

On the Relevance of Political Philosophy to Business Ethics*

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1.

The central problems of political philosophy mirror the central problems of business ethics. Political philosophers offer theories of state legitimacy. This leads them to discussions about the best kind of government and about the extent of citizens' political obligations. Business ethicists offer theories of corporate legitimacy.¹ This leads them to discussions about the best kind of corporate governance and about the extent of workers' obligations to their firms.² Political philosophers try to determine how to distribute justly the state's benefits and burdens. Business ethicists try to determine how to distribute justly the firm's benefits and burdens.

The similarity between these two sets of problems may lead business ethicists to ask: should political theories be applied to problems in business ethics? This is not the question of whether business ethicists can make use of the concepts common to all branches of moral philosophy: virtue, duty, utility, and so on. It is clear they can. It is the question of whether business ethicists would be justified in applying, in whole or in part, theories of the state directly to the workplace. If a version of egalitarianism is the correct theory of justice for states, for example, does it follow that it is the correct theory of justice for businesses? If states should be democratically governed by their citizens, should businesses be democratically managed by their employees? If the principles of justice for states should be derived from John Rawls's "original position," should the principles of justice for businesses be derived from this position also?³

Business ethicists potentially have a theoretical gold mine in political philosophy. The latter subject has received a great deal of attention, while the former subject is relatively new. Political philosophers should also welcome the possibility of cross-fertilization. Businesses are the largest and most influential "distributors" of benefits and burdens in society. If businesses ought to be run (more) like states, then political

philosophers can see businesses not as entities that may thwart their distributive goals, but as agents who will help to achieve them.⁴

Despite this topic's importance, relatively little has been said about it. Theorists who have addressed it have been largely pessimistic about the possibility of cross-fertilization. Rawls in *Political Liberalism*, and Robert Phillips and Joseph Margolis in a recent article,⁵ argue that states and organizations are fundamentally different kinds of entities, and thus require fundamentally different theories of justice. This paper challenges this view. I begin by examining the differences between states and businesses Rawls, Phillips, and Margolis allege. Only one of these differences, I argue, is real, and it is not decisive. Then I consider an overlooked difference between states and businesses, and assess its impact on the debate. I tentatively conclude that while businesses and states differ, the difference is one of degree, not one of kind, and hence that business ethics has much to learn from political philosophy.

I describe this conclusion as tentative because I do not prove that states and businesses are alike in all morally relevant respects. I consider and reject (in part) the three differences Rawls, Phillips, and Margolis allege, and what I think is the next most plausible one. But there may be others. Those who believe the burden of proof is on Rawls's, Phillips's, and Margolis's side will take a refutation of their argument as reason to believe that political theories can be applied to problems in business ethics. Those who believe the burden of proof is on my side will remain skeptical. But, if I am right, these theorists must find a new way of defending their view. Wherever the burden of proof lies, the question of whether political theories can be applied to issues in business ethics is important.⁶ This paper is useful in advancing this debate.⁷

2.

Phillips and Margolis make many of the same points in their article as Rawls does in his book. But they go beyond Rawls in some places, and their presentation of the argument is clearer overall. So I will focus mainly on their article, supplementing what they say with passages from Rawls's book.

In support of their claim that political philosophy is inadequate for dealing with the moral problems that arise in the context of business, Phillips and Margolis cite three differences between states and organizations.⁸ The first is freedom of exit. "The

possibility of exit,” they say, “is constitutive of organizational membership, just as its impossibility is constitutive of societal membership” (1999, p. 623). The fact that exit from businesses is possible is, according to Phillips and Margolis, “what qualifies them as voluntary associations” (1999, p. 623). States, by contrast, are “involuntary associations.” Exit from them is considered to be impossible.

This contrast is overdrawn. While the possibility of exit may be constitutive of organizational membership, its impossibility is not constitutive of societal membership. Emigration from the US is possible for many of its citizens. But it does not follow that the US is a society with few members, or that it is not a society at all. In light of this, we should take Phillips and Margolis to be making the weaker, but related, point that it is more difficult to leave one’s society than it is to leave one’s job. States are *highly*, not completely, involuntary associations; businesses are *highly*, not completely, voluntary ones. In support of the first half of this claim, Rawls says “the attachments formed to persons and places, to associations and communities, as well as cultural ties, are normally too strong to be given up . . .” (1993, p. 277).⁹ By contrast, these writers imply, one’s attachments to one’s job can be given up with little sacrifice.¹⁰

The second difference Phillips and Margolis allege is the existence of purposes and aims. They say “[t]here are no ends of a well-ordered society in the way that there are for other associations” (1999, p. 623). This echoes Rawls’s claim that “society as a whole has no ends or ordering of ends in the way that associations . . . do” (1993, p. 276). A business might have as a goal making people happy (Disney), alleviating pain and disease (Johnson and Johnson), or providing value to its customers (Wal-Mart).¹¹ It will also have as a goal making a profit. But a state, these writers say, cannot endorse specific goals. It must be neutral among conceptions of the good.¹²

The third alleged difference between states and businesses is the appropriateness of contribution-assessment. Phillips and Margolis say that a business “may justifiably distribute benefits . . . in a way that takes account of a person’s contributions . . .” (1999, p. 624). It may choose to hire a person on the basis of her potential contributions to the firm or to reward her on the basis of her actual contributions to it. By contrast, they go on, “civil society is not a meritocracy . . . in political philosophy . . . persons are conceived of as free and *equal*” (1999, p. 625, their emphasis). Rawls notes that this

difference is a consequence of the previous one. In a state, he says, “there is no set of agreed ends by reference to which the potential social contributions of an individual could be assessed” (1993, p. 276). According to these theorists, then, unlike businesses, states cannot assess (potential) members on the basis of their (potential) contributions. While the size of a person’s paycheck may justifiably depend on the size of her contribution to the firm, the size of a person’s share of social benefits cannot justifiably depend on the size of her contribution to the state.

How are these differences—freedom of exit, purposes and goals, and the appropriateness of contribution-assessment—supposed to entail the conclusion that political theories cannot be applied to businesses? Phillips and Margolis do not say, but it seems the argument is meant to go as follows. What justice requires in an association—a state, a business, or whatever—depends on the specific features of the association. States and businesses have different features. Hence, what justice requires in the state is different than what justice requires in the workplace. In particular, the argument goes, because businesses are voluntary associations, it is permissible for them to have goals and to evaluate (potential) members on the basis of their (potential) contributions to them. For members who do not support the business’s goals can always leave. But states are involuntary associations, so they should not have goals. Citizens cannot easily leave their states. And if states do not have goals, then it makes no sense to talk of evaluating citizens on the basis of their contributions to them.

3.

In this section, I argue that states and businesses do not differ in the ways Rawls, Phillips, and Margolis specify.¹³ I begin with the second and third alleged differences: the having of goals and the appropriateness of contribution-assessment. As we said, these differences are related. The possibility of contribution-assessment implies the existence of goals, and the existence of goals implies the possibility of contribution-assessment. Contribution is always contribution *to* an end or goal. And, if the state has an achievable goal, then it is possible to contribute to its realization.

To see that states and businesses do not differ in terms of having goals and assessing contributions, note first that the state Phillips and Margolis think justice requires is a neutralist liberal one. The state does not “[underwrite] and [promote]

particular objectives”; it remains “neutral in its preference for any particular set of values, other than those that permit individual liberty in choosing a conception of the good . . .” (1999, p. 623, 625).¹⁴ Phillips and Margolis seem to think neutralist liberal states have no goals and hence no place for contribution-assessment. Let us assume, for now, that they are right about this. If, as it is reasonable to think, businesses can have goals and assess contributions,¹⁵ then under the assumption that justice requires a neutralist liberal state, states and businesses differ in these ways.

But why think justice requires a neutralist liberal state? Many prominent political philosophers, including Rawls and Ronald Dworkin, can be described as neutralist liberals, but to assume they are right is to beg the question.¹⁶ Other political philosophers—even some *liberal* ones—reject the neutrality constraint.¹⁷ Their theories include places for goals and assessments of contribution. Perfectionist theories, for example, promote the achievement of certain forms of human excellence. And desert-based distributive theories use contribution—especially economic contribution—as a basis for differential reward. Those who make larger (or smaller) contributions to society are thought to deserve larger (or smaller) shares of social benefits.¹⁸

Even if justice does require a neutralist liberal state, it does not follow that states and businesses differ in terms of having goals and assessing contributions. For the assumption that neutralist liberal states have no goals, and hence no place for contribution-assessment, is false. Although their goals may be different than those of other states, neutralist liberal states do have goals. One of these, of course, is to remain neutral among different conceptions of the good. Thus, as Phillips and Margolis themselves recognize, the neutralist liberal state will have as a goal ensuring that its citizens have the liberty to pursue their conceptions of the good. But this liberty can be meaningfully exercised only when certain material conditions of life obtain, and this demands the pursuit of other more specific goals. The neutralist liberal state will therefore also have as a goal protecting its citizens’ lives and property. But it may go beyond this. In order to give its citizen realistic chances of realizing their conceptions of the good, a neutralist liberal state may adopt the goal of ensuring that they have adequate shares of healthcare, education, housing, and income.

Since these goals are achievable, it is possible for citizens to contribute to their realization.¹⁹ A citizen of a neutralist liberal state can make a contribution to his state's goals by serving in its armed forces, providing healthcare to the disadvantaged, or donating money to charity. The state might reward such citizens by, correspondingly, giving long-serving army officers generous retirement packages, forgiving the medical school loans of doctors who practice in underserved areas, or publicly honoring those who donate large sums of money to charity.²⁰ Contrary to what Rawls, Phillips, and Margolis say, then, it makes sense to talk of assessing citizens of neutralist liberal states on the basis of their contributions to their states.²¹ Businesses and states do not differ, in the ways these writers believe, in terms of having goals or assessing contributions.²²

Let us now turn to the final alleged difference between states and businesses: voluntariness, or ease of exit. Phillips and Margolis meant this difference to justify the other two. *Since* businesses are voluntary and states are not, they said, businesses can have goals and assess contributions, while states cannot. We have seen, however, that both businesses and states can have goals and assess contributions. What follows from this? In an attempt to save the connection between voluntariness and goals/contributions, we might conclude that states are as voluntary as businesses. But this would be too quick. For most people, leaving their job *is* easier than leaving their country. Should we give up on the connection between voluntariness and goals/contributions? This is also hasty. The voluntariness of an association does seem relevant to the kinds of goals it can have. There is nothing morally problematic about an all-Catholic softball team, provided no one is forced to join, and there are equally attractive alternatives for non-Catholics. The team's permissibility is connected, I suggest, to its voluntariness. A state that required all of its citizens to practice Catholicism would be unjust.²³

The above example suggests the following solution. The voluntariness of an association *is* relevant to the permissibility of its goals. But it is not the case, as Phillips, Margolis, and Rawls believe, that only highly voluntary associations can have goals and assess contributions. Rather, voluntariness is relevant in the sense that, the more voluntary an association is, the narrower and more focused its goals can be. This claim can be justified by an appeal to personal autonomy. Consider again the all-Catholic softball team. The autonomy of those who wish to join such a team is increased by its

existence. And, provided the team is easy to leave and there are other teams for non-Catholic players, its existence does not limit anyone's autonomy. Non-Catholics are not hindered in their attempts to play softball. The case of states is different. To be sure, the existence of an all-Catholic state would increase the autonomy of those who wish to live in one. But, because states are more difficult to leave than softball teams, its existence would limit some people's autonomy, namely, the non-Catholics living there.²⁴ Since religion is an important part of many people's lives, this would constitute a serious abridgement of personal autonomy—one that outweighs the increase in autonomy enjoyed by those who wish to live in an all-Catholic state.

Some might reject this conclusion. Noting that some states (e.g., Iran) have an official religion, they might argue that states can legitimately have goals as narrow and focused as those of the most voluntary associations. Theorists who make this sort of argument may value community over personal autonomy. Because it rejects a proposed difference between businesses and states (viz., narrowness of goals), this objection is friendly to my position. But I will not pursue it. This objection, along with the view that states can require their citizens to practice a particular religion, is implausible. It greatly underestimates the importance of personal autonomy.

What does this mean for the connection between political theories and theories of business ethics? Let me explain. Phillips and Margolis are right that businesses are more voluntary—that is, easier to exit—than states, but wrong about what this means. It does not mean that businesses but not states can have goals and assess contributions. Instead, as our discussion of all-Catholic states and softball teams shows, it means that businesses can justifiably have narrower and more focused goals than states. To say this is to admit that the argument of Rawls, Phillips, and Margolis is partly successful. The difference in voluntariness between businesses and states is morally relevant, and justifies *some* differences between theories of business ethics and political theories.

Questions remain. First, how much narrower can the aims of businesses, compared to those of states, permissibly be? Second, is this the only difference between political theories and theories of business ethics justified by the difference in voluntariness between states and businesses? Giving detailed answers to these questions requires first knowing what justice requires in states and businesses. This knowledge is

beyond the scope of this paper.²⁵ Nevertheless, there is reason to think that the differences between political theories and theories of business ethics justified by the difference in voluntariness will be small—certainly not large enough to make political theory irrelevant to business ethics. For the difference in voluntariness between states and businesses is small. It is one of degree, not one of kind.

To see this, note that it is not the case that all businesses have a property—viz., voluntariness—that all states lack. Exit is possible from both. The difference between businesses and states, then, lies their *degree* of voluntariness. One is *easier* to exit than the other. So the question becomes: how much easier? The answer is: not that much. Businesses are similar to states in their degree of voluntariness.

It is obvious that leaving one's country is difficult. It is perhaps not appreciated how difficult leaving one's job can be. For many workers, leaving a job means losing seniority, retirement funds, health benefits, job-specific skills, community ties, and friends.²⁶ Most will need to find new jobs, and these can be hard to find. According to the Bureau of Labor Statistics, the average length of unemployment in the US as of April 2003 was 20.6 weeks. 21% of those unemployed, or about two million people, took 27 or more weeks to find a new job. These data more likely reflect the present difficulty of finding a job than people's unwillingness to work, for two reasons. First, the BLS counts as "unemployed" only those who are actively seeking work. People seeking work are clearly willing to work.²⁷ Second, people's willingness to work is a function partly of the desirability of not working. For most, this alternative is highly undesirable. Being without a paycheck for even a month, let alone several months, can be a serious burden for those who have, as most do, financial obligations in the form of mortgages, car payments, and dependent children.²⁸ And while the support the state provides to the unemployed is, in some cases, enough to satisfy people's basic needs, it is rarely enough to provide them with a decent quality of life. We should conclude from these considerations that states and businesses are not too far apart in their degree of voluntariness. Together with our earlier conclusions about having goals and assessing contributions, this conclusion gives us *prima facie* reason²⁹ to believe that the narrow goals that are permissible in highly voluntary associations (e.g., the promotion of Catholicism) will be impermissible in both states and businesses.³⁰

Two objections might be raised to this claim. First, it might be said that my description of the voluntariness of workers' relationships to their firms is too crude. An older worker with few transferable skills who has worked for many years for the same company and lives paycheck to paycheck may be effectively "trapped" in his job. But, the objection says, a young and talented worker with few financial obligations can move comparatively easily from one job to another. This point has some force.³¹ However, it does not undermine my analogy between businesses and states. In the first place, the same can be said about citizens. Citizens who are young, wealthy, and talented can more easily leave their native countries than citizens who are old, poor, and untalented. Second, although some workers have a harder time leaving their jobs than others, we cannot always, or even most of the time, tailor the principles of justice for a business to the circumstances of each of its individual employees. For the most part, one set of rules has to cover them all. Given this, we must ask: what kind of employee should we have in mind when we design these rules? Should we have in mind the better-off employee—the one who (for whatever reason) is more mobile? Or should we have in mind the worse-off employee—the one who is less mobile? I suggest, following Rawls and others, that we design the rules with the worse-off employee in mind.³² Under the assumption that older workers are less mobile, less mobile workers make up a substantial minority, if not a majority, of the workforce.³³ Even if they did not, less mobile workers are among the most vulnerable of workers, and it seems wrong not to protect their interests. The rules that govern the workplace, then, should treat all employees as if it would be hard for them to leave their jobs, even if it would be easy for some to leave.

Some might object that the analogy breaks down for a different reason, namely, that while no one chooses the state into which they are born, employees freely choose the businesses for which they work, often under conditions which employees themselves specify. Although so far, following Phillips, Margolis, and Rawls, we have defined the "voluntariness" of an association exclusively in terms of how easy it is to exit it, whether or not one had a choice to enter it in the first place also seems relevant to its voluntariness. One might then wonder whether this makes businesses *much* more voluntary than states, and hence theories of business ethics *much* different than political theories. I do not think so. The voluntariness of a person's choice to enter a particular

firm is a function of the known available alternatives, including the alternative of not working altogether. As we have said, not working altogether—usually a life on welfare or homelessness—is highly unattractive. So most people in the workforce are effectively required to be there. And often the job seeker will find only a few firms hiring for positions that match her qualifications. This further diminishes the voluntariness of a person’s choice to enter a particular firm. The fact remains, of course, that prospective employees do usually pick, under the conditions we have identified, one of several firms to join. And most people have a choice—though not always a well-informed one—about what qualifications to acquire. But it is a mistake to use these facts as evidence of anything more than what we have already granted, namely, that businesses are somewhat more voluntary than states, and hence that the goals of businesses may legitimately be somewhat narrower than those of states.

Let me sum up. Rawls, Phillips, and Margolis deny that the principles of justice for states can be extended to businesses on the grounds that states and businesses are fundamentally different kinds of associations. In response, I argued that the differences they allege are either non-existent (*viz.*, goals and contributions) or overdrawn (*viz.*, voluntariness). It would be premature to conclude at this point, however, that what justice requires in businesses is identical to what justice requires in states. Rawls, Phillips, and Margolis overlook a potentially important difference between states and businesses. I examine this difference next.

4.

Some business professionals regard business ethics with suspicion. According to one skeptical view, the innocent moralizing of business ethicists has no place in the “tough” world of business.³⁴ This view should not be accepted in its present form. It reflects a confusion about what ethics is and, taken literally, it is false. However, there is a grain of truth in it that, fully developed, provides the basis for an illuminating distinction between political philosophy and business ethics.

This skeptical outlook is in one sense right: the business world is “tough.”³⁵ I do not mean by this that one must be mean or callous to be successful in business. Toughness in business is compatible with kindness, sympathy, and a robust respect for morality. When I say the business world is “tough,” I mean that it is precarious and

unstable. In free-market capitalist economies, most businesses face stiff competition from other businesses—not just to be the most profitable, but to survive. Because it will make their lives easier, firms have an incentive to force the firms with which they compete out of business. Moreover, the business playing field is always changing. States pass new laws, competitors introduce new products, and consumers change their preferences. It does not take much for a firm to fail.

There is no need to determine precisely how tough the business world is. The relevant point is that, compared to this world, the world of states is less tough. That is, the existences of states are less precarious and unstable than the existences of businesses. Unlike businesses, most states are not in direct competition with their neighbors, and so do not regularly confront the possibility of going out of existence.³⁶ An economic downturn often results in the bankruptcy of several businesses, but rarely results in the dissolution of a state. A series of bad decisions by an executive can easily lead to the downfall of her firm, but a series of bad decisions by a politician will rarely lead to the downfall of her state. Note also that the difference in toughness between states and businesses is not only a fact, but a *desirable* fact. Competition among businesses is, on the whole, a good thing. Most states rightly go to great lengths to protect it. However, increased competition among states—for land, resources, or whatever—would be, on the whole, a bad thing. We are wise as a world to discourage it.

It might be objected that there is sense in which the world of states is tougher than the world of businesses. Although states do not often compete with each other, when they do compete, the stakes are high. Competition among states can lead to war. And in a war thousands or millions can die. Competition among firms, obviously, never has consequences this bad. This point is surely correct. But my claim is not that, given any plausible definition of “toughness,” the world of states is tougher than the world of businesses. It is that there is a sense—which I have defined in terms of precariousness and instability—in which that the latter world is tougher than the former world. This difference, I have said, may be relevant to the contents of political theories and theories of business ethics. Let us now explore this possibility.

It is not obvious, of course, that theories of business ethics should take the precariousness and instability of the business world into account. Toughness can be a

difference between states and corporations without being a morally relevant difference. I will argue, however, that theories of business ethics should take this feature of the business world into account. Because of this, the demands of these theories will be different than the demands of political theories. But here also the difference is one of degree, not one of kind. It is not that the world of businesses is tough and the world of states is not tough. It is rather that the former world is tougher than the latter world. Both have the property “toughness,” but the business world has it to a greater degree. The difference in toughness between states and businesses, then, does not show that political philosophy is irrelevant to business ethics.

The toughness of business may inspire little sympathy in some, especially given the recent spate of corporate scandals. But it should be taken seriously by business ethicists. To see this, consider the role of the manager. There is considerable debate about the extent of managers’ responsibilities, e.g., whether they have duties to stakeholder groups such as the company’s suppliers and the local community. Most agree, however, that managers have duties to the company’s owners and to the company itself. In the first case their duty is to return a reasonable profit. In the second it is to ensure the company’s future existence. So theorists of business ethics will assign managers the duty of maintaining a healthy and profitable company.

But they will do more than this. If theorists seriously expect managers to perform this duty, then they must give them the powers necessary to do so. It would make little sense to command managers to maintain the health and profitability of a company, and then prohibit them, by other commands, from taking the necessary means to this end. This is a corollary of the claim that ought implies can. If managers *ought* to perform a certain duty, then they *can*, or must be enabled to, perform it. What we have said so far implies that theories of business ethics will give managers the powers necessary to maintain a healthy and profitable company. But since duties are performed in the real world, what powers managers need to perform this duty—what the means to this end are—depends on what the *actual* business world is like. In this way the toughness of business dictates in part the contents of theories of business ethics. Since the world of states is less tough than the world of businesses, it is reasonable to expect that political theories will differ in some respects from theories of business ethics.

It will next be wondered what this amounts to. What powers can be held by business managers but not by political leaders? It is impossible to give a detailed answer to this question here. Doing so would require formulating complete theories of business and the state. Here I will offer only a preliminary suggestion. In the following section I will fill this preliminary suggestion out by considering two examples.

It is a simple truth that, in times of fiscal crisis, a company can sometimes save itself by “tightening its belt.” It might cut employees’ pay; it might give shareholders smaller returns on their investments; it might renegotiate contracts with suppliers. Since, we said, managers have a duty to keep their companies healthy and profitable, it follows that in such times they are *prima facie justified* in imposing fiscal burdens on these stakeholder groups. It is not true that *anything* is permissible to save the company. Managers’ duties to save the company are *only* *prima facie*, and may be overridden by countervailing considerations. Perhaps certain rights of workers (e.g., rights to a safe workplace) cannot be overridden, no matter what the consequences are for the company’s welfare. And sometimes, for the sake of its employees and shareholders, managers might be morally required to allow the company to be taken over by a stronger and more financially stable competitor. Whether this is so depends on the facts of the particular case. My point here is just that these are real duties, and theories of business ethics must give managers the powers necessary to perform them.

The power to impose burdens on some for the benefit of the whole is a difference between states and corporations. But, as I said above, it is one of degree, not one of kind. To see that it is *not* a difference of *kind*, note that political leaders also have this power. Just as business managers have a *prima facie* duty to ensure their company’s future existence, political leaders have a *prima facie* duty to ensure their state’s future existence. When their state is threatened, political leaders may have to impose sacrifices on some for the benefit of the whole. If the state is threatened with hostility from enemy nations, political leaders may be justified in instituting a military draft. In the case of severe civil unrest, they may be justified in imposing martial law. Here again, it is not that *anything* is permissible to save the state. Like managers’ duties to the firm, political leaders’ duties to the state are *only* *prima facie*, and may be overridden by countervailing considerations. A political leader might do better morally to let her state be annexed by a

democratic, liberal, and economically prosperous one, for example, than to preserve its independence at the cost of its political, social, and economic ruin.

To see that the power to impose burdens on some for the benefit of the whole *is* a difference of *degree* between states and corporations, recall our earlier claim that the world of states is less tough than the world of businesses. This means that states will face fewer threats, and will need to demand fewer sacrifices, than businesses will face and demand. This fact should be reflected in the theories of justice for these associations. So while both theories of business ethics and political theories should give managers and political leaders, respectively, the power to impose certain sorts of sacrifices on some for the benefit of the whole, managers should be given more discretion in imposing such sacrifices than political leaders. Correspondingly, individuals should expect to exercise less autonomy in the workplace than they do in the state.³⁷ Instead of having the freedom to pursue their own conceptions of the good, as they should have in the state, people can justifiably be directed to perform very specific functions, and behave in very specific ways, in the workplace. If what we have said about toughness is right, the business's survival, but not the state's, will often depend on it.

5.

To determine whether political theories can be applied to problems in business ethics, we examined several potential differences between states and businesses. We saw that they that differ in terms of voluntariness and toughness, but not in terms of having goals and assessing contributions. Since I did not attempt to prove that there are no other morally relevant differences between states and businesses, the conclusions I draw on this subject are tentative. With this caveat, I conclude that businesses do not need “an ethics of their own” (Phillips and Margolis 1999, p. 619). They can use the one(s) already constructed by political philosophers, suitably adjusted for the modest differences in voluntariness and toughness between states and businesses.

This conclusion will be of most interest to those who advance “parallel case” arguments in business ethics, that is, arguments which attempt to prove a result in business ethics by appealing to a result in political philosophy, and then claiming that states and businesses are parallel cases.³⁸ Indeed, it is possible to think of Rawls, Phillips, and Margolis as claiming that states and businesses are not parallel cases. While

acknowledging the inherent limitations of parallel case arguments, I have argued, against these writers, that states and businesses are parallel cases. In an effort to support and clarify this conclusion, I will close this paper by briefly considering two examples of how research in political philosophy can illuminate questions in business ethics. I do not purport to reach definitive solutions to the problems I consider. My goal is merely to illustrate a research program that promises to yield useful results.

Consider first democracy. While most philosophers agree that states should be democratically governed by their citizens, there is much debate about whether businesses should be democratically managed by their employees.³⁹ I believe business ethicists can make progress on the latter question by examining the justifications offered by political philosophers for democracy in the state. As this claim implies, however, it is not enough to know *whether* democracy in the state is justified. Business ethicists need to know *why* it is justified. Some, but not all, of the proposed justifications will be undermined by the greater voluntariness and toughness of the business environment.

To see this, consider four common justifications of democracy in the state. According to one, people have equal basic moral status, and democracy is the natural expression of this status.⁴⁰ Individuals denied a right to vote are deemed unworthy of participation in public life, and hence are disrespected as persons. A second justification begins with the claim that, other things equal, it is good that people get what they want. It then argues that democracy is justified because it maximizes the satisfaction of people's preferences in society as a whole.⁴¹ A third justification is structurally similar to the second. It begins with the claim that, other things equal, it is good that people have control over their lives. It then argues that democracy is justified because it increases, though perhaps only slightly, people's control over their lives. A fourth justification of democracy in the state appeals to a specific function of the control democracy gives people. According to it, democratic rights are protective. It enables citizens to protect their rights by voting abusive leaders out of power.⁴²

There is no general consensus among political philosophers about which of these arguments, if any, is sufficient to justify democracy in the state. This is not the place, however, to discuss their merits. Here my point is just that business ethicists should be interested in this discussion, for some of these arguments apply with as much force to the

firm as they do to the state. Suppose, for example, as the first argument says, that having a right to vote is the natural expression of people's equal basic moral status. It is implausible to claim that people are less morally equal in the firm than they are in the state. So, if democracy is necessary to recognize this status in the state, then it seems it would also be necessary to recognize this status in the firm. The argument from preference-satisfaction also applies in both contexts. It relies on the claim that getting what one wants is, other things equal, a good thing. Democracy is as likely to achieve this good in the state as it is to realize it in the firm.

The third and fourth arguments in favor of democracy in the firm appeal to the good of control. These arguments can also be appropriated by business ethicists, but arguably with less success. Democracy in the firm increases people's control over their work environments in the same way that—and, because the electorate is smaller, to a greater extent than—democracy in the state increases people's control over their social environments. Moreover, having the collective ability to vote abusive managers out of power increases workers' ability to protect their rights. But the extra measure of control democracy affords workers is perhaps less vital than the extra measure of control democracy affords citizens. The reason is that workers effectively have, in virtue of their greater ability to leave untenable work situations, more control over their work environments than citizens have over their social environments. But, as we said above, a worker's relationship to her firm is not fully voluntary—and indeed not much more voluntary than a citizen's relationship to her state. The question is, then, whether, in virtue of having this slightly greater ability to leave their firms, workers have *enough* control over their work environments, or whether control is a sufficiently important good that they should be granted more of it in the form of managerial democracy. This question is outside the scope of this paper. It must be answered, however, by any full inquiry into the justification of democracy in the workplace.

Business ethicists should also be interested in what political philosophers have to say about merit. The idea that distributive decisions (e.g., pay raises and promotions) should be decided on the basis of merit is largely taken for granted in the business world. But merit is resisted as a distributive criterion in most contemporary theories of justice for the state.⁴³ The fact that political theorists resist merit, of course, does not prove that

businesses ethicists should resist it as well. But, given the similarity between states and businesses, it should cause them some concern. If it is impermissible for states to reward merit, why is it permissible for businesses to do so?

As in the case of managerial democracy, business ethicists can make progress on this question by examining political philosophers' arguments. A familiar one appeals to the moral arbitrariness of rewarding merit. It claims that people have little control over the actions and traits in virtue of which they are said to merit a share of social benefits, and concludes that rewarding merit is unfair.⁴⁴ According to a second argument, valuing merit leads to unhealthy and unpleasant competition in society. If rewards are tied to excellence, citizens will be constantly trying to "one-up" each other. Since most people will "lose" this competition, the argument says, a meritocracy will inevitably diminish people's self-respect and threaten their sense of community.⁴⁵

At first glance, these concerns are as relevant to the firm as they are to the state. Consider the complaint of unfairness. According to it, the reason that rewarding merit is unfair is that the meritorious cannot claim credit for the abilities and talents in virtue of which they are said to be meritorious, e.g., their intelligence or resourcefulness. The reason people cannot claim credit for these traits, it continues, is that they are largely the product of factors beyond their control, such as their genetic inheritance and early childhood socialization. This chain of reasoning, if successful, also suggests that rewarding merit in the workplace is unfair. The abilities and talents in virtue of which people merit a pay raise or a promotion are likely to depend no less on genetic inheritance and childhood socialization than those in virtue of which people merit a share of the social benefits distributed by the state. Indeed, some of the same abilities and talents—intelligence, resourcefulness, diligence, and creativity—are likely to make a person meritorious in the eyes of both her state and her firm.

The claim that valuing merit will diminish people's self-respect and threaten their sense of community also applies to the firm. Just as most citizens will "lose" the competition for scarce state resources, most employees will "lose" the competition for scarce firm resources. This fact alone may lead to problems in the workplace: diminished self-esteem, jealousy, and hostility among workers.⁴⁶ Compounding this problem is the fact that employees consistently overrate their on-the-job performances. One study found

that, when asked to compare their performances to those of their peers, employees rated themselves on average in the 77th percentile. 90% rated themselves above average. Most importantly, 85% of employees surveyed were given a lower rating by their managers—the people who actually decide questions about pay and promotion—than they gave themselves.⁴⁷ So, not only will the majority of workers “lose” the competition for scarce firm resources, they will think they deserved to “win.” The pay raise they get will not be large enough; the promotion they get will not have come soon enough. This can only increase frustration among employees.

We have seen at this point that the arguments political philosophers use to justify their rejection of merit as a distributive criterion apply also to businesses. We should not conclude from this, however, that it would be all-things-considered wrong for businesses to reward merit. First, despite the fact that many political philosophers believe them, the anti-merit arguments we have considered may fail. Perhaps rewarding merit is not unfair and will not lead to hostility, even in the state. Second, even if these arguments do succeed when applied to the state, they may not succeed when applied to the firm. The greater voluntariness and toughness of the business environment may permit—even require—rewarding merit in the firm. In fact, there is some reason to think this is the case. Because of the toughness of the business world, a company may not survive if it does not promote its best employees and compensate them accordingly. Since managers have a *prima facie* duty to ensure the survival of their firms, they may be all-things-considered justified in rewarding merit. The world of states, on the other hand, is less tough. Since political leaders do not need to reward merit to ensure the survival of their states, they may be all-things-considered unjustified in doing so.

The lesson in this case is thus the same as the one in the case of democracy. It is not that what justice requires in the workplace is always the same as what justice requires in the state, so that the contents of theories of business ethics should mirror exactly the contents of political theories. It is that business ethics has much to learn from political philosophy. For many of the arguments that justify important political institutions (*viz.*, democracy) apply also to businesses. Of course, much more needs to be said about managerial democracy, merit pay, and the relevance of political philosophy to business ethics in general. This paper has not tried to solve these debates, but only to advance

discussion of them. Nevertheless, at this stage, we have reason to believe that political philosophy may be, after all, a gold mine for business ethics.

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¹ Donaldson says “corporations are . . . like political states in their need for justification” (1982, p. 37).

² For a discussion of authority in both states and businesses, see McMahon (1994).

³ An objection might be raised to this type of inquiry. States, it might be said, can correct injustices created by businesses (through, e.g., redistributive taxation), but businesses are rarely in a position to correct injustices created by the state. This observation is true, but lacks bite. The fact that states are usually capable of correcting injustices created by businesses does not mean that businesses are excused from considering the moral dimensions of their actions. Analogously, A is morally obligated not to steal B’s car, whether or not B’s insurance company will give him a new one.

⁴ Some political theories are “relevant” to business ethics in the sense that they have direct implications for businesses (e.g., Marxism). I am interested in a more subtle kind of relevance—whether political theories that have no direct implications for businesses can nevertheless be extended to them.

⁵ Rawls (1993) and Phillips and Margolis (1999).

⁶ I am primarily interested in differences in what justice requires in states and businesses (e.g., whether states should be democratic but businesses can be autocratic). But sometimes I will speak of differences in the theories of justice, or principles of justice, that apply to states and businesses. I do not mean different things. As I understand them, principles of justice make up theories of justice, and a theory of justice, when applied to a situation, tells us what justice requires in that situation.

⁷ Solving, as opposed to merely advancing, this debate would require considering all of the possible morally relevant differences between states and organizations. Because of this project’s size, it cannot be attempted here.

⁸ As this passage indicates, Phillips and Margolis (as well as Rawls) speak more broadly of the differences between *organizations* and states. A business, of course, is only one kind of organization; there are others. In this paper, I will be concerned with the narrower question of whether political theories can be applied to *business* organizations.

⁹ How easy it is to exit a state—or, for that matter, a business—will depend not only on the strength of one’s attachments to “persons and places.” It will also depend on the availability and quality of one’s alternatives. I discuss another aspect of the voluntariness of associations in section 3.

¹⁰ The classic discussion of “exit” in organizations is Hirschman’s (1970).

¹¹ The goals of these corporations are reported in Collins and Porras (1994, pp. 69-71).

¹² Phillips and Margolis (1999, p. 623) and Rawls (1993, pp. 276-277).

¹³ I am indebted to Hartman’s (2001, 1996) critical discussion of this argument.

¹⁴ This is a simplified description of neutralist liberalism. But it is adequate for our purposes.

¹⁵ Some theorists (e.g., Keeley 1988) deny that organizations have goals. Even if we conclude, then, that states do not have goals—and we probably should not—there is still room to deny that states and organizations differ in terms of having goals. Neither states nor organizations may have goals.

¹⁶ Rawls (1971, 1993) and Dworkin (1977). Rawls and Dworkin offer independent arguments for the conclusion that states should be neutral among conceptions of the good. For reasons of space, I leave these arguments aside.

¹⁷ See, for example, Sher (1997) and Galston (1991).

¹⁸ See, for example, Sher (1987).

¹⁹ One might object that while citizens *can* make contributions to their states, they are not *required* to. Employees, on the other hand, are required to make contributions to their firms. Two things can be said in response. First, while this is perhaps true as a descriptive claim, it may be false as a normative one. Perhaps citizens *should be* required to make contributions to their states. Second, even if they should not, there is still the question of how states should respond when they do. It does not follow from the fact that

citizens should not be required to make contributions to their states that they should not be rewarded when they do.

²⁰ It is no objection to this claim to say that, at present, states do not *in fact* reward individuals who make these kinds of contributions. I am trying to show here how states *might* reward individuals' contributions. The state might reward all kinds of contributions. Individuals in a religious state might be rewarded for their religious behavior, if one of the state's goals was to promote such behavior. They might be given public praise or a government job—whatever is fitting.

²¹ Neutralist liberals have advanced a number of arguments against meritocratic or desert-based distributive theories in recent years. I do not claim to have defeated all of them. Here my point is just that neutralist liberals cannot claim that contribution is irrelevant to distributive justice because neutralist liberal states have no goals. I have argued that such states do have goals.

²² My claim here is not that states and organizations have the same goals or that what counts as a contribution to each is the same. States and organizations have different goals and, as I pointed out above, different organizations have different goals. My claim is just that both states and organizations have *some* goals, and therefore it is possible make *some* contributions to them. This is sufficient to refute Phillips's and Margolis's claim that states have *no* goals and hence *no* place for contribution-assessments.

²³ For an argument for this conclusion, see Locke (1983).

²⁴ I assume that the state will have some non-Catholic members. History shows that this assumption is reasonable.

²⁵ This conclusion is abstract. I discuss concrete examples of how political theories can be applied to problems in business ethics in section 5, below.

²⁶ As this statement indicates, I confine my remarks to the firm's employees, as opposed to its other stakeholder groups. Members of other stakeholder groups may have more voluntary relationships with the firm. Provided there are other decent alternatives, customers, for example, can easily do business with other firms.

²⁷ In fact, there are more unemployed people who are willing to work than the above data indicate. The BLS does not count as "unemployed" people who (i) are out of work, (ii)

willing to work, but (iii) who are no longer looking for work for “discouraged” reasons. As of April 2003, there were roughly 440,000 discouraged workers in the US.

²⁸ Recent studies indicate that job loss is becoming more costly. According to Polsky (1999), the reemployment rate of displaced workers dropped from 67% in 1976-1981 to 62% in 1986-1991, while their odds of receiving a large wage cut rose from 9% in 1976-1981 to 17% in 1986-1991. For more on the costs of job loss, see Farber (1997). According to Schmidt (1999), workers are aware of these costs.

²⁹ Here, again, the caveat that I have not proved that other things *are* equal applies. That is, I have not proved that there are *no* morally relevant differences between states and businesses, just that the differences alleged by Rawls, Phillips, and Margolis are not real or not substantial.

³⁰ It is beyond the scope of this paper to spell out *all* the potential differences between theories of justice for states and theories of justice for businesses. But see my discussion section 5.

³¹ Several studies show a negative relationship between age and turnover. See, for example, Finegold et. al (2002), Mobley (1982), and Price (1977). For an opposing view see Healy et. al (1995). Finegold et. al suggests that one reason older workers are more committed to their firms than younger workers is that the former have “greater community ties and financial commitments” than the latter (2002, p. 659).

³² Here I take my cue from Rawls’s (1971) difference principle, according to which the basic structure of society should be arranged so as to maximize the expectations of its worst-off representative member. Less mobile employees are worse off in the sense that they are less able to exit disagreeable work situations.

³³ The BLS estimates that, as of January 2002, 58.6% of all workers were between the ages of 35 and 64, and 31.6% of all workers were between the ages of 45 and 64.

³⁴ A related view is found in Carr (1968). This view is considered and rejected by DesJardins and McCall (2000).

³⁵ Solomon implicitly recognizes this point when he cites “toughness” as one of the “basic business virtues” (1992, p. 207). He also rejects the initial definition of “toughness” I consider below.

³⁶ As a generalization, my claim that businesses are less economically stable than states is true. But there are exceptions. Corporate giants such as Procter & Gamble and 3M are probably more stable than certain states in Africa and South America. My theory is responsive to this fact. I do not claim that corporate giants such as 3M can behave in exactly the same fashion as struggling start-ups. Nor do I claim that struggling states must behave in exactly the same fashion as powerful and well-established ones. In general, the more a state resembles a “normal” business, the more applicable theories of business are to it. The more a business resembles a “normal” state, the more applicable political theories are to it.

³⁷ My point here is normative, not descriptive. It is not that, as a matter of fact, theories of business ethics *do* pay less attention to autonomy than political theories. It is that, given the facts of toughness and voluntariness, theories of business ethics are morally permitted to pay less attention to autonomy than political theories.

³⁸ Dahl (1985) gives a “parallel case” argument for democracy in the firm.

³⁹ For discussions of this issue, and arguments for and against, see Arneson (1993), Brenkert (1992), and McMahon (1994). McMahon, in particular, confronts the problem of whether, if corporations should be democratic, they should be democratically governed by their employees *only* or by members of *all* their stakeholder groups. For reasons of space, I leave this issue aside.

⁴⁰ See, for example, Griffin (2003).

⁴¹ For an argument that democracy in the state maximizes welfare, see McMahon (1994). This argument assumes, not unreasonably, that votes express people’s preferences, as opposed to their judgments, about what should be done.

⁴² See, for example, Arneson (1993) and Mill (1978).

⁴³ The contemporary rejection of merit is documented in Pojman (1999). See also Scheffler (1992).

⁴⁴ See, for example, Rawls (1971) and Wasserstrom (1978).

⁴⁵ See, for example, Schaar (1965) and Nielsen (1985).

⁴⁶ Annis and Annis argue that merit pay “creates unhealthy competition and hostility . . . [and] results in lowered self-esteem” (1986, p. 35). See also Lawler (1981).

⁴⁷ Meyer (1975, p. 43).

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