploma conveys no guarantee of equal educational access or achievement as accelerating tuitions for higher education has moved the country far from the cost levels that facilitated the wave of college degree pursuit pushed along by the GI Bill in the later 1940s and early 1950s (Bloomberg, 2012).

Of course the fact that the rapid expansion of college degree holders assisted by the GI Bill turned out to be an excellent investment for the society as the new graduates moved into jobs and quickly up managerial ranks in US organizations, should be noted. Indeed this investment in education proved to be an asset that assisted the further push of the US economy, which had reached all-time productivity records during WW II with an economy featuring women and minority workers, to new heights of international leadership through the 1950s and 60s. In fact, a cost/benefit analysis of virtually every investment in formal and vocational education made during the period from the 1930s through the 1960s appears to be overwhelmingly positive (Schultz, 1971).

If indeed we know that assurance of equal access has worked in the past and why, the causes of the current concerns seem clear. It would seem to us that the issue rests not in the economic domain but in the ethical domain. Two and a half generations since the 1960s have indulged, indeed as obesity data indicate, overindulged in the good life that US economic success has generated – indulged to the point that they have failed to answer, or even to raise the two obvious futures oriented questions, “what do we do next?” and “why?”
Though it can be addressed in a number of ways, the question of “why” is probably more easily addressed than that of the “what.” An effort to redress disparities in economic opportunity within the US provides the easiest “why” response – because it will benefit all US citizens. The broader challenge of evening the economic returns across the global economy is clearly the bigger and less easily provided “why.”

If one looks at recent centuries of economic exploitation of currently underdeveloped regions such as Africa and portions of South America and Asia, a simple answer focused on redressing unethical policies and actions would seem easy to construct. Clearly the wealth of modern western societies rests in part on their exploitation of people and resources of less developed regions. So, redressing what are clearly now viewed as unethical policies and actions of the so called advanced nations toward their less advanced global neighbors provides a large, messy but understandable answer to the question of “why.”

Perhaps an even cleaner and certainly more economically attractive “why” answer is that a full blown effort by a coalition of “advanced” nations to address the highly visible outcomes of their past failures to behave ethically in their interactions with less developed nations would have positive returns for both the “haves” and the “have-nots.” Clearly there are pieces of such efforts at redress sponsored by the UN and other global agencies, but none of these reflect the level of investment of resources, time, and effort that past unethical exploitation might appear to warrant. Indeed, most appear to be, in size and commitment, akin to the coin dropped in the hat of the legless war victim.

In sum, an ethical response to a lengthy period of major exploitation would appear to require a lengthy period of substantial investment of resources and skills in the human and material resources of misused societies. Moreover, casting such an effort in ethical rhetoric would masque the fact that economic investments in underdeveloped areas tend to benefit those making the investments as much as those receiving them (Berg & Ostry, 2011). Indeed, broadening the global market place by turning underdeveloped nations into consumers of higher end goods and services is clearly a self-serving move by “advanced” societies. Such a course of action, though, is not without its challenges to those currently on the “advanced” side. However clearly advantageous such expansion may be to resource owners, it may well be frightening to those with the deepest pockets because once workers begin to enjoy steady work and pay they become less easily manipulated – the person in the breadline has to listen, the person on the picket line with pay in his or her pocket wants to speak.

The “why” question thus appears to be answerable. The “what” question, in contrast has a much broader scope. The issue here is balancing capitalism driven economic advances with equity in both outcome and opportunity. Specific suggestions are easily assembled from a variety of academic, business, and governmental sources and we highlight those before turning to broader questions.

For example, at the level of the firm, there is a growing debate concerning the virtues of exploration, achieving wealth primarily through innovation and rent creation, as opposed to wealth creation through exploitation of existing resources (March 1991). It appears that innovation has become the primary path to wealth creation and innovation requires knowledge
sharing both within and across firms (Miles, Miles & Snow, 2005). Knowledge sharing in turn requires building a trusting, collaborative culture in which all participate and reap an equitable share of the returns. At the same time, however, innovation is often inhibited by managerial values honed by a societal focus on individual material gain (Miles & Miles, 1999).

Similarly, at the national level, one can examine the achievements of Finland which transformed its economy from that of a raw materials producer to a first class innovator across product areas, sustained by broad investments in education and social services (Schienstock, 2004). Indeed, in countries such as Finland and Denmark where everyone is assured of education through graduate levels, both human capabilities and managerial values tend to cease to be a barrier to innovation. Of course larger and more diverse societies face bigger transformational challenges, but directional and value models are clearly available.

At the global level, the statements and actions of the UN and agencies such as the IMF often reflect advanced thinking on issues such as global warming and income and opportunity investments but their attempts to lead their constituents in new directions often run into the same value barriers hampering collaboration in firms. Nevertheless, the direction of their efforts is clear and one suspects that as the problems become more dire, cooperation will increase.

In sum, we can see across the achievements of successful firms, nations, and at least some segments of the global economy a clear path toward a productive and sustainable future, built on knowledge based innovation supported by the educationally advanced capabilities and values that facilitate trust and collaborative interaction. At the same time, there appears to be a lack of discussion regarding the changes in national and global values that are necessary to support this future. Said differently, if we acknowledge that a society’s position in the “advanced” category cannot be certified on economic grounds alone, we are obligated to specify the non-economic criteria that a society must meet before they are termed fully advanced.

If we were to assume a broad push by an advanced society to imbue its economic policies with ethical values, where would such a process begin and how would its success or failure be evaluated? Clearly a tougher stance on the economic discrimination against women and minorities offers a highly visible starting point, one with a history of past achievements and current failures to measure and publicize progress, and its lack. Interestingly, the educational achievement progress by women appears to be real and continuing, clearly more so than their advancement to higher corporate levels and within those to salary equality. The successes and relative failures in women’s move up the position and salary ladder are difficult to evaluate and regulate. It appears more likely to change through publicity, including Congressional hearings, than through difficult to prove legal action.

Nevertheless, the inequality in women’s salaries is probably easier to influence in the short run than is the overall unequal economic achievement deficit, compared to white men and women, of the US minority population, and correspondingly, the non-white populations in Africa, South America, and Southeast Asia, and the slowly evolving economies in the countries they inhabit. While minorities, particularly African Americans, made substantial advances economically, geographically, and educationally during and after WW II through the 1950s and 60s, many of the economic havens of that period, as noted, such as shipbuilding, automobile and military
equipment manufacturing, have shifted their centers, either geographically within the US or internationally. There are thus large urban concentrations of minorities in cities without clear employment paths for them, a situation which discourages educational attendance and achievement and encourages high involvement in illegal activities. The limited policy efforts that have been attempted, e.g. the job corps and other focused vocational training activities, have success rates that appear to warrant further investments and expansion, but legislation to achieve these has so far gathered less support than the challenge appears to warrant. Indeed, the focus on capitalistic success, measured by the accumulation of physical goods at least appears to have created a generation and a half of Americans eager to indulge themselves materialistically and unwilling to help, or even see, those whose opportunities have not been as generous as theirs.

Globally, the opportunity gap limiting the progress of US black and brown minorities, is equally visible at the national level across much of Africa and Latin America. Moreover, while India and China have made significant economic progress across recent decades, both have inequality issues that dwarf those of most advanced nations. In sum, while a growing list of nations including several of the former soviet republics and the Asian nations such as South Korea and Japan that benefited from U.S. material and ideological investments have made substantial economic, political and social progress, the list of nations qualifying as economically advanced is comparatively small. Stated another way, the global economy appears to discriminate across racial and geographic lines in a manner that gives the appearance of being unethical.

WHERE DO WE BEGIN?

The dilemma with evaluating any of the criteria laid out above is that we are missing a broader framework within which to develop and mold any specific recommendations. Given that, one reasonable starting point might be a reevaluation of the “theory of the firm”. It is somewhat ironic that the theory of the firm on which much of neoclassical economics, and indeed much of the current view of capitalism, rests does not really specify a firm at all (Miles & Miles, 2012). Instead, the focus is simply on an efficient production function that produces at a point where marginal cost equals marginal revenue. While not without its elegance for economic purposes, such a view of the “firm” leaves much to be desired from a social and ethical point of view (see Costa & Marti, 2012 for a compilation of some alternative views).

Development of a true theory of the firm that included specification of such things as the role of externalities, constraints regarding equitable treatment of employees, and success measures beyond simple profit figures would provide at least a starting point for better evaluating the role of firms in not only economic but societal success. For example, Baumol, Litan & Schram (2007) discuss at least some of these issues in their examination of “good” versus “bad” capitalism. Included as well should be a strong listing of ethical expectations regarding the behavior of firms. In the main, most ethical approaches today focus on what firms ought not to do. Replacing this with a much stronger list of ethical “oughts” would send a message that firms have a role in society beyond simply generating economic returns. Said differently, a new theory of the firm needs to recognize that ethical and social concerns are a central part of a firm, not something that is tacked on after profit is accounted for. Indeed, stakeholder theory had broad support among economists and organizational theorists across the decades of the 1950s and 60s before being formalized by Freeman (1984), and included both the firm’s consumers and its
surrounding community as among those having an expectation of fair treatment by the firm. Too often today, however, a firm’s social responsibilities are seen as an “add on” rather than a central part of the theory of the firm (Hahn, et al, 2010).

As part of this process, efforts would also be needed to create a set of economic and social aspirations (goals, standards?) regarding the achievements of the U.S. and all its citizens. This effort would force a debate on such educational issues as whether a bachelor’s degree is the new standard, as opposed to a high school diploma (still unreached by a sizeable percentage of black and brown youth). Beyond education, health care minimum standards, already a contentious national objective, would need to be matched by other minimums in areas such as housing, old age income, etc. Perhaps a broader goal, such as assuring the equality of opportunity and preparation to compete economically is a worthy ethical target.

Of course what is still missing is the broadest societal ethical challenge – defining what we want to be as a nation beyond achieving economic “advanced” status. Part of that definition, perhaps its key element, is to specify the accomplishments for which we would like to be remembered by future generations. Past generations have achieved such accolades, including the generation of the 30s that dealt with the depression, won the great war, created the UN, restored Germany and Japan, etc., but that generation has already been acknowledged and its greatness applauded. In fact the challenge of achieving greatness when no clear threat or positive achievement is defined is exactly what most advanced societies have struggled with in recent decades. Indeed, if the US simply set out on this course challenging other nations to follow or run the risk of being labeled “unethical,” it would probably begin to work.

CONCLUSIONS

Thus, in our view, seldom have the ethical and economic “right things to do” been more clearly aligned for the US, both domestically and internationally. The domestic infrastructure in the US cries out for renewal and the investments to be made are exactly those needed to stimulate a sluggish economy. The challenges in the global economy, while more complex and less easily addressed, are approachable. Thus, periodically, we believe, ethical and economic prescriptions co-align to a degree that neglecting the opportunity to follow them moves from an ethical to an ignorance issue.

Indeed, the question of why and how capitalism seems to stimulate economic ignorance is both an ethical and an economic issue. For example, it is difficult to find any rational economic justification for the austerity measures imposed by the well off members of the European Union on their less fortunate neighbors (Krugman, 2008). Clearly, the lesson of the Marshall plan investment in the long term economic health of the region has been forgotten by the leaders of Europe’s elite and the source of their current economic well being appears to be obscured by their efforts to preserve it at their neighbors expense. Similarly, in the U.S., the southern states who benefited most from the governmental investments of the 1930s, 40s, and 50s, are currently supporting policies limiting investments in education and training that are aimed at redressing the uneven economic treatment of women and minorities.
It would be necessary, of course, to consider a country’s stage of development in setting the expectations. It is not productive, for example, to simply condemn emerging economies such as India and China for exploiting their workforces and environments (just as the US did in earlier periods!). Instead, we might well make Marshall Plan like investments in such countries to accelerate their movement to less destructive levels of achievement, challenging other advanced nations to join us in the process of creating a sustainable, equitable global economy. Clearly we would be enhancing competition in the global marketplace, but enhanced competition is supposed to be the guidance mechanism for a free market. Indeed, we would be concerned that a market in which the dominant player always wins is operating in either an illegal or unethical manner.

In sum, it is not, in our view, the mechanisms of capitalism that warrant our concern, it is the ends to which these are addressed. And the answer to concerns about capitalism seems to us to be highly visible. That is, when the system fails to provide equal opportunity across a society’s ranks, adopt regulatory and investment policies that move it toward equality. In a similar manner, when global capitalism fails to provide equal advancement opportunities, currently advanced nations are, we believe, obligated to repair the institutional systems supporting capitalism that create the inequalities, both for their own sake as well as for those denied appropriate progress. Of course, the U.S. would still be vulnerable to those critics who rightfully point out that what appear to be ethical investments across the globe are in fact simply efforts almost certain to reap future economic benefits. But that seems like a small price to pay for a system that works for all.
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