

**Organizational
Ethics
OM 4803
Course Guide**

**John Brown University
Degree Completion Program**

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**ORGANIZATIONAL ETHICS
COURSE GUIDE
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READINGS*

I.	“BIBLICAL IMPLICATIONS FOR BUSINESS ETHICS”	Appendix 1
II.	“THE SOCIAL RESPONSIBILITY OF BUSINESS IS TO INCREASE ITS PROFITS”	Appendix 2
III.	“THE DEPENDENCE EFFECT”	Appendix 3

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COURSE DESCRIPTION

Organizational Ethics is an exploration of the moral dimensions of business, including ethical principles in business, the business system, ethics in the marketplace, ethics and the environment, the ethics of consumer production and marketing, the ethics of job discrimination and the individual in the organization. Cases are discussed and a presentation is made during the final class meeting.

LEARNING OUTCOMES

Students will demonstrate an understanding of:

1. the nature of business ethics, moral standards, development and reasoning.
2. Christian doctrines which can make a difference in the decisions and actions of businesspersons; the four kinds of moral principles: utilitarianism including cost-benefit analysis, moral rights, justice, and caring; and virtue theory as an alternative to a principles-based approach.
3. free market and command systems, and the mixed economy.
4. the degrees of market competition: perfect competition, monopoly, and oligopoly; explicit and tacit market agreements; and bribery.
5. the market approach to consumer protection; the three main theories of a producer's duties to the consumer: contract view, due care theory, and social costs view; and advertising ethics.
6. the nature and outcome of greed; the nature and extent of job discrimination; three groups of arguments against discrimination: utilitarian, rights, justice; discriminatory practices; and affirmative action.
7. employees' and employers' duties to the traditional organization with a rational structure, employee rights and organizational politics in an organization with a political structure, and organizations with a caring structure.

TEXT AND MATERIALS

Text

Velasquez, M. G. (2012). *Business ethics: Concepts and cases*. (7th ed.). Upper Saddle River: Prentice Hall, Inc.

Readings in Course Guide

Ellis, J. R. (2008). *Biblical Implications for Business Ethics*. Siloam Springs: John Brown University.

Friedman, M. (1970, September 13). The Social Responsibility of Business Is to Increase Its Profits. *The New York Times Magazine*. Reprinted by permission.

Galbraith, J. K. (1984). *The Affluent Society*. (pp. 121-128). Houghton Mifflin Company. Reprinted by permission. Used under Fair Use Guidelines.

COURSE POLICIES

Attendance

Attendance policy will follow the Degree Completion Program published guidelines.

Policy on Students with Disabilities

Students with documented disabilities who need academic accommodations should make an appointment with the Director of Academic Support and Disability Services (479-524-7217) to begin the accommodation process. They also are encouraged to make an appointment with the instructor as soon as possible. Students without documented disabilities who feel they may have difficulty with this course are also encouraged to make an appointment with the instructor to discuss what steps need to be taken to be successful.

The Right to Change this Syllabus

This syllabus represents a guideline, as opposed to a contract, and is subject to change at the instructor's discretion as circumstances warrant.

Statement on Academic Integrity

As a Christian institution of higher education, John Brown University seeks to maintain the highest standards of academic integrity. Violations of these standards will result in substantial penalties. Violations and their definitions are as follows:

- a) Plagiarism: Submitting as part or all of one's own work material that is copied or paraphrased from another source, including on-line sources, without the proper acknowledgment of that source. Examples include: failing to cite a reference, failing to use quotation marks where appropriate, misrepresenting another's work as your own, etc.
- b) Cheating: Using unauthorized material or study aids for assistance on examinations or other academic work. Examples include: looking at a peer's exam, altering a graded exam, using notes without permission, etc.
- c) Fabrication: Submitting altered or contrived information in any academic assignment. Examples include: falsifying data, text material, or sources.

Faculty Action Regarding Violations of Academic Integrity

All violations of the academic integrity policy will be reported to the appropriate academic dean, who will maintain a file on student offenses.

First offense: In the first case of dishonesty, the faculty member will normally give the student a zero for the assignment or test on which the student has been dishonest. Faculty members are free to impose more severe penalties if such penalties are announced in the course syllabus.

Second offense: A second violation of the integrity policy in the same course or in any other course will result in an F in the course.

Third offense: Any further violations of the integrity policy may result in suspension or dismissal from the university.

Appeals: A student who feels that he or she has been unfairly accused or unjustly treated may appeal to the appropriate academic dean. Final appeals will be handled by the All-Campus Judiciary Committee.

STUDENT GRADE EVALUATION

Grading Scale

Percentage	Grade	Percentage	Grade	Percentage	Grade
93 - 100	A	80 - 82.99	B-	67 - 69.99	D+
90 - 92.99	A-	77 - 79.99	C+	60 - 66.99	D
87 - 89.99	B+	73 - 76.99	C	0 - 59.99	F
83 - 86.99	B	70 - 72.99	C-		

1. Written assignments (4 weeks' assignments worth 10% each) 40%
2. In-Class Assessments (10% each)..... 30%
3. Summary paper and presentation on an ethical dilemma..... 30%

Written Assignments

The purpose of the written assignments is to encourage you to read the material *actively*, as opposed to reading it *passively*. Your answers should provide evidence that you have read the material and understand it. Therefore, when preparing your written assignments you should

- Use concepts, definitions, and examples from the assigned reading in answering the questions.
- Be thorough; answer *all parts* of every question. For these assignments, brevity is not a virtue.
- Do not rely on common sense and anecdotes only; they will not be sufficient.
- Use complete sentences and paragraphs.
- Don't copy the book *verbatim* (your instructor has read it already!). When you do quote Velasquez, use appropriate punctuation and citations.

See the "Grading Rubric for Weekly Assignments" table in this guide for grading expectations.

Written assignments are due at the beginning of each respective class meeting and cannot be worked on in class. No credit will be given if a written assignment is turned in later than its respective class meeting time.

Case Discussions

Like the written assignments, the case discussions are intended to encourage you to read the material actively, as opposed to reading it passively. Your comments in class should provide evidence that you are prepared each week, having read the assignments and given substantive thought to the case discussion questions. **You may want to outline or write down your answers to the case discussion questions** so that you can address the topics intelligently in class.

Your instructor will be looking for evidence each week that

- you have read the cases in detail,
- you have read the related material, and
- you are prepared to discuss the assigned questions.

In-Class Assessments

At the beginning of Weeks Two, Three and Four you will complete a brief quiz on the assigned reading in Velasquez.

Oral Presentation and Summary Paper

The oral presentation is described with Week Five assignments. If you are absent on Week Five, you will not receive credit for the oral presentation and you are responsible for getting the paper to class or to the instructor by class time on Week Five.

See Grading Rubric in this Course Guide for grading expectations.

STUDENT ASSIGNMENTS

Please Note: All assignments submitted must be a student's original work for each assignment. No assignment can contain content from a student's previous works, except those in the Capstone course, without the instructor's written permission for specific portions of the assignment.

Week One

1. Read Velasquez, Chapter 1.
2. Written assignment. Prepare and turn in typewritten answers to:
 - a. "How do moral standards apply to corporations? Discuss the two main positions on this question, and formulate an example that illustrates the most reasonable position on the issue."
 - b. Answer question 1 on page 67 in Velasquez, "Slavery in the Chocolate Industry"

Week Two

1. Read Velasquez, Chapter 2; prepare (for discussion) answer to question 3, page 142.
2. Read article, "Biblical Implications for Business Ethics" by Richard Ellis in Appendix 1 in this Course Guide.
3. Written assignment. Prepare and turn in typewritten answers to:
 - a. Traidos case question 1 & 3 on page 144 in Velasquez.
4. Come prepared to discuss the Ford Pinto case, Page 77 & 78 of Velasquez.
 - a. Answer the following question using the material on the Ford Pinto decision:

Mr. J.C. Echold, Ford's director of automotive safety, led the team which authored the report "Fatalities Associated with Crash Induced Fuel Leakage and Fires" on the Ford Pinto. It was this report that presented the utilitarian analysis that showed that the cost of the design change to society (\$11 per vehicle) far outweighed its benefits to society.

Suppose you were on Mr. Echold's staff and before the Pinto reached the production stage you were assigned the task of writing an analysis of the overall desirability of producing and marketing the Pinto as planned. One part of your report is to be subtitled "Ethical and Social Desirability." What would you write in this part?

Week Three

1. Read Velasquez, Chapters 3 and 6.
2. Read article, “The Dependence Effect” by John Kenneth Galbraith in Appendix 3 in this Course Guide.
3. Written assignment. Prepare and turn in typewritten answers to:
 - a. Question 2 on page 334, and
 - b. GM Bailout case on page 190, answer questions 1 & 3 (page 193).

Week Four

1. Read Velasquez, Chapters 7 and 8.
2. Read article, “The Social Responsibility of Business Is to Increase Its Profits” by Milton Friedman in Appendix 2 in this Course Guide.
3. Review major cases: Kroger Case, p. 389; answer question #4 (p. 391)
HP’s Secrets & Oracle’s New Hire, p. 410, answer question #1,
p. 411.
4. Written assignment. Prepare and turn in typewritten answers to:
 - a. Question 4 on page 388 in Velasquez.

Week Five

1. Prepare and turn in a 6 to 8 page double-spaced typewritten paper on the following options.

Write a paper covering an ethical dilemma situated in a business context. The dilemma may be based on a personal experience or it may be created. The paper should include:

- a. description of the ethical dilemma,
- b. separate descriptions of how a person who believes in the principles of (1) Christianity, (2) utilitarianism, (3) moral rights, (4) justice, (5) caring, and (6) virtue theory would attempt to resolve the dilemma, including proper justifications thereof, and
- c. your view on the correction action or resolution of the dilemma and the basis for your conclusion.

Papers should be written in 12 point font with 1¼ inch margins.

*** HCA/BIS Emphasis Students – For students who have selected the OM emphasis, the final paper of this course must relate the subject of this course to their emphasis.**

2. Make an 8 to 12 minute oral presentation to the class about the dilemma, covering the key points in your paper. Use visual aids in your presentation.

BIBLICAL IMPLICATIONS FOR BUSINESS ETHICS

by J. Richard Ellis

This article was written specifically for students studying Organizational Ethics in John Brown University's Advance Program. It complements the current edition of the text *Business Ethics: Concepts and Cases* by Manuel G. Velasquez (Prentice-Hall).

What are the implications of the Bible on the study of business ethics? Do Christians approach ethical dilemmas in the workplace differently than fellow workers? Is the Bible irrelevant to business practices in a pluralistic society? What is the relationship of the Bible to the concepts of justice, rights, utilities, caring, and virtue presented by Velasquez in his work? Do the teachings of Jesus you discovered in your course on *Principles from the Life of Christ* impact your daily decisions at the office? Should they?

The answers to these questions are not simple. Nor are they to be found in the few paragraphs of this article. But it is hoped that the thoughts presented here will serve as touch points as you work your way through the moral floodwaters of modern organizations. Those touch points will be in the form of some major Christian doctrines of biblical theology: the Bible (bibliology), God (theology proper), humankind (theological anthropology), and Jesus Christ (Christology). From there, the concepts of ethical standards and motives will be presented, and finally the application of these doctrines and principles to specific issues in Velasquez will be considered.

FOUNDATIONAL CHRISTIAN DOCTRINES

The Bible

People who identify themselves as Christians consider the Bible to be a special document; granting it some level of authority. It would be hard to imagine what "being a Christian" means to that person if the Bible is not authoritative to him or her. The historic position of the Bible is that it is absolutely authoritative in all that it claims to be authoritative. As such, the Bible provides a "starting point" from which to build an ethical system or, at least, a standard or guide against which an ethical system and ethical decisions can be measured.

The Bible does not, however, give *specific* instruction on what to do in every ethical situation.

God's Character and Attributes

The Bible describes God as One who is both **transcendent** and **imminent**; that is to say, He is out *there* (transcendent) as well as right *here* (imminent). He is beyond us, at all times in all places, but He is also ever present with us. He transcends time and space; ethical dilemmas do not catch Him off-guard. He is near us when we are facing ethical decisions of our own.

God is the **Creator**. The Psalmist tells us “It is He that has made us and not we ourselves” (Psalm 100:2). As creator of everything, He has all power (the theological term is “*omnipotent*”). He is our Creator, and **He knows us** (“We are His people and the sheep of His pasture”). In fact, He knows everything; that theological term is “*omniscient*.” Scripture describes God as **just** and the **justifier**; in Him, all injustices will eventually be made right. He is a **judge**, but he is **forgiving**. And, God has **personhood**, that is, He is a Person, not an impersonal force.

Humankind's Character and Attributes

The first reference to mankind in the Bible is in the very first chapter, Genesis 1, when mankind is described as created in the “**image**” of God. The Latin term for this is *Imago Dei*. The exact meaning of the expression “image of God” has been the source of debate among theologians for millennia, but minimally it means that individuals have value. But, unfortunately, within pages of the Genesis account of mankind's creation in God's image is the story of “the fall” of mankind when sin entered human existence. As a result of this sin, mankind does things contrary to God's will and design.

In one sense, ethics began in Genesis 3 at the Garden of Eden. Mankind made a moral choice – and the wrong moral choice. You know the story. God told Adam and Eve that they could enjoy all the pleasures and opportunities of the Garden except one: they could not eat from the “tree of the knowledge of good and evil.” Of course, woman and man did eat the fruit from the forbidden tree, and were evicted from the Garden. Verse 23 has the curious statement that Adam and Eve have become like God, knowing good and evil. The verse gives the impression that in sinning mankind became more like God! How can that be? A better translation of that passage, I believe, clarifies the point that by eating fruit from of the tree of the knowledge of good and evil, mankind become like God, *determining for themselves* what is good and what is evil. In other words, mankind decided to ignore what God said was right and wrong (i.e., ethical) and determined for themselves whether the fruit was beneficial or not. We place ourselves in the role of God by deciding what is “right” (ethical).

The Genesis account also has implications for our relationship with the Creation and the ethical decisions that impact the environment and ecology. Humankind's relationship to Creation is one of stewardship. Adam was told to work it and take care of it (Gen. 2:15). Humanity is a part of creation (Gen 1, 2) but is superior to it with caretaker obligations toward it.

BIBLICAL STANDARDS

Standards For Right Behavior

The Bible presents standards for right behavior and motives. The classic statement of right behavior is the Ten Commandments, found in Exodus 20. The Bible presents these behavioral standards in absolute terms of "thou shalt" and "thou shalt not," to use the poetic language of the King James Version. Over the centuries, theologians and philosophers have debated the application of absolute standards in the Bible, especially when the absolutes appear to conflict. The classic example of absolutes appearing to be in conflict is this:

Your neighbor Susan appears at your door, scared, beaten, and panicked. She tells you that someone is after her and asks you to let her in and to hide her. You, of course, let her in and hide her in another room. Before you can dial 9-1-1, there is another knock at the door. This time, you are met by a deranged man carrying a club. He asks you if you have seen Susan and if you know where she is. The dilemma you face now is this: should you tell the truth and subject Susan to being beaten, or should you lie and protect Susan? Honesty and protecting the helpless are both absolutes, but they seem to conflict. What is the "right" thing to do?

Christian philosopher Norman L. Geisler groups the main approaches to addressing this question into four theories.¹ The first approach he calls the theory of ***non-conflicting absolutes***. According to the theory of non-conflicting absolutes, "Absolutes never conflict." Our obligation is to always follow the commandments, "the rules," or the "right policy." So in answer to the question "Is it every right to lie", the theory of non-conflicting absolutes says NO, "*Lying is always wrong.*" Lying or giving a false impression is never the right thing to do and you should never do it. If you think hard enough you will find a way to obey the absolutes and "do the right thing." An apparent conflict is just that: apparent, but not actual. In the final analysis every situation allows an avenue by which you can avoid violating absolutes.

The second approach to resolving these situations Geisler calls the theory of ***conflicting absolutes***. Advocates of this view recognize that there are absolutes but sometimes they conflict. Therefore, sometimes you have to pick the lesser of two evils. "*It's always wrong to lie, but sometimes it is the least wrong alternative.*" (One is reminded of the scene toward the end of the musical, *The Sound of Music*, where the sisters ask for forgiveness for stealing the starters out of the cars of the Nazis, allowing the von Trapp family to escape over the mountains. They saved the family, but they still felt that they had sinned by stealing.)

The third approach is known as ***situationalism*** or situational ethics. The most noted

spokesman for this view was Joseph Fletcher, and it came into prominence in the 1960's. In situationalism, there is only one absolute (e.g., love) and all actions are measured against this absolute. The so-called absolutes of the Bible are not really absolutes, just illustrations of how the absolute of Love might be demonstrated in some situations. Depending on the circumstances, nearly any action could be ethical in one situation would not be ethical if the circumstances were different. It all depends if the "absolute" virtue is honored. An action done in love – any action – is deemed ethical and right in this theory. Therefore, "*Lying is sometimes right.*" In effect, this view disposes of "absolute standards" as understood historically.

Geisler offers a fourth approach that he calls the *hierarchy of absolutes*. According to this position, there are absolutes (or "universal norms") but they are not equal in intrinsic value. When absolutes conflict, the "higher" norm takes precedence. Consequently, "*Lying is sometimes right.*" In the case of the hidden neighbor, this view would say that if the only way to save the life of the woman is to lie to the attacker, then the moral action would be to lie. It would be wrong to tell the truth and risk the life of the woman, contrary to the non-conflicting absolutes theory. Lying would not be the "least wrong option" (i.e., the lesser of two evils) as in the view of conflicting absolutes. Lying would be a moral, ethical action.

Whatever your understanding of "absolute" standards is, one must recognize that the Bible does not shy from confronting us with absolutes.

Motives For Behavior

The Bible not only provides standards for moral behavior but also provides **motives** for our behavior. Our motive is to have "the Mind of Christ." This is captured to some degree in the expression "What would Jesus do?" or WWJD that was popularized a decade or so ago. The concept of the mind of Christ could be the subject of a thorough study in itself but suffice it to say that with regard to ethical behavior, having the mind of Christ involves having the character traits of Jesus. This would include humility, integrity, honesty, selflessness, and honoring God in all our actions.

IMPLICATION OF CHRISTIAN PRINCIPLES FOR THE THEORETICAL BASES FOR ETHICS

How do these foundational Biblical principles impact our understanding of the concepts of moral rights, justice, utilities, virtue and caring as presented by Velasquez? Again, the

purpose here is not to provide complete answers to this question but rather to start you down a path of integrating your Christian faith with these philosophical and practical issues.

Moral Rights

At least three biblical principles have applications to the study of moral rights as presented by Velasquez. There may be more, but these three seem most relevant.

1. The *Imago Dei* and Kant's "Categorical Imperative."

Kant's categorical imperative states that our actions reflect a respect for the individual. We should respect people and not use them merely as a means to an end, but Kant gives us no rationale for WHY people have worth. But the Bible does. Each individual has worth precisely because humankind as a collective was created in the image of God (*imago dei*). We are not just a random collection of DNA. Individuals have value. This provides a basis for Kant's imperative to treat each person as a free person, equal to everyone else.

Note the similarity between Jesus Christ's teaching from the Sermon on the Mount (known as "the Golden Rule") with the words of Kant:

Jesus: "Do unto others as you would have others do unto you."

Kant: "I ought never to act except in such a way that I can also will that my maxim should become a universal law."
(*Groundwork of the Metaphysics of Morals*, p. 70)

2. What constitutes "rights"?

As fallen ("sinful") individuals, we have depreciated our own individual rights. Before God, we have no moral standing. The Bible seems to focus more on the rights of "others" rather than on our rights. God is not pictured as a union steward motivating us to stand up for our rights. The Bible presents specific negative rights ("duties of others to NOT interfere in certain activities"); e.g., the commandment "You shall not steal" recognizes the negative right of others to not have their possessions wrongfully taken from them. The Bible also presents specific positive rights ("positive duty of providing the holder of the right with whatever he or she needs to freely pursue his or her interests."). An example is the commandment to "Honor your mother and father."

3. God is a rights-holder

God has rights, rights which He often foregoes or holds in abeyance for our sakes. He has a positive right to be honored, served, and loved. This positive right places an obligation

on us all. As the creator and a just, all-knowing judge, He has a negative right to do as He deems fit without interference. In other words, whatever He chooses to do is ethical.

UTILITIES

The Bible expands the concepts of utilities by bringing a broader perspective on costs and benefits. These benefits are not easily quantifiable, but they are utilities. Was it ethical for Abraham to kill (or attempt to kill) his only son Isaac? Do you know the story? God told Abraham to take his son Isaac, his only son, whom he loved, and kill him as a human sacrifice to God. Talk about conflicting absolutes! God is commanding murder and human sacrifice, both of which were prohibited in Scripture by God. What utilities were involved? From a material perspective, the greatest utility would have been for Abraham to NOT kill Isaac. But a new utility enters the picture. To not kill Isaac was an act of defiance against God. This was a cost that exceeded the benefit of Isaac's life.

Abraham was willing to sacrifice his son to God, but God stopped him and Isaac's life was spared.

In some cases, the Bible gives guidance to the value of a non-material cost or benefit in a utilitarian cost-benefit analysis. For instance, if the Bible teaches that at some point in its development an unborn child develops "personhood," then that gives new value to the cost-benefit analysis of an abortion decision.

Similarly, if the Bible teaches that all humankind was made in God's image and that a person of African ancestry has as much value as a person of European ancestry, then we can look back at the 1857 Dred Scott decision and say that the U.S. Supreme Court made an unethical decision; Scott was not a member of "an inferior order" and the value of his humanity should have been an important utility.

JUSTICE

The Bible advocates distributive, retributive and compensatory justice. God is just, and He is the great vindicator of the wronged. Scripture has many references to our responsibilities to the disadvantaged (distributive justice), the penalty of the guilty (retributive justice) and the restitution of those who have been wronged (compensatory justice). This is found in the Proverbs, the Law passages, the teachings of Jesus, and illustrated in Old Testament and New Testament stories. This is especially prominent in the life of David. Look up the story of Nathan and David (2 Sam 12) where God uses Nathan to disclose King David's guilt in the death of an innocent man. The rest of David's life reflects God's retribution for David's evil. Compensatory justice is reflected in David's treatment of Mephibosheth (2 Sam 10), a crippled relative of the defeated King Saul. The victorious David sought out Mephibosheth and restored him to a position of respect.

CARE ETHICS

It has been said that Christianity is a religion of relationships: our relationship to God through Jesus; the relationship of the members of the Trinity; the relationship to other believers in the Church; and the relationship of the Church to the world at large. In his "pastoral epistles" St. Paul directs the church members to care for the widows and orphans among them, especially

those who are widowed for the cause of Christ (either women who were abandoned by their unbelieving husbands because of the women's conversion to Christianity or those whose husbands had been martyred for their faith).

In the Sermon on the Mount (Matthew 5-7) Jesus presents a philosophy of care ethics through series of illustrations, metaphors and admonitions. He admonishes us to be "salt" and "light" to the world, he refers to our relationships with others as "brothers" and "neighbors." Our obligations to others extend beyond not calling them names or being angry with them to the point of loving our enemies.

VIRTUE ETHICS²

Christian ethicist Mark W. Foreman has made the point that virtue ethics fits very comfortably with biblical ethics. The Bible indicates that God is more concerned about the kind of person we are than about what we do, which is what virtue ethics emphasizes. Romans 12:2 says that we are not to be conformed to this world but are to be transformed into a different kind of person by the renewing of our minds. In Ephesians 4:24, St. Paul admonishes us to "put on the new self, created to be like God in true righteousness and holiness." Paul encourages Christians to "follow my example, even as I follow the example of Christ" (I Cor. 11:1). To be sure, a virtuous Christian person will behave in a "right" manner – the Scripture compares this to a good tree bearing good fruit or a running spring issuing fresh water. But God wants to see us "grow" in our faith and "mature" in our conduct. The focus of the Christian life is on consistent obedience flowing from a transformed, virtuous character.

HIGHER STANDARD: FORGIVENESS

Velasquez implies that ethical behavior is equal to the absence of unethical behavior. The Bible presents a standard of ethical conduct that is beyond this. The New Testament standard calls for us to have a spirit of forgiveness, because we have been forgiven by God. Hear these tough words from Jesus' Sermon on the Mount:

"You have heard that it was said, 'Eye for eye, and tooth for tooth.' But I tell you, Do not resist an evil person. If someone strikes you on the right cheek, turn to him the other also. And if someone wants to sue you and take your tunic, let him have your cloak as well. If someone forces you to go one mile, go with him two miles. Give to the one who asks you, and do not turn away from the one who wants to borrow from you." (Matthew 5:38-42 NIV).

Putting these concepts in Velasquez's terms of rights, justice, utilities, caring and virtue, the higher standard of forgiveness directs us to

- Deny our self-rights and honor the positive rights of God and others;
- forgive of others and not demand justice;
- sacrifice for the good of others, discounting the value of utilities which benefit us;
- foster, honor, and strengthen relationships and pursue the obligations (care) that these relationships impose, and
- strive for and develop virtuous personal character, beyond question and above reproach.

¹ from Geisler, Norman L. (1971) *Ethics: Alternatives and Issues*. Grand Rapids, MI: Zondervan.

² from Foreman, Mark W. (1999) *Christianity and Bioethics*. Joplin, MO: College Press.

The Social Responsibility of Business is to Increase its Profits

by Milton Friedman

The New York Times Magazine, September 13, 1970. Copyright © 1970 by The New York Times Company.

When I hear businessmen speak eloquently about the "social responsibilities of business in a free-enterprise system," I am reminded of the wonderful line about the Frenchman who discovered at the age of 70 that he had been speaking prose all his life. The businessmen believe that they are defending free enterprise when they declaim that business is not concerned "merely" with profit but also with promoting desirable "social" ends; that business has a "social conscience" and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers. In fact they are—or would be if they or anyone else took them seriously—preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these past decades.

The discussions of the "social responsibilities of business" are notable for their analytical looseness and lack of rigor. What does it mean to say that "business" has responsibilities? Only people can have responsibilities. A corporation is an artificial person and in this sense may have artificial responsibilities, but "business" as a whole cannot be said to have responsibilities, even in this vague sense. The first step toward clarity in examining the doctrine of the social responsibility of business is to ask precisely what it implies for whom.

Presumably, the individuals who are to be responsible are businessmen, which means individual proprietors or corporate executives. Most of the discussion of social responsibility is directed at corporations, so in what follows I shall mostly neglect the individual proprietors and speak of corporate executives.

In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to the basic rules of the society, both those embodied in law and those embodied in ethical custom. Of course, in some cases his employers may have a different objective. A group of persons might establish a corporation for an eleemosynary purpose—for example, a hospital or a school. The manager of such a corporation will not have money profit as his objective but the rendering of certain services.

In either case, the key point is that, in his capacity as a corporate executive, the manager is the agent of the individuals who own the corporation or establish the eleemosynary institution, and his primary responsibility is to them.

Needless to say, this does not mean that it is easy to judge how well he is performing his task. But at least the criterion of performance is straightforward, and the persons among whom a voluntary contractual arrangement exists are clearly defined.

Of course, the corporate executive is also a person in his own right. As a person, he may have many other responsibilities that he recognizes or assumes voluntarily—to his family, his conscience, his feelings of charity, his church, his clubs, his city, his country. He may feel impelled by these responsibilities to devote part of his income to causes he regards as worthy, to refuse to work for particular corporations, even to leave his job, for example, to join his country's armed forces. If we wish, we may refer to some of these responsibilities as "social responsibilities." But in these respects he is acting as a principal, not an agent; he is spending his own money or time or energy, not the money of his employers or the time or energy he has contracted to devote to their purposes. If these are "social responsibilities," they are the social

responsibilities of individuals, not of business.

What does it mean to say that the corporate executive has a "social responsibility" in his capacity as businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers. For example, that he is to refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price increase would be in the best interests of the corporation. Or that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment. Or that, at the expense of corporate profits, he is to hire "hardcore" unemployed instead of better qualified available workmen to contribute to the social objective of reducing poverty.

In each of these cases, the corporate executive would be spending someone else's money for a general social interest. Insofar as his actions in accord with his "social responsibility" reduce returns to stockholders, he is spending their money. Insofar as his actions raise the price to customers, he is spending the customers' money. Insofar as his actions lower the wages of some employees, he is spending their money.

The stockholders or the customers or the employees could separately spend their own money on the particular action if they wished to do so. The executive is exercising a distinct "social responsibility," rather than serving as an agent of the stockholders or the customers or the employees, only if he spends the money in a different way than they would have spent it.

But if he does this, he is in effect imposing taxes, on the one hand, and deciding how the tax proceeds shall be spent, on the other.

This process raises political questions on two levels: principle and consequences. On the level of political principle, the imposition of taxes and the expenditure of tax proceeds are governmental functions. We have established elaborate constitutional, parliamentary and judicial provisions to control these functions, to assure that taxes are imposed so far as possible in accordance with the preferences and desires of the public—after all, "taxation without representation" was one of the battle cries of the American Revolution. We have a system of checks and balances to separate the legislative function of imposing taxes and enacting expenditures from the executive function of collecting taxes and administering expenditure programs and from the judicial function of mediating disputes and interpreting the law.

Here the businessman—self-selected or appointed directly or indirectly by stockholders—is to be simultaneously legislator, executive and, jurist. He is to decide whom to tax by how much and for what purpose, and he is to spend the proceeds—all this guided only by general exhortations from on high to restrain inflation, improve the environment, fight poverty and so on and on.

The whole justification for permitting the corporate executive to be selected by the stockholders is that the executive is an agent serving the interests of his principal. This justification disappears when the corporate executive imposes taxes and spends the proceeds for "social" purposes. He becomes in effect a public employee, a civil servant, even though he remains in name an employee of a private enterprise. On grounds of political principle, it is intolerable that such civil servants—insofar as their actions in the name of social responsibility are real and not just window-dressing—should be selected as they are now. If they are to be civil servants, then they must be elected through a political process. If they are to impose taxes and make expenditures to foster "social" objectives, then political machinery must be set up to make the assessment of taxes and to determine through a political process the objectives to be served.

This is the basic reason why the doctrine of "social responsibility" involves the acceptance of the socialist view that political mechanisms, not market mechanisms, are the appropriate way to determine the allocation of scarce resources to alternative uses.

On the grounds of consequences, can the corporate executive in fact discharge his alleged "social responsibilities?" On the other hand, suppose he could get away with spending the stockholders' or customers' or employees' money. How is he to know how to spend it? He is told that he must contribute to fighting inflation. How is he to know what action of his will contribute to that end? He is presumably an expert in running his company—in producing a product or selling it or financing it. But nothing about his selection makes him an expert on inflation. Will his holding down the price of his product reduce inflationary pressure? Or, by leaving more spending power in the hands of his customers, simply divert it elsewhere? Or, by forcing him to produce less because of the lower price, will it simply contribute to shortages? Even if he could answer these questions, how much cost is he justified in imposing on his stockholders, customers and employees for this social purpose? What is his appropriate share and what is the appropriate share of others?

And, whether he wants to or not, can he get away with spending his stockholders', customers' or employees' money? Will not the stockholders fire him? (Either the present ones or those who take over when his actions in the name of social responsibility have reduced the corporation's profits and the price of its stock.) His customers and his employees can desert him for other producers and employers less scrupulous in exercising their social responsibilities.

This facet of "social responsibility" doctrine is brought into sharp relief when the doctrine is used to justify wage restraint by trade unions. The conflict of interest is naked and clear when union officials are asked to subordinate the interest of their members to some more general purpose. If the union officials try to enforce wage restraint, the consequence is likely to be wildcat strikes, rank-and-file revolts and the emergence of strong competitors for their jobs. We thus have the ironic phenomenon that union leaders—at least in the U.S.—have objected to Government interference with the market far more consistently and courageously than have business leaders.

The difficulty of exercising "social responsibility" illustrates, of course, the great virtue of private competitive enterprise—it forces people to be responsible for their own actions and makes it difficult for them to "exploit" other people for either selfish or unselfish purposes. They can do good—but only at their own expense.

Many a reader who has followed the argument this far may be tempted to remonstrate that it is all well and good to speak of Government's having the responsibility to impose taxes and determine expenditures for such "social" purposes as controlling pollution or training the hard-core unemployed, but that the problems are too urgent to wait on the slow course of political processes, that the exercise of social responsibility by businessmen is a quicker and surer way to solve pressing current problems.

Aside from the question of fact—I share Adam Smith's skepticism about the benefits that can be expected from "those who affected to trade for the public good"—this argument must be rejected on grounds of principle. What it amounts to is an assertion that those who favor the taxes and expenditures in question have failed to persuade a majority of their fellow citizens to be of like mind and that they are seeking to attain by undemocratic procedures what they cannot attain by democratic procedures. In a free society, it is hard for "evil" people to do "evil," especially since one man's good is another's evil.

I have, for simplicity, concentrated on the special case of the corporate executive, except only for the brief digression on trade unions. But precisely the same argument applies to the newer phenomenon of calling upon stockholders to require corporations to exercise social responsibility (the recent G.M. crusade for example). In most of these cases, what is in effect involved is some stockholders trying to get other stockholders (or customers or employees) to contribute against their will to "social" causes favored by the activists. Insofar as they succeed, they are again imposing taxes and spending the proceeds.

The situation of the individual proprietor is somewhat different. If he acts to reduce the returns of his

enterprise in order to exercise his "social responsibility," he is spending his own money, not someone else's. If he wishes to spend his money on such purposes, that is his right, and I cannot see that there is any objection to his doing so. In the process, he, too, may impose costs on employees and customers. However, because he is far less likely than a large corporation or union to have monopolistic power, any such side effects will tend to be minor.

Of course, in practice the doctrine of social responsibility is frequently a cloak for actions that are justified on other grounds rather than a reason for those actions.

To illustrate, it may well be in the long run interest of a corporation that is a major employer in a small community to devote resources to providing amenities to that community or to improving its government. That may make it easier to attract desirable employees, it may reduce the wage bill or lessen losses from pilferage and sabotage or have other worthwhile effects. Or it may be that, given the laws about the deductibility of corporate charitable contributions, the stockholders can contribute more to charities they favor by having the corporation make the gift than by doing it themselves, since they can in that way contribute an amount that would otherwise have been paid as corporate taxes.

In each of these—and many similar—cases, there is a strong temptation to rationalize these actions as an exercise of "social responsibility." In the present climate of opinion, with its wide spread aversion to "capitalism," "profits," the "soulless corporation" and so on, this is one way for a corporation to generate goodwill as a by-product of expenditures that are entirely justified in its own self-interest.

It would be inconsistent of me to call on corporate executives to refrain from this hypocritical window-dressing because it harms the foundations of a free society. That would be to call on them to exercise a "social responsibility"! If our institutions, and the attitudes of the public make it in their self-interest to cloak their actions in this way, I cannot summon much indignation to denounce them. At the same time, I can express admiration for those individual proprietors or owners of closely held corporations or stockholders of more broadly held corporations who disdain such tactics as approaching fraud.

Whether blameworthy or not, the use of the cloak of social responsibility, and the nonsense spoken in its name by influential and prestigious businessmen, does clearly harm the foundations of a free society. I have been impressed time and again by the schizophrenic character of many businessmen. They are capable of being extremely farsighted and clearheaded in matters that are internal to their businesses. They are incredibly shortsighted and muddleheaded in matters that are outside their businesses but affect the possible survival of business in general. This shortsightedness is strikingly exemplified in the calls from many businessmen for wage and price guidelines or controls or income policies. There is nothing that could do more in a brief period to destroy a market system and replace it by a centrally controlled system than effective governmental control of prices and wages.

The shortsightedness is also exemplified in speeches by businessmen on social responsibility. This may gain them kudos in the short run. But it helps to strengthen the already too prevalent view that the pursuit of profits is wicked and immoral and must be curbed and controlled by external forces. Once this view is adopted, the external forces that curb the market will not be the social consciences, however highly developed, of the pontificating executives; it will be the iron fist of Government bureaucrats. Here, as with price and wage controls, businessmen seem to me to reveal a suicidal impulse.

The political principle that underlies the market mechanism is unanimity. In an ideal free market resting on private property, no individual can coerce any other, all cooperation is voluntary, all parties to such cooperation benefit or they need not participate. There are no values, no "social" responsibilities in any sense other than the shared values and responsibilities of individuals. Society is a collection of individuals and of the various groups they voluntarily form.

The political principle that underlies the political mechanism is conformity. The individual must serve a more general social interest—whether that be determined by a church or a dictator or a majority. The individual may have a vote and say in what is to be done, but if he is overruled, he must conform. It is appropriate for some to require others to contribute to a general social purpose whether they wish to or not.

Unfortunately, unanimity is not always feasible. There are some respects in which conformity appears unavoidable, so I do not see how one can avoid the use of the political mechanism altogether.

But the doctrine of "social responsibility" taken seriously would extend the scope of the political mechanism to every human activity. It does not differ in philosophy from the most explicitly collectivist doctrine. It differs only by professing to believe that collectivist ends can be attained without collectivist means. That is why, in my book *Capitalism and Freedom*, I have called it a "fundamentally subversive doctrine" in a free society, and have said that in such a society, "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

THE CONSUMER

The Dependence Effect

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The theory of consumer demand, as it is now widely accepted, is based on two broad propositions, neither of them quite explicit but both extremely important for the present value system of economists. The first is that the urgency of wants does not diminish appreciably as more of them are satisfied or, to put the matter more precisely, to the extent that this happens it is not demonstrable and not a matter of any interest to economists or for economic policy. When man has satisfied his physical needs, then psychologically grounded desires take over. These can never be satisfied or, in any case, no progress can be proved. The concept of satiation has very little standing in economics. It is neither useful nor scientific to speculate on the

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comparative cravings of the stomach and the mind.

The second proposition is that wants originate in the personality of the consumer or, in any case, that they are given data for the economist. The latter's task is merely to seek their satisfaction. He has no need to inquire how these wants are formed. His function is sufficiently fulfilled by maximizing the goods that supply the wants.

The notion that wants do not become less urgent the more amply the individual is supplied is broadly repugnant to common sense. It is something to be believed only by those who wish to believe. Yet the conventional wisdom must be tackled on its own terrain. Intertemporal comparisons of an individual's state of mind do rest on doubtful grounds. Who can say for sure that the deprivation which afflicts him with hunger is more painful than the deprivation which afflicts him with envy of his neighbour's new car? In the time that has passed since he was poor his soul may have become subject to a new and deeper searing. And where a society is concerned, comparisons between marginal satisfactions when it is poor and those when it is affluent will involve not only the same individual at different times but different individuals at different

times. The scholar who wishes to believe that with increasing affluence there is no reduction in the urgency of desires and goods is not without points for debate. However plausible the case against him, it cannot be proved. In the defence of the conventional wisdom this amounts almost to invulnerability.

However, there is a flaw in the case. If the individual's wants are to be urgent they must be original with himself. They cannot be urgent if they must be contrived for him. And above all they must not be contrived by the process of production by which they are satisfied. For this means that the whole case for the urgency of production, based on the urgency of wants, falls to the ground. One cannot defend production as satisfying wants if that production creates the wants.

Were it so that man on arising each morning was assailed by demons which instilled in him a passion sometimes for silk shirts, sometimes for kitchenware, sometimes for chamber-pots, and sometimes for orange squash, there would be every reason to applaud the effort to find the goods, however odd, that quenched this flame. But should it be that his passion was the result of his first having cultivated the demons, and should it also be that his effort to allay it stirred the demons to ever greater and greater effort, there would be question as to how rational was his solution. Unless restrained by conventional attitudes, he might wonder if the solution lay with more goods or fewer demons.

So it is that if production creates the wants it seeks to satisfy, or if the wants emerge *pari passu* with the production, then the urgency of the wants can no longer be used to defend the urgency of the production. Production only fills a void that it has itself created.

The even more direct link between production and wants is provided by the institutions of modern advertising and salesmanship. These cannot be reconciled with the notion of independently determined desires, for their central function is to create desires—to bring into being wants that previously did not exist.¹ This is accomplished by the producer of the goods or at his behest. A broad empirical relationship exists between what is spent on production of consumers' goods and what is spent in syn-

thesizing the desires for that production. A new consumer product must be introduced with a suitable advertising campaign to arouse an interest in it. The path for an expansion of output must be paved by a suitable expansion in the advertising budget. Outlays for the manufacturing of a product are not more important in the strategy of modern business enterprise than outlays for the manufacturing of demand for the product. None of this is novel. All would be regarded as elementary by the most retarded student in the nation's most primitive school of business administration. The cost of this want formation is formidable. In 1956 total advertising expenditure—though, as noted, not all of it may be assigned to the synthesis of wants—amounted to about ten thousand million dollars. For some years it had been increasing at a rate in excess of a thousand million dollars a year. Obviously, such outlays must be integrated with the theory of consumer demand. They are too big to be ignored.

But such integration means recognizing that wants are dependent on production. It accords to the producer the function both of making the goods and of making the desires for them. It recognizes that production, not only passively through emulation, but actively through advertising and related activities, creates the wants it seeks to satisfy.

The businessman and the lay reader will be puzzled over the emphasis which I give to a seemingly obvious point. The point is indeed obvious. But it is one which, to a singular degree, economists have resisted. They have sensed, as the layman does not, the damage to established ideas which lurks in these relationships. As a result, incredibly, they have closed their eyes (and ears) to the most obtrusive of all economic phenomena, namely modern want creation.

This is not to say that the evidence affirming the dependence of wants on advertising has been entirely ignored. It is one reason why advertising has so long been regarded with such uneasiness by economists. Here is something which cannot be accommodated easily to existing theory. More previous scholars have speculated on the urgency of desires which are so obviously the fruit of such expensively contrived campaigns for popular attention. Is a new breakfast cereal or detergent so much

wanted if so much must be spent to compel in the consumer the sense of want? But there has been little tendency to go on to examine the implications of this for the theory of consumer demand and even less for the importance of production and productive efficiency. These have remained sacrosanct. More often the uneasiness has been manifested in a general disapproval of advertising and advertising men, leading to the occasional suggestion that they shouldn't exist. Such suggestions have usually been ill received.

And so the notion of independently determined wants still survives. In the face of all the forces of modern salesmanship it still rules, almost undefiled, in the textbooks. And it still remains the economist's mission—and on few matters is the pedagogy so firm—to seek unquestioningly the means for filling these wants. This being so, production remains of prime urgency. We have here, perhaps, the ultimate triumph of the conventional wisdom in its resistance to the evidence of the eyes. To equal it one must imagine a humanitarian who was long ago persuaded of the grievous shortage of hospital facilities in the town. He continues to importune the passers-by for money for more beds and refuses to notice that the town doctor is deftly knocking over pedestrians with his car to keep up the occupancy.

And in unravelling the complex we should always be careful not to overlook the obvious. The fact that wants can be synthesized by advertising, catalysed by salesmanship, and shaped by the discreet manipulations of the persuaders shows that they are not very urgent. A man who is hungry need never be told of his need for food. If he is inspired by his appetite, he is immune to the influence of Messrs. Batten, Barton, Durstine and Osborn. The latter are effective only with those who are so far removed from physical want that they do not already know what they want. In this state alone men are open to persuasion.

The general conclusion of these pages is of such importance for this essay that it had perhaps best be put with some formality. As a society becomes increasingly affluent, wants are increasingly created by the process by which they are satisfied. This may operate passively. Increases in consumption,

the counterpart of increases in production, act by suggestion or emulation to create wants. Or producers may proceed actively to create wants through advertising and salesmanship. Wants thus come to depend on output. In technical terms it can no longer be assumed that welfare is greater at an all-round higher level of production than at a lower one. It may be the same. The higher level of production has, merely, a higher level of want creation necessitating a higher level of want satisfaction. There will be frequent occasion to refer to the way wants depend on the process by which they are satisfied. It will be convenient to call it the Dependence Effect.

The final problem of the productive society is what it produces. This manifests itself in an implacable tendency to provide an opulent supply of some things and a niggardly yield of others. This disparity carries to the point where it is a cause of social discomfort and social unhealth. The line which divides our area of wealth from our area of poverty is roughly that which divides privately produced and marketed goods and services from publicly rendered services. Our wealth in the first is not only in startling contrast with the meagerness of the latter, but our wealth in privately produced goods is, to a marked degree, the cause of crisis in the supply of public services. For we have failed to see the importance, indeed the urgent need, of maintaining a balance between the two.

This disparity between our flow of private and public goods and services is no matter of subjective judgment. On the contrary, it is the source of the most extensive comment which only stops short of the direct contrast being made here. In the years following World War II, the papers of any major city—those of New York were an excellent example—told daily of the shortages and shortcomings in the elementary municipal and metropolitan services. The schools were old and overcrowded. The police force was under strength and underpaid. The parks and playgrounds were insufficient. Streets and empty lots were filthy, and the sanitation staff was under-equipped and in need of men. Access to the city by those who work there was uncertain and painful and becoming more so. Internal transportation was overcrowded, unhealthful, and dirty. So

was the air. Parking on the streets had to be prohibited, and there was no space elsewhere. These deficiencies were not in new and novel services but in old and established ones. Cities have long swept their streets, helped their people move around, educated them, kept order, and provided horse rails for vehicles which sought to pause. That their residents should have a non-toxic supply of air suggests no revolutionary dalliance with socialism.

The contrast was and remains evident not alone to those who read. The family which takes its mauve and cerise, air-conditioned, power-steered, and power-braked car out for a tour passes through cities that are badly paved, made hideous by litter, blighted buildings, billboards, and posts for wires that should long since have been put underground. They pass on into a countryside that has been rendered largely invisible by commercial art. (The goods which the latter advertise have an absolute priority in our value system. Such aesthetic considerations as a view of the countryside accordingly come second. On such matters we are consistent.) They picnic on exquisitely packaged food from a portable icebox by a polluted stream and go on to spend the night at a park which is a menace to public health and morals. Just before dozing off on an air-mattress, beneath a nylon tent, amid the stench of decaying refuse, they may reflect vaguely on the curious unevenness of their blessings. Is this, indeed, the American genius?

The case for social balance has, so far, been put negatively. Failure to keep public services in minimal relation to private production and use of goods is a cause of social disorder or impairs economic performance. The matter may now be put affirmatively. By failing to exploit the opportunity to expand public production we are missing opportunities for enjoyment which otherwise we might have had. Presumably a community can be as well rewarded by buying better schools or better parks as by buying bigger cars. By concentrating on the latter rather than the former it is failing to maximize its satisfactions. As with schools in the community, so with public services over the country at large. It is scarcely sensible that we should satisfy our wants in private goods with reckless abundance,

while in the case of public goods, on the evidence of the eye, we practice extreme self-denial. So, far from systematically exploiting the opportunities to derive use and pleasure from these services, we do not supply what would keep us out of trouble.

The conventional wisdom holds that the community, large or small, makes a decision as to how much it will devote to its public services. This decision is arrived at by democratic process. Subject to the imperfections and uncertainties of democracy, people decide how much of their private income and goods they will surrender in order to have public services of which they are in greater need. Thus there is a balance, however rough, in the enjoyments to be had from private goods and services and those rendered by public authority.

It will be obvious, however, that this view depends on the notion of independently determined consumer wants. In such a world one could with some reason defend the doctrine that the consumer, as a voter, makes an independent choice between public and private goods. But given the dependence effect—given that consumer wants are created by the process by which they are satisfied—the consumer makes no such choice. He is subject to the forces of advertising and emulation by which production creates its own demand. Advertising operates exclusively, and emulation mainly, on behalf of privately produced goods and services.² Since management and emulative effects operate on behalf of private production, public services will have an inherent tendency to lag behind. Car demand which is expensively synthesized will inevitably have a much larger claim on income than parks or public health or even roads where no such influence operates. The engines of mass communication, in their highest state of development, assail the eyes and ears of the community on behalf of more beer but not of more schools. Even in the conventional wisdom it will scarcely be contended that this leads to an equal choice between the two.

The competition is especially unequal for new products and services. Every corner of the public psyche is canvassed by some of the nation's most talented citizens to see if the desire for some merchantable product can be cultivated. No similar

process operates on behalf of the nonmerchantable services of the state. Indeed, while we take the cultivation of new private wants for granted we would be measurably shocked to see it applied to public services. The scientist or engineer or advertising man who devotes himself to developing a new carburetor, cleanser, or depilatory for which the public recognizes no need and will feel none until an advertising campaign arouses it, is one of the valued members of our society. A politician or a public servant who dreams up a new public service is a wastrel. Few public offenses are more reprehensible.

So much for the influences which operate on the decision between public and private production. The calm decision between public and private consumption pictured by the conventional wisdom is, in fact, a remarkable example of the error which arises from viewing social behavior out of context. The inherent tendency will always be for public services to fall behind private production. We have here the first of the causes of social imbalance.

NOTES

1. Advertising is not a simple phenomenon. It is also important in competitive strategy and want creation is, ordinarily, a complementary result of efforts to shift the demand curve of the individual firm at the expense of others or (less importantly, I think) to change its shape by increasing the degree of product differentiation. Some of the failure of economists to identify advertising with want creation may be attributed to the undue attention that its use in purely competitive strategy has attracted. It should be noted, however, that the competitive manipulation of consumer desire is only possible, at least on any appreciable scale, when such need is not strongly felt.
 2. Emulation does operate between communities. A new school or a new highway in one community does exert pressure on others to remain abreast. However, as compared with the pervasive effects of emulation in extending the demand for privately produced consumers' goods there will be agreement, I think, that this intercommunity effect is probably small.
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