

Winter 2000

explore, Winter 2000: Justice in the world of business

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BANNAN INSTITUTE

FOR JESUIT EDUCATION
AND CHRISTIAN VALUES
SANTA CLARA UNIVERSITY

explore

A quarterly examination
of Catholic identity
and Ignatian character
in Jesuit higher education



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During the weekend of October 15-17, 1999, the Bannan Institute hosted a conference, “The Commitment to Justice in Jesuit Higher Education,” for seven Jesuit universities, attended by 85 representatives. One of three regional conferences that will lead up to the national conference here next fall, it focused on how to emphasize concerns for faith and justice in the teaching, research, and curriculum on our campuses. Faculty members, service-learning directors, and even two university presidents debated these issues and examined what could be done in their distinctive campus cultures. By all reports, it was quite successful, particularly the evening meal at Campo di Bocce in Los Gatos, where some made the leap from theory to the praxis of bocce ball.

This issue of **explore** is also concerned with justice, specifically in the world of business. It follows the well-received series of articles in the fall issue from faculty, alumni, and students of the Santa Clara University School of Law. We are accustomed to hearing about justice from those whose rights have been denied or ignored, but justice has a more pervasive role to play in life. Justice is the virtue that guides all our social relations, from the courthouse to the marketplace and even within the home. Fair and open contracts, honest advertisement, and equitable pay scales are expressions of what is classically known as “commutative justice.” Although “distributive justice,” which strives for an equitable sharing of social benefits and burdens, attracts more controversy, the ordinary justice of fair dealing is equally important. The responsibility for building up humane social relations falls not only on public servants and volunteers, but on every person who produces goods and services in the world of business.

We are fortunate to have a number of our most accomplished scholars from the Leavey School of Business offering their perspectives in this issue of **explore**. Dennis J. Moberg of the Department of Management, who is Presidential Professor of Ethics and the Common Good, reflects on how organizational leaders can prevent some workers from being morally excluded by others. Martin Calkins, S.J., Assistant Professor of Management, discusses the virtue of justice as a quality of moral individuals rather than an attribute that directly pertains to corporate entities. Professor Karen F. A. Fox, who has considerable experience in overseas marketing programs, describes how marketing is the most morally sensitive area of business. Consumers are wary of being manipulated and misinformed as they investigate products and services. Professor Meir Statman, who regularly teaches a course on ethics and finance, shows how the central values of Santa Clara University’s mission statement bear directly on financial matters: “Justice combines conscience and compassion. But justice does little good when competence is missing.” S. Andrew Starbird, Director of the Food and Agribusiness Institute at Santa Clara University, writes that the major problems in feeding the world adequately are at root questions of unjust distribution of resources. Jacques Delacroix, Professor of Organizational Analysis and Management, argues that education for justice is itself problematic because the rhetoric of justice has been used to justify many of the worst social policies of this century.

We hope you will enjoy this lively forum. Join us in the spring, when we turn to education for justice in Arts and Sciences, and next fall when we hear from the School of Engineering.

Cordially,

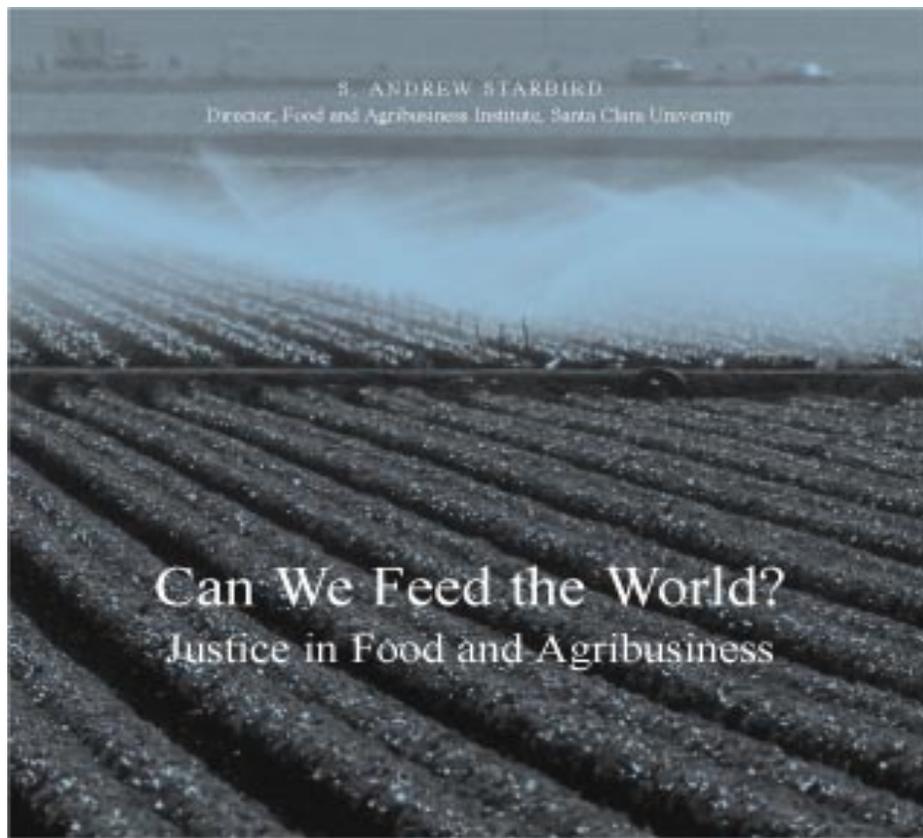


William C. Spohn Director

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Seventeen years ago, on my first day as a student in Santa Clara University's MBA program, my management professor asked each student to tell him what they hoped to accomplish with their MBA (if they managed eventually to graduate). As you might expect, the answers ranged from the humble to the outrageous and from the thoughtful to the naive. No answer was more outrageous and naive than mine. I confidently declared, "I want to feed the world." The professor looked at me, perplexed, and asked, "Why are you getting an MBA?" Fortunately he didn't wait for an answer, because I didn't have one. I do now.

Can a degree from a business school contribute to the solution of one of the oldest and most difficult problems facing humanity? What, if anything, does a business education have to offer that other disciplines do not? To answer these questions, one needs to understand what does and what does not cause hunger in the U.S. and around the world. Hunger is not caused by a shortage of food or by an overabundance of people. Worldwide, farmers are producing more calories per person than ever before, and recent advances in biotechnology suggest that the future will reveal even greater improvements in agricultural productivity. Hunger is caused by the economic, political, cultural, legal, institutional, and physical barriers to efficient and equitable distribution of food. Economic barriers include poverty and the inequitable distribution of economic assets. Political barriers include wars, trade barriers, subsidy programs, and other obstacles associated with governmental policies. Cultural barriers include all the biases and prejudices that inhibit exchange in free and open markets.

How can a business education from SCU contribute to solving the hunger problem? Business education at SCU and elsewhere is about overcoming obstacles to the fulfillment of individual needs. In the study of business organizations, our students ask themselves three questions: What is it that our customers need?

What is preventing us from satisfying those needs? and How can my organization overcome those obstacles to satisfying our customers? Our students study how to work within or change government policies that constrain commerce. They learn how to control risk that would otherwise inhibit business transactions. They learn how to adapt their policies and products to satisfy diverse cultural requirements. They study how to make distribution systems more efficient and how to increase the productivity of limited resources. The hunger problem cannot be solved without people with these skills.

Of course, the hunger problem is only one of many facing the food industry. The special place of food in our society and the unusual constraints associated with food production and distribution lead to conflict among workers, farmers, agribusinesses, consumers, governments, and special interest groups. In its curriculum and through its extracurricular enrichment programs, the Food and Agribusiness Institute (FAI) at SCU helps its students understand the sources of conflict among these groups and examine these conflicts from multiple perspectives. To provide as broad a perspective as possible in our classrooms, the Institute recruits students representing diverse political, social, and cultural backgrounds. We have been very successful in recruiting students of color, international students, students with no agricultural experience, students with extensive agricultural experience, and students who freely question the status quo. A recent class offered by the FAI included students from Equatorial Guinea, Guatemala, and the People's Republic of China; students with work experience in e-commerce, organic farming, food service management, and biotechnology; and students with a variety of socioeconomic backgrounds.

What are the conflicts in the food industry that seem to be the most difficult to resolve? There are dozens, of course, but the most challenging problems are also the best known:

BIOTECHNOLOGY: Genetically modified organisms have tremendous potential to improve the quality and quantity of the food available to feed the world's population. However, the development and use of genetically modified organisms may threaten human health and the environment. Is it just to limit the food-producing ability of developing nations because of possible risks? Is it right to expose people to unpredictable risks without their consent or knowledge?

PRODUCTION: The key to abundant, safe, and wholesome food is efficient production and distribution. The drive for efficiency often conflicts with the cultural and social institutions that represent our heritage, and may result in the displacement of society's most defenseless citizens. Is it just to displace family farmers or farm workers in order to improve economic efficiency? Is it right to keep food prices artificially high and, therefore, out of reach of the poorest members of our society, in order to support family farmers and farm workers? Is subsidized food production, which benefits rich and poor equally, an appropriate allocation of tax dollars?

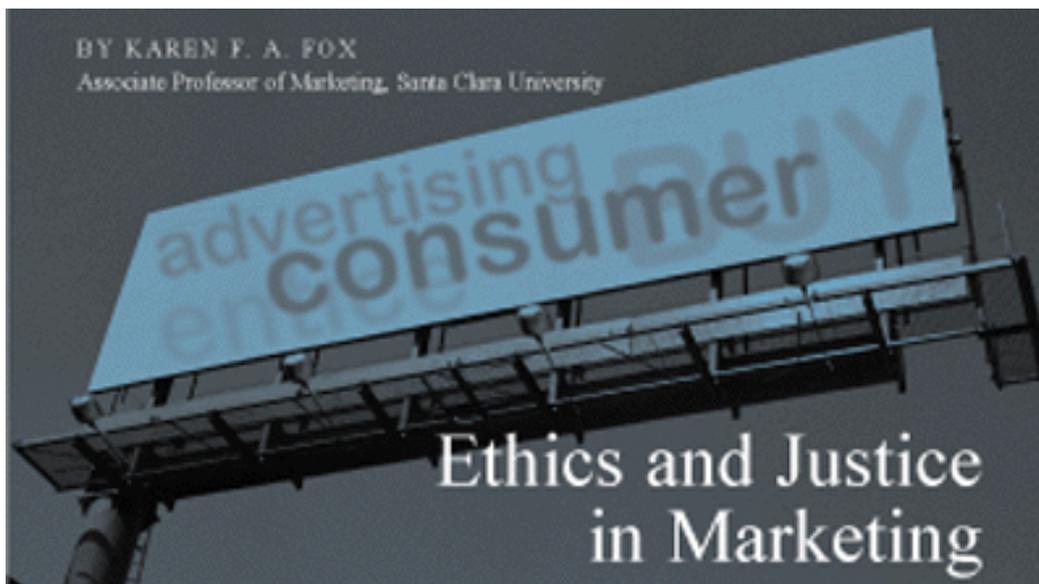
ENVIRONMENT: The food production system is land-based and, in some cases, conflicts with the goals of the environmental community. Although it seems that the two groups have found more common than uncommon ground in the last few years, particularly with the advent of the sustainable agriculture movement, disputes continue to arise. Is it just to limit the availability or increase the price of food in order to protect an animal or plant habitat? Is it right to threaten a species with extinction in order to increase the availability of food? As cities expand, how do we resolve the conflicts between urban and rural land uses in a manner that recognizes the rights of property owners and the need for governments to control land use?

FOOD SAFETY AND QUALITY: Food safety is often in the news and on the minds of consumers. Safer food tends to be more expensive and food safety practices often involve processes that consumers fear, such as irradiation. To further complicate the issue, the ultimate incidence of food-related illnesses depends upon consumer handling practices in addition to food processing practices. Is it just to relax food safety standards in order to keep food prices low (or producer incomes high)? Is it right to reduce the availability or increase the price of food because of negligible risks to health? Should we hold food companies responsible for food-related illnesses that are the result of poor food handling practices on the part of the consumer?

DEVELOPING NATIONS: The ability of many developing nations to increase their citizens' standard of living depends upon the application of new agricultural technologies and access to world markets. As I already noted, biotechnology holds enormous potential for countries that have soil, water, and climatic conditions less favorable than our own. In addition, access to North American and European markets is an important way for developing nations to earn foreign exchange and enhance their development opportunities. Is it just to restrict the technologies that are available to these nations because we are protecting domestic producers or institutions? Is it right to allow unsafe technology to be marketed and used in developing nations? Should we allow foreign products into our markets, if it puts those institutions at risk or if the safety of the imported product is difficult to determine?

I have no illusions about the difficulty of resolving these conflicts or about the enormity of the hunger problem. However, I also have faith that people of good conscience, working together, with the appropriate skills and experience, can contribute to the resolution of conflict and the alleviation of hunger. At the Food and Agribusiness Institute, our goal is to develop leaders of competence, conscience, and compassion who will be ready and able to identify and implement just resolutions to these formidable issues.

S. Andrew Starbird
Director, Food and Agribusiness Institute,
Santa Clara University



A decade ago, a chewing tobacco company targeting college males launched a program of “campus reps,” in which young men were hired to promote chewing tobacco by giving free samples to their friends and “talking up” the product. The qualifications for this part-time position were fraternity membership and a grade point average no better than a C. (The company was not seeking Santa Clara University’s best and brightest.)

It happened that the new SCU campus rep was then enrolled in my marketing course. He saw no issues of ethics or justice in representing a product that already was receiving national press coverage for its danger to consumers (such as the case of a 19-year-old dying from cancer of the mouth, whose family was suing the chewing-tobacco manufacturer). My student argued that “it’s OK to sell whatever people want to buy” and “It’s a free country.” He also said that if chewing tobacco really were harmful, “it would say so on the label.” (Now it does.) He was blinded to precisely the issues every good marketer should understand.

The importance of ethical dealing in marketing is highlighted in the Code of Ethics of the American Marketing Association, which addresses the responsibilities of the marketer, criteria of honesty and fairness, and the rights and duties of parties in the marketing exchange process. Here are key excerpts (the full text is available at <http://207.154.156.75/about/ama/fulleth.asp>):

Marketers must accept responsibility for the consequences of their activities and make every effort to ensure that their decisions, recommendations and actions function to identify, serve and satisfy all relevant publics: customers, organizations and society.

Participants in the marketing exchange process should be able to expect that:

1. Products and services offered are safe and fit for their intended uses;
2. Communications about offered products and services are not deceptive;
3. All parties intend to discharge their obligations, financial and

otherwise, in good faith; and

4. Appropriate internal methods exist for equitable adjustment and/or redress of grievances concerning purchases.

I now begin my MBA marketing management course by posing the question, “How would the person on the street respond to the question ‘What is marketing?’” The students’ definitions always include “selling” and “advertising,” and then I offer my tongue-in-cheek definition: “Marketing is getting people to buy things they don’t need with money they don’t have—to impress people who don’t care.”

We laugh a bit and then explore why “most people” think of marketing solely as high-pressure promotional activities that are aimed to get people to do what they wouldn’t do in the absence of manipulation by marketers.

After several years, I have found an explanation for this uncomfortable reaction: Marketing is the most feared of the various functional areas of business. The public may view finance as arcane, accounting as dull, and management as applied common sense, and all these activities are invisible to the public. But everyone is a consumer, a participant in the marketplace, and therefore everyone has value-laden opinions of what marketing is and what it should be.

This direct contact between customers and marketers creates exhilaration and anxiety on both sides. The cornucopia of excellent goods and services available in the United States is exhilarating. But consumers are anxious because they believe marketers have extraordinary powers to delve into their subconscious, and to use that information to entice, entrance, and ultimately to control them.

This imputed power of marketers makes marketing ripe for ethical anxiety. The perceived unequal power between customers and marketers, with the balance favoring the marketer, makes customers very uneasy. The customer faces acres of product choices, but each choice presents risks—of making a bad decision, of being taken advantage of, of paying too much, of getting poor value, of being “taken for a ride” by marketers with their own agenda.

The marketer, too, feels uneasy, but for different reasons. At best, the marketing team has worked hard to understand customer preferences and to shape an enticing product or service offering, that is then attractively priced and presented. What will prospective customers do? Will they like what we have to offer? Or will they reject it? Can something go wrong that will turn customers off? Will a competitor beat us out?

Whenever a person or group—the change agent—proposes a change to another person or group, the possibility of self-serving motivation arises. Our knowledge of attitude and behavior change tells us that the would-be change agent needs to make the advantages of the innovation salient, to encourage people to make changes that otherwise might seem unnecessary or daunting, or both. I’ve worked overseas in the field of “social marketing,” applying marketing concepts and tools to promoting beneficial social change. The specific projects I’ve worked on range from extending access to oral rehydration therapy in Burma to promoting family-planning in Egypt to encouraging peasant rubber growers to plant higher-yielding

rubber trees in Indonesia. Each social marketing program requires understanding the nature and contributing causes of the problem, identifying and appraising the range of solutions, considering the variety of intermediaries who could carry the product or at least the message, and the incentives and disincentives that will affect who adopts the new idea or practice, and who benefits from changes in the status quo.

I also work extensively with nonprofit organizations, and I teach an MBA course and a PBS/Adult Learning program on marketing for nonprofits. Nonprofits need to understand marketing—research, program planning, pricing, and delivery—to do a better job of fulfilling their nonprofit missions.

In commercial marketing, the company offering the product or service is, of course, working to accomplish its own self-interest: to sell its offerings profitably. Meeting this objective requires offering something attractive and valued so that consumers will purchase it of their own free will.

When do issues of justice arise in teaching marketing?

In my MBA marketing course, we start with the excellent materials available on the web site of the Markkula Center for Applied Ethics at Santa Clara University (<http://www.scu.edu/Ethics/>). Student teams are assigned a particular topic from the course, and each team then plans a 20-minute presentation that highlights the ethical issues associated with the topic. Here are a few examples:

Segmentation and targeting: What are the ethical issues that arise when one group is singled out for special marketing attention? For example, what are the business reasons why tobacco companies targeted teens, and what are the ethical reasons why this was and is unacceptable?

Positioning: Is it acceptable to position (that is, present and describe) something as attractive and positive, when it can have some negative aspects? What if there are known and substantial risks to customers in using it? Is a company's obligation simply to comply with legal requirements, and let customers "make up their own minds"?

Global marketing: What are the pressures U.S. companies encounter in doing business overseas, and what are the legal and ethical dimensions that marketers should be aware of in these situations?

Product life-cycle: Are new products appreciably better than those they replace? What provisions are there for repair and service of superceded products?

Pricing: How do we formulate pricing policies that are both fair to categories of purchasers and competitive in the marketplace?

Promotion: What are the ethical and business arguments against high-pressure business tactics and misleading advertising?

As these examples suggest, many marketing issues have both ethical and legal dimensions. In some instances, legislation was passed to respond to ethical uncertainties with legal answers and uniform business practices. The well-prepared marketer needs to understand both the legal and ethical underpinnings of good marketing practice.



Karen F. A. Fox
Associate Professor of Marketing,
Santa Clara University



Each year I show my Ethics and Finance students a documentary about a farmer who asked a banker to extend his loan. “I will extend your loan,” says the banker, “if you can tell my glass eye from the real one.” The farmer looks at the banker’s eyes for a moment. “I see a glimmer of compassion in your left eye,” he says. “So it must be the glass one.”

Is finance all money and no compassion? And by which words and deeds can we change its perceptions and realities? We strive to help our students grow into people of competence, conscience, and compassion. I build my essay on these three pillars.

COMPETENCE

Farmers plow fields, sow seeds, and harvest grain. Bakers turn grain into bread and cake. But what do financiers do? Tom Wolfe tells the parable of the cake in his novel, *The Bonfire of the Vanities*.

Sherman McCoy is the “master of the universe” bond trading financier in Wolfe’s novel. McCoy and Judy, his wife, try to explain to their daughter Campbell what bond financiers do for society in exchange for the fees they charge. Judy says:

“Daddy doesn’t build roads or hospitals, and he doesn’t help build them, but he does handle the bonds for the people who raise the money.”

“Bonds?”

“Yes. Just imagine that a bond is a slice of cake, and you didn’t bake the cake, but every time you hand somebody a slice of the cake, a tiny little bit comes off, like a little crumb, and you can keep that.” Judy was smiling, and so was Campbell, who seemed to realize that this was a joke, a kind of fairy tale based on what her daddy did.

“Little crumbs?” she said encouragingly.

“Yes,” said Judy. “Or you have to imagine little crumbs, but a lot of little crumbs. If you pass around

enough slices of cake, then pretty soon you have enough crumbs to make a gigantic cake.”

In truth, bond financiers contribute much to building roads and hospitals. Bond financiers make the connection between the people who build roads and the people who invest in roads. Some people who invest are rich, but not all investors are rich. Many investors are ordinary people, people who invest for retirement and college education through IRA and 401(k) programs. Investors want assurance that they will be paid as promised, so they can send their children to college and enjoy their retirement. Bond financiers provide that assurance.

Tom Wolfe is not alone in his perception that manufacturing is important while services are not. That perception is widespread and longstanding. Adam Smith wrote in his 1776 book, *Wealth of Nations*, that “[t]here is one sort of labor which adds to the value of the subject upon which it is bestowed: there is another which has no effect.” Manufacturing labor adds value, according to Smith, but service labor does not. Karl Marx disagreed with most of Adam Smith’s perceptions, but he agreed with this one. Adam Smith and Karl Marx are long dead, but their perceptions live on. While we have moved from a manufacturing economy to a service economy and, now, to an information economy, people still think that charging for manufacturing is more fair than charging for services, and that charging for services is more fair than charging for information.

Bond financiers are not the only financiers; venture capitalists, financial analysts, and investment advisors are financiers, too. Venture capitalists make their contribution by providing entrepreneurs with the funds they need to bring ventures to fruition. Corporate financial analysts make their contribution by distinguishing efficient business operations from failing ones. Investment advisors make their contribution by helping people plan for their financial future.

Competence is crucial for all contributions. Our students develop the foundations of competence in finance courses at SCU such as Financial Management, International Financial Management, Financial Policy, Investments, Money and Capital Markets, and Ethics and Finance.

CONSCIENCE

Imagine that I am holding \$1,000 in cash in front of “Michael” and “Jane.” I say to Jane, “Make an offer for the division of the \$1,000 between Michael and you.” But the offer is an ultimatum, not open to negotiation. Michael can accept Jane’s offer or reject it, but he cannot counter-offer. If Michael accepts Jane’s offer, I will divide the money between him and Jane. But if Michael rejects the offer, I will burn the \$1,000 and neither Jane nor Michael will get anything.

Suppose Jane offers a split of \$980 for her and \$20 for Michael. Will Michael accept? Many Michaels reject the deal. They say, “I would rather see my \$20 burn than submit to such an unfair deal.”

People often talk about fairness when they talk about conscience; people with a conscience treat other people fairly. But what are the rules of fairness? Is a split of \$980 for Jane and \$20 for Michael fair? Is \$600 for Jane and \$400 for Michael fair?

Suppose that a friend, the president of a company, tells you that his people just found oil in a new field.

You proceed to buy 10,000 shares of the company stock and delight in your gain as the oil find is announced to the general public. You may be richer now, but are you fair? Tibor Machan, a philosopher, thinks so. Machan argued his position in a *Public Affairs Quarterly* article, “What Is Morally Right with Insider Trading.”

You are not guilty of deception, he explains, since you promised nothing to the people who sold you their shares. You are also not guilty of theft, since the president of the company gave you the information freely. This is good enough for Machan. “I want to argue,” he wrote, “that it may be one’s achievement or good fortune to learn of opportunities ahead of others and there is nothing morally wrong with this. In fact, acting on such information can be prudent, exhibiting good business acumen” (p.135).

The rules of fairness, according to Machan, entitle people to protection from people who deceive or steal. But they do not entitle them to protection from people who trade on inside information. Not everyone shares Machan’s fairness rules. Indeed, most people think that it is unfair to trade on inside information, and their views are enshrined into law. In our book, *Ethics and Fairness, Efficiency and Financial Markets*, Hersh Shefrin and I discuss the reflection of the rules of fairness in laws, such as the one that prohibits trading on inside information.

Laws reflect notions of fairness, but laws are not always fair. We are fortunate to have among us people who are ready to break the law in the name of fairness. Today we regard Rosa Parks as a hero, not a lawbreaker, for refusing to obey the law that relegated blacks to the back seat. In years to come, we might regard Jack Kevorkian as a hero for refusing to obey the law that prohibits euthanasia. Or, we might regard him as a murderer.

We can approach fairness as prophets or as politicians. Prophets, such as Rosa Parks and Jack Kevorkian, fight for their rules of fairness and they are willing to pay the price of defeat. In contrast, politicians seek to find middle ground among the many rules of fairness. You can be prophets, I tell my students, or you can be politicians. But remember that your entitlement to a jury of your peers is not entitlement to a jury of people from your professional and social circle. Make sure that you know society’s rules of fairness.

Christina Morgan, the managing director of investment banking at Hambrecht & Quist, focused on her own rules of fairness in 1997 as she answered the questions of Michael Siconolfi, a *Wall Street Journal* reporter. Siconolfi asked Morgan about the practice of “spinning,” where investment bankers allocate lucrative shares in Initial Public Offerings (IPOs) to executives they are courting. For example, an investment banker courting the business of Joseph Cayre allocated him 100,000 shares of Pixar Animation Studios when Pixar went public. Cayre sold the shares that day for a \$2 million profit.

Christina Morgan saw nothing unfair in spinning, likening it to such perks as free golf outings. “What we’re talking about is trying to solicit business,” said Morgan. “What do you think about taking them out to dinner? We throw lavish parties with caviar. Is that not trying to influence them, their behavior? I suggest that it is.” Allocating hot IPOs to corporate executives, according to Morgan, is “not illegal. It’s not immoral. It’s a business decision.”

Many *Wall Street Journal* readers disagreed vehemently with Morgan's rules of fairness. "Are [investment bankers] really unable to see any distinction between a golf outing or a dinner with a favored client and a payoff of several hundred thousand dollars?" wrote James Penrose. "I can only express disbelief at the greed and avarice on one side of the transaction and the total lack of business ethics on the other," wrote R.G. Kirby.

Christina Morgan failed to understand the rules of fairness as perceived by people outside her social and business circle. She paid a price for her failure. Her Hambrecht & Quist bonus was cut in half.

COMPASSION

Consider a twist in the ultimatum game. Imagine that I am still holding \$1,000 facing Jane and Michael. I say to Jane, "Divide the \$1,000 between Michael and you as you please. You have all the power and Michael has none!"

Power was shared almost equally between Jane and Michael in the earlier version of the ultimatum game. Jane had the power to offer a division of the \$1,000 between Michael and herself, but Michael had the power to refuse the offer, resulting in no gain for either of them. Jane might have offered an even \$500-\$500 split between her and Michael—not because she found an even split fair but because she feared Michael's power to refuse the offer. But the rules of the game are different now. Now Jane has all the power; she can take the entire \$1,000 without fear of Michael's veto. How will Jane exercise her power?

Jane might argue, following Machan, that taking the entire \$1,000 is fair. After all, she is stealing nothing from Michael nor is she deceiving him. But if Jane is fair in keeping the entire \$1,000, she surely is not compassionate. Compassion requires that we share our power. Money is one source of power; others include knowledge, intelligence, position, and connections.

I ask my students who intern at local companies: Have you been treated with compassion? Did people help you even as they knew that you were powerless to repay their compassion with anything but gratitude? And did you treat people with compassion?

The poor have little money but they have gratitude. And money does buy gratitude. We do not expect gratitude in exchange for our money when we shop at the grocery store; we expect groceries. But some of us expect gratitude, perhaps even an engraved brass plaque, in exchange for a contribution to a school or hospital.

Many tributes flowed when David Packard, a founder of Hewlett-Packard, died in 1996. David Packard set an example of "giving back to the community," wrote the *San Jose Mercury News*. Nobody complained that Packard did not live up to his tributes, but several readers complained about the notion of "giving back." Packard took nothing from the community, they argued, and he owed nothing to it. The phrase "giving back" robs Packard of the gratitude he deserves. Joanne Jacobs responded well in a *San Jose Mercury News* column.

Silicon Valley is filled with rich people, almost all of whom earned their money with their highly educated brains and long hours of work. And a bit of luck.

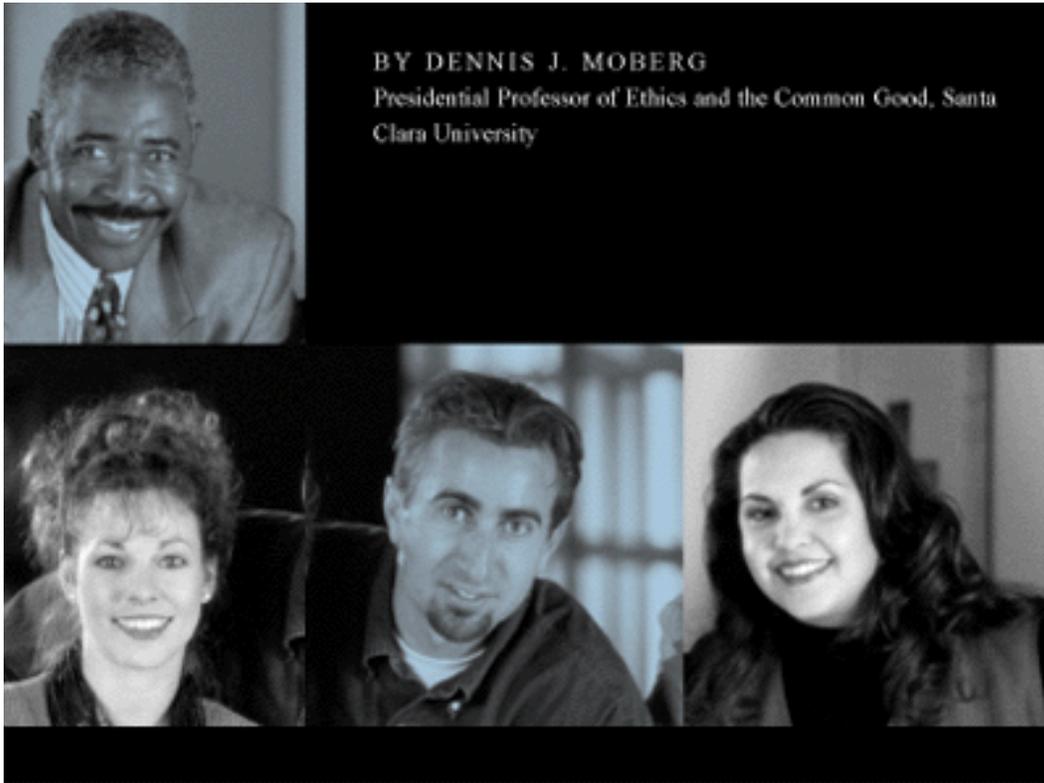
When a techie strikes it rich, he buys a Porsche. He buys a very large house in Los Altos Hills. . . . He doesn't take lavish vacations; he hasn't got the time. . . . If he's got kids, he might pay for private school tuition. . . . Then what? He's still got millions of dollars left. What's he going to do?. . . .David Packard knew the answer to that question. It is not a question of giving back or taking away. It's about living.

JUSTICE

Justice combines conscience and compassion. But justice does little good when competence is missing. David Packard built a company, an industry, and a valley, said the people who celebrated his life. Building takes competence, including financial competence. It also takes conscience. David Packard added compassion to his competence and conscience. He set an example for us all.



Meir Statman
Professor of Finance,
Santa Clara University



Leading People So They Treat Each Other Justly in the Workplace

The business leadership literature has given little attention to justice in the workplace except as a tool of organizational performance (Ciulla, 1995). Traditionally, leaders have been advised to justly compensate employees so they will be motivated to perform better in their jobs. Similarly, leaders have been instructed to treat employees fairly as a means of creating a work climate that encourages commitment to organizational goals. More recently, workforce diversity has emerged as a pressing leadership issue. But again, the justification for treating women and people of color fairly is that it is a business issue, not a justice issue.

Justice and business outcomes are not unrelated. Indeed, a case could be made that organizations that have fair processes (procedural justice) and accomplish just outcomes (distributive justice) will be more profitable in the long run than organizations that do not (e.g., Velasquez, 1996; Hosmer, 1994). However, this is only an argument; the empirical work has not yet been done. Leaders who value justice in business as an end in itself should not be content in the belief that if they simply maximize returns,

justice will take care of itself. Instead, they should carefully monitor business processes to make certain that they are fair, and monitor distributions of resources to make sure that they are just.

Yet, there is one additional consideration to leading an organization with justice in mind—the way a leader’s followers treat each other. Again, the leadership literature is clear that leaders should try to get their followers to cooperate insofar as attaining goals is concerned, but there is almost nothing in the literature about leading people so they treat each other fairly and justly in the workplace. That is the project of this essay.

My focus is on moral exclusion. Specifically, what can a leader do to maximize the possibility that followers will *not* morally exclude one another? According to Opatow (1990, p. 1), “moral exclusion occurs when individuals or groups are perceived as outside the boundary in which moral values, rule, and considerations of fairness apply.” Followers who are morally included would be counted as worthy and worthwhile members of the group and thus entitled to all the benefits and privileges of group membership. In contrast, *excluded* followers would be perceived as nonentities, expendable, and undeserving of just treatment. As such, any harm that came to them would be perceived as justified and ethically acceptable (Singer and Singer, 1997). In its extreme form, moral exclusion has resulted in some of the most heinous acts in human history (Staub, 1990). Political repression, slavery, and genocide are just some of the awful outcomes of moral exclusion. In modern business organizations, it is the milder form of moral exclusion that most often occurs. Included here are such acts as employee-to-employee discrimination, harassment, shunning, sabotage, and passive aggression.

DIRECT ACTION BY LEADERS

There are some direct actions leaders can take to insure that their followers treat each other justly. They can use their “bully pulpits” to give speeches and make public statements that extol the value and virtue of collaboration and mutual respect. They can use reward systems to place positive incentives on cooperation and pro-social behavior. They can select employees who demonstrate the virtues of peer relations (Moberg, 1997a) and eliminate employees who demonstrate peer vices (Moberg, 1997b). Yet, as every leader knows, these direct actions are seldom enough to eliminate all instances of injustice committed by one follower against another.

INDIRECT ACTION BY LEADERS

There are two forms of indirect action that leaders can take to encourage moral inclusion among their followers. These actions are indirect in the sense that they act on the causes or symptoms of moral exclusion rather than the phenomenon of moral exclusion itself. As such, indirect action is usually action that is not always readily transparent as far as its intentions to eliminate moral exclusion. Indirect action reflects two roles Murphy and Enderle (1995) identify as crucial to moral leadership: interpreting and creating reality.

Indirect Action on the Causes of Moral Exclusion. According to Opatow (1990), there are two antecedent conditions for moral exclusion: conflict and unconnectedness. When an organization is

stressed, boundaries within the organization begin to appear, cohesion begins to develop in subgroups, and concerns for justice shift from the organization to its subgroups. Unconnectedness has a similar effect. The perception that there are different categories of persons impedes communication and leads to social differentiation. Again, this causes subgroups to develop and standards of justice to become more salient at the subgroup level.

Concerned about the effect of conflict on the emergence of moral exclusion, leaders must be very careful about the indirect actions that they take. The fundamental reason is that intraorganizational conflict can have a positive influence on performance (Robbins, 1974). Thus, leaders should not eliminate all conflict in the workforce. Rather, they need to suppress only those forms of conflict that are dysfunctional. For example, while conflicts that occur over how to solve a particular problem may be beneficial, conflicts over what people wear to work usually are not. Similarly, conflicts over objectives may lead to a productive debate, but conflicts over religious beliefs typically do not.

As for interconnectedness, leaders can also strive to reduce the *salience* and *distribution* of differences in the organization. Demographic differences, if clustered and called attention to, can lead to the balkanization of the organization. Ideally, diversity should be homogeneous. Glass or lavender ceilings and other evidence of prejudicial reward allocations should be avoided. Social class differences may be the most difficult to moderate, as they tend to mirror the strata of the organization. To the extent that status differences are minimized, social class distinctions may be minimized as well.

Indirect Action on the Symptoms of Moral Exclusion. When moral exclusion appears, it usually takes one or more of the following forms: (1) biased evaluation of out-groups, (2) derogation of out-group performance, (3) dehumanization of out-groups, (4) accelerating the pace of out-group harm, (5) open approval of out-group harm, (6) blaming out-groups for their victim status, (7) self-righteous comparisons, and (8) desecration of out-group resources (Opatow, 1990). Obviously, these are all situations that call for direct leadership intervention. Instances of desecration of out-group resources, for example, can be swiftly and aggressively disciplined. Similarly, an object lesson can be made of any instance of out-group harm. Leaders can also focus their indirect action on the expression of attitudes that coincide with these symptoms. Dehumanization, for example, can involve the use of derogatory character labels that can be confronted and punished. Similarly, expressions of self-righteousness can be pointed out as inaccurate and inappropriate. Some of these attitudes can appear rather benign. For example, employees are regularly stereotyped and teased as members of an occupational group. However, there is actually a very fine line between good-natured banter and expressions of moral exclusion. Take the case of accountants being called “bean counters” or salespeople being called “cheerleaders.” Such labels may appear harmless, but they may thinly veil exclusionary attitudes.

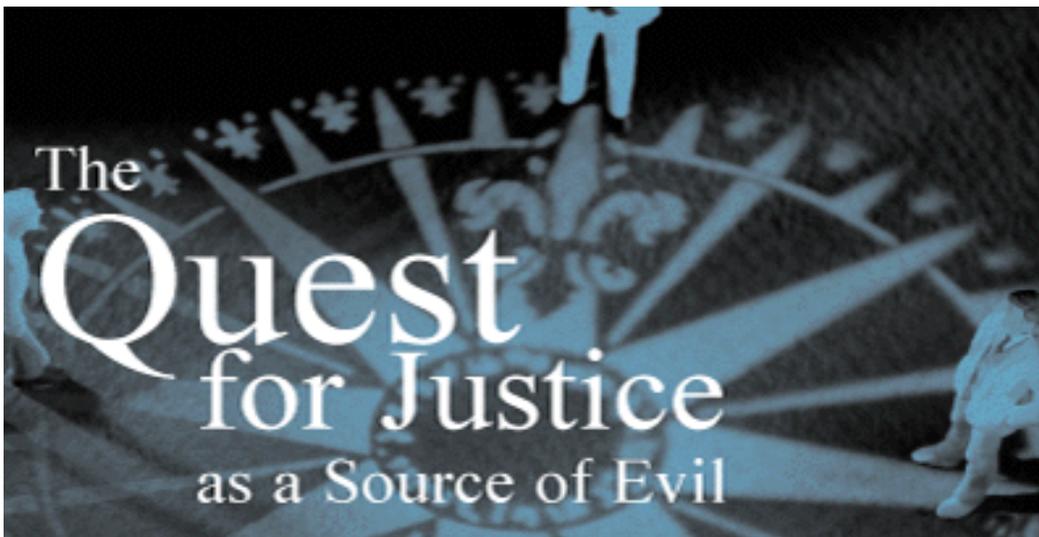
Finally, leaders can engage in attributions of out-group behavior that contradict moral exclusion. When outgroups fail, leaders can offer excuses and justifications that draw attention away from negative stereotypes. And when outgroups succeed, leaders can both call attention to these successes and also enhance and entitle them (Giacalone and Rosenfeld, 1989).

CONCLUSIONS

Workforce diversity as a business necessity is not the only justification for leaders to act to prevent moral exclusion. Undeserved treatment by one group against another is unjust under any circumstance, whether it affects the bottom line or not. In fact, injustice of this type may have no discernable effect on conventionally measured organizational outcomes. At some universities, for example, the faculty is often quite derogatory about the campus police. While such outgroup treatment and moral exculsion may not directly affect the stature of the university, it is *prima facie* unethical.



Dennis J. Moberg
Presidential Professor of Ethics and the Common Good,
Santa Clara University



I am an immigrant and I was born in 1942. The first fact imposes on me a lifelong habit of making cross-national comparisons. After 35 years of working in this country in different capacities (including as a table-clearing technician), I think I have a fairly good grasp of American society. Since I emigrated at 20, I know French well. With two dozen relatives living there, I have never lost my interest in France. I go there often; I keep up with it; it remains one of my favorite countries.

Having been born in the middle of World War II gives me a proprietary feeling about the second half of the twentieth century. I study it endlessly; I have been reading and otherwise absorbing European and world history since I was 11 or 12.

These two habits have taught me a couple of things that have a bearing on justice, the subject of this article. (I think we are concerned here with *social, economic, and historical* justice, specifically, not with judicial issues.) The first is that the period from 1914 to today was overrun by torrents of blood and flood tides of misery, perpetrated mostly by people who were not fundamentally evil. The second is that policies inspired by a strong desire for justice are a major source of human unhappiness, especially for the weak and for the defenseless. These two observations lead me to consider appeals to “justice” with diffidence.

The primary meaning of the word is closely akin to “fairness” and to “equity” (*Merriam-Webster’s Collegiate Dictionary*, 1997). In the countries with which I am most familiar, equity has an overwhelming egalitarian component: It is not clear what individuals deserve, so let’s assume that everyone deserves about the same. (A far cry from the intent of the writers of the American Constitution, for instance, who thought “justice” required equality under the law, the right to be treated the same way by the authorities, irrespective of birth or wealth.) Formally well-educated people who think that justice demands something close to equality of goodies are all around me, in France, as well as in the U.S. My old mother thinks that way. (But she is not well educated.) Most of the friends of my youth also do. After 45 years or so of frequenting these people, the following observations seem to me inescapable: Those

who clamor after justice, especially when they act in groups, often bring forth misery and no justice. In this century, the greatest, most disgusting crimes were almost all committed by such seekers of justice. Decent people sometimes commit obscene acts in the name of justice.

France, under “socialist” governments for most of the past 20 years—and with no real conservatives around—provides a good idea of what happens when justice seekers have their way. It’s a good case because it’s an open society with little government pressure on the media that also turns out good statistics. Here is what I have learned around French Socialists: They are genuinely inspired by a desire for justice, at least when young, and so long as they don’t obtain political offices or sinecures. They are quite willing to take from some to give to others to correct injustice (sometimes real injustice). It does not trouble them that this is done under the imminent and concrete threat of state violence. (The good end justifies the bad means.) The wasteful aspects of re-distribution do not disturb them. They lie often, at length, skillfully, about basic facts. They enjoy striking selective ignorance. They have made their choice: In a clinch, they will take justice over truth.

What do they have to show after these many years in power in an intrinsically prosperous country? Five weeks-plus annual vacation, little technical innovation (except in weaponry), boring movies, plagiarizing television series, thin contemporary fiction, no art to speak of (except the art of speaking baby-talk) (see *L’Etat culturel* by Marc Fumarol, 1992), a venomously racist political party that regularly pulls over 15 percent of the vote, a public health system that knowingly injected HIV- tainted blood into hemophiliacs, according to a French court. (For a description of the overall disaster, see *France on the Brink* by Jonathan Fenby, 1999). My French Socialist friends can also boast of an arthritic economy with near universal tenure that denies jobs to the gifted, vigorous, and poor young to protect those of the tedious, well-to-do, middle-aged. (General unemployment has been around 12 percent for years. Youth unemployment is above 24 percent. Net, non-government job creation has been near zero for ten years.)

The French example is a moderate one. The French Socialist Party committed few atrocities (except in public architecture). The end result of its long quest for justice is a still reasonably humane—if deadening—**elective despotism**. But what of the great blood baths punctuating this century? What did they have to do with justice?

Stalin starved to death hundreds of thousands of farmers (“*kulaks*”), either in the name of some abstruse analysis that no one but two or three philosophy professors ever understood, or else in a primitive quest for justice. (The *kulaks* under five tended to die first.) Hitler’s National-Socialists insisted that the Jews were responsible for the 1919 Versailles injustice against Germany. German Jews perversely denied they had anything to do with their country’s misfortunes. To correct this injustice, tens of thousands of otherwise civilized Germans were enlisted to slaughter most German Jews, plus several million non-German Jews. (See *Hitler’s Willing Executioners: Ordinary Germans and the Holocaust* by D.J. Goldhagen, 1996.) The attempted genocide in Rwanda was not executed by people who were merely looking for real estate, but by a majority ethnic group with a deep sense of historical injustice, possibly based in fact. The deportations, mass murders, rapes, house burnings, visited a few months ago on ethnic Albanians by the democratically elected Milosevich government were countenanced by millions of CNN-informed ordinary Serbs. The explanation most frequently advanced in the serious press (irrespective of

political leaning) for the cruelty of those Europeans also appears the most convincing: Good Serbs were inured to the suffering of their neighbors by their collective belief in a more or less real historical injustice against them. (“It seems Serbs now feel themselves to be Indians”; from an eyewitness report in *Harper’s Magazine* August, 1999.) Of course, these are just examples. Right now though, few satisfying outcomes of crusades for justice come to mind.

And of course, the grandest crusade for justice of all, starting in the 19th century, that was the Marxist movement, is expiring in cynical and brutal corruption in one place (China), as the pathetic newest destination for sex tourism in another (Cuba), and in state terrorism and mass starvation elsewhere (North Korea).

In brief, I don’t wish to cultivate my students’ sense of injustice because the search for justice rarely leads to justice and often inspires dreadful conduct in normal people. I also think this should be a low educational priority for us, at Santa Clara University, because I don’t see our society as a very unjust one. (It may be responsible for injustices abroad. I have no space to deal with this topic.)

To my mind, American society—while it is less explicitly committed to social justice than French society, for instance—displays little injustice, with the major and desperately dogged exceptions of its treatment of Native Americans and of the African-American minority. (Slavery was an avalanche of atrocities whose brutalizing effects may be perpetuated to this day, given the long transitional period of conscious and effective institutionalized racial discrimination following Emancipation. America has not yet faced up to the scale of the horror, nor to the collective debt incurred.) The Japanese-Americans got a raw deal in World War II, but almost any other nation would have behaved worse. Other alleged American injustices do not stand up to examination, or have simply nothing to do with justice. Thus, I don’t think immigrant groups—of any hue—and their descendants have any group claim. They all invited themselves to the party; some (like myself) crashed the party by being illegal for a period. It would be ridiculous for them to complain that someone gets more from the buffet than they do. (Very few *do* complain.) However often it has been asserted that there is a wage gap against women, the evidence is so fragile and tenuous it’s hardly worth discussing. (See the exchange in *Wall Street Journal*, Nov.-Dec. 1998.) Other social issues just aren’t about justice, but are mostly misfortunes, the product of bad luck, sometimes combined with deviant behavior. Breast cancer is not the result of any injustice (except possibly God’s). Some practices of male homosexuals undoubtedly spread the HIV virus. (No, I don’t believe that AIDS is God’s scourge, or Nature’s revenge.) Similarly, it appears to me that American society spends money to control this disease in amounts far larger than the number of citizens affected, or realistically at risk, would predict. I think there is no injustice here *either*. (We have a political system based on lobbying that gives mostly good results. Other systems tried elsewhere are usually less fair and more brutal.) Likewise, the homeless are, I think, rarely victims of injustice. Although it’s forbidden to say so, some are lazy. And yes, there is probably a culture of poverty. (Idleness makes me lazy; why not them?) Many are mentally ill and/or substance abusers unable to fend for themselves (see *The Wall Street Journal*, August 25, 1999). Our extreme respect for individual freedom hinders us in caring for them. Even more are only temporarily poor. (As an unskilled immigrant, I belonged myself to the “poor” for several years. I wrote my Stanford doctoral dissertation while living in a converted water tank in East Palo Alto. Another injustice?)

Finally, there are some real injustices that simply don't matter much and others whose remedies are worse than doing nothing. Many CEOs of publicly held companies earn grossly more than they merit (See "A Little Icing on Top," *Newsweek*, April 12, 1999, and my own 1991 article with SCU's Saudagaran.) However, correcting this unfairness (injustice) would have few tangible consequences and the act of correcting it would almost certainly trigger a cascade of frivolous demands for authoritarian realignments. Farm workers earn too little, I think. That's because they have been unable to organize effectively since so many come from tyrannical, oppressive countries where there is no chance to develop political skills.

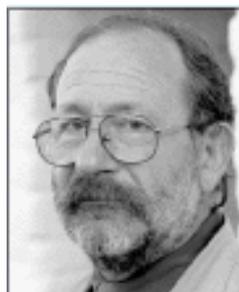
In general, it seems difficult to call this an unjust society when it is swarming with immigrants, many of whom are—like myself—both successful and fairly indolent.

What, then, should a moral education be like? I think fair behavior requires rationality. Hence, whatever else we do, we should focus on helping students make it a habit of choosing the rational over the irrational—forever. This implies a respect for facts and a degree of sophistication regarding the relationships between facts that do not come easily.

We must implant into students a hunger for facts laced with criticality. Moreover, we must help them build up their own steadfastness against popular opinions that are false or dubious: Horoscopes don't predict the future at all. Less than one degree Celsius rise in more than 100 years hardly constitutes evidence for a global warming *trend*. Breast implants are ludicrous, not criminal. Most of the money handed out by the government for welfare goes to corporations, not teen-age sluts. Gandhi *and* Hitler were both vegetarians.

We must train students to think clearly about causal connections between facts, especially about those connections that are counterintuitive: Rent control today gives you high rents tomorrow. The market often combines individual selfishnesses into a virtuous outcome. National economic self-sufficiency is a good path to national poverty. Today's organizations generate many of the prerequisites for individual fulfillment while suppressing individual personalities.

As for the *desire* to do good, rational people know that it's a religious obligation in the faiths professed by 95 percent of Americans who are religious. For most of the others, it is not difficult to grasp the aesthetic notion that the way we treat the weakest among us tells us who we are.



Jacques Delacroix

Professor of Organizational Analysis and Management



By Martin Calkins, SJ

Justice, in the context of business in the United States, is—oddly enough—like our federal withholding tax: It is not a fundamental quality of business, but something placed on business by people.

In the following, I will argue that justice, properly understood, is not constitutive of business. Rather, justice is a human virtue, a personal characteristic of excellence, which allows people to function well together in business.

As we will see, justice is a virtue concerned with proper human relationships—the way people deal with each other in terms of their resources. Accordingly, justice belongs to human beings per se rather than to things. People place justice upon business in the same way that they (through political means) place the burden of tax collection upon business.

LEAD US (NOT) INTO TAXATION

Why the interest in the federal withholding tax?² Simply because the withholding tax (money withheld from employee paychecks and directed to the federal Treasury by employers) influences so many people and acts as a means for social change in the United States. Our current trillion-dollar budget surplus, for example, is largely derived from individual withholding taxes.

While debate continues about what to do with the federal budget surplus, there seems to be a certain blasé acceptance of our current high rate of taxation. Despite recent polls that indicate that U.S. taxpayers are not pleased with our current tax rates, taxpayers remain doubtful that politicians will work to reduce taxes.³ Such cynicism is not unfounded, as tax revenues, adjusted for inflation, have gone down only twice in the past 50 years. As Susan Hansen summarizes, “taxpayers vote for tax cuts, politicians enact them, but neither taxes nor government spending decrease.”⁴

While the subject of taxes is hotly debated in politics, the manner of tax collection—that revenues be withheld at the source of their generation by businesses that act as the federal government’s collection agents—rarely gets discussed. This process of revenue collection and the manner of its institution reveal a great deal about how business relates to government and society. It also tells us a great deal about how the virtue of justice is practiced in business.

BIRTH OF A WITHHOLDING TAX

The idea of the withholding tax originated with Beardsley Ruml, former treasurer of R.H. Macy & Co., chairman of the New York Federal Reserve Bank’s board of directors, and model for Alexander Woollcott’s lead character in *The Man Who Came to Dinner*. Ruml, as *The Wall Street Journal* editorialist Amity Shlaes explains, proposed that citizens would prefer to pay higher taxes on an installment or pay-as-you-go basis rather than all at once or quarterly.⁵ If people did not have to squarely consider their actual tax bite, Ruml reasoned, they might not resist paying. The withholding method would establish psychological distance between the citizen and the act of tax payment. It would also make businesses responsible for collecting a percentage of employee wages for the U.S. government. In this way, businesses would effectively become the Treasury’s collection agents.⁶

By most accounts, Ruml’s and the Treasury’s withholding tax idea worked to dilute taxpayer opposition. It was passively accepted along with the other hardships associated with World War II with the understanding that it would be abandoned with the return to peace. This was not to be the case, however, as the Treasury faced other pressing needs after the war. Unable to appeal to war-related patriotism as it had during the war, the Treasury turned to tax enforcement and recruited and trained large numbers of returning members of the armed forces.⁷

The story of the institution of the federal withholding tax is instructive on at least two counts. First, it reveals how politicians can manipulate citizens and how people can be persuaded to passively accept things that they otherwise might not readily accept. Second, it reveals how people, through their political representatives, can demand that businesses concern themselves with ends other than those having to do with the generation of products or services. Taken from this second perspective, the withholding tax story illustrates how businesses can be compelled to serve people in ways that they deem fit. It suggests, moreover, how businesses can be used to enhance people’s notions of justice. This introduces the problem of what we mean by the term justice.

THE VIRTUE OF JUSTICE

As Plato revealed with Socrates’ discussion of the nature of justice with Cephalos, Polemarchus, and Thrasymachus in *The Republic*, justice is more than merely truth-telling and repaying one’s debts (Cephalos), giving to each what is owed (Polemarchus), and the advantage of the stronger (Thrasymachus).⁸ Rather, as Aristotle explained in *The Nicomachean Ethics*, justice is a characteristic habit of excellence (areté) of the soul that distributes to each according to his or her desert.⁹ Justice is the greatest of the virtues; indeed, it is complete virtue. It is excellence in the fullest sense because justice

enables the individual to direct his or her will appropriately to relate properly to others. The one who possesses justice can make use of it not only alone, but also in relation to others.¹⁰ Justice alone of the moral virtues has us consider what is advantageous to another, not only to ourselves. As such, justice is precious. “Neither evening nor morning star” is so wonderful as justice and in it “is every virtue comprehended.”¹¹

Justice, in the sense recounted above, is a personal characteristic of excellence. It is also, however, a social virtue. As Aristotle pointed out in his consideration of distributive justice in *The Politics*, justice is concerned with how people apportion limited resources among themselves. A just distribution “is one in which there is proportion between the things distributed and those to whom they are distributed.”¹² Distributive justice then, consists in not giving everyone the same privileges, but in giving equal privileges to those who are equal and unequal privileges to those who are unequal.¹³

JUSTICE IN THE CONTEXT OF BUSINESS

Aristotle reasoned in the way that he did, in part, because his worldview was aristocratic. Later philosophers (David Hume and Adam Smith, in particular) articulated the bourgeois virtues more appropriate to democratic societies.¹⁴ Although Hume best expressed the modern conception of virtue *per se*, Smith best articulated the so-called “virtues of commerce” that drive capitalism and modern business people.¹⁵

Adam Smith, defender of capitalism and author of *The Wealth of Nations*, is often thought to have advanced unrestrained self-interested behavior. His *Theory of Moral Sentiments* (TMS) tempers this conception, however, by providing the reader with a rich description of the virtues appropriate to individuals and society in the modern and contemporary capitalist ages.¹⁶ In TMS, as Patricia Werhane and I have argued elsewhere, Smith essentially reworks Aristotle’s and the Stoics’ conceptions of virtue.¹⁷ He widens the distinction between individual and social virtues and brings together elements of traditional virtues to form new virtues. His individual virtue of self-command, for example, combines aspects of the Aristotelian virtues of fortitude and temperance to become, in his taxonomy, so great that “all the other virtues seem to derive their principal lustre” from it.¹⁸

In terms of the social virtues, Smith largely agrees with Aristotle and the Stoics in the belief that justice is derived from a so-called natural jurisprudence. Accordingly, justice is “the main pillar that upholds the whole edifice” of society.¹⁹ Indeed, Smith maintains, “society cannot subsist unless the laws of justice are tolerably observed, as no social intercourse can take place among men who do not generally abstain from injuring one another.”²⁰ In Smith’s view then, justice is primarily concerned with society’s security.²¹ It is a negative virtue that “hinders us from hurting our neighbour.”²² As an individual and social virtue, it is that “consciousness of ill-desert” implanted by nature in the human breast to safeguard the association of humankind.²³

JUSTICE AS A HUMANIZING VIRTUE FOR BUSINESS

In both the ancient Greek and the modern post-Enlightenment views then, justice is an individual and a

social virtue. It is a trait of human beings, not things. It is a personal characteristic of excellence that allows society to function properly. It is primarily about proper human relationships and the way people deal with each other in terms of their resources.

What then can be said of justice in the context of business? Simply, that justice in business is a reflection of the virtuous people associated with business.

While it is true that businesses are not just entities, that businesses have distinctive identities, that businesses can be held accountable in courts of law in the way that people can be, and so forth; businesses are not people per se. They do not share fully the traits that identify people as people. As Aristotle pointed out, justice is complete virtue. It is a human trait of excellence of the soul, proper to people, not things. Although businesses are collectives of people and may share some of the features of human beings; businesses are not human beings. We would not confuse a business with a living, breathing person. At the same time, businesses are a lot like us. As human inventions they reflect us, their creators. Often they act like we do—but they do so because they are set up by us to act in a certain way. Ultimately, the justice of business remains a distinctly human quality. Justice is conferred upon business, but justice remains a characteristic of excellence of the people associated with a business.

CONCLUSION

As the U.S. Catholic Bishops have argued in the past, businesses are instruments to be used properly.²⁴ Businesses are a means by which people express themselves. Through businesses, people—as individuals and society—exercise their notions of right and wrong. Human virtues (especially the virtue of justice) come alive through businesses properly directed. Through our virtuous actions, we color our businesses with virtue. In this way, our businesses reflect us as well as our moral standing. Businesses do not stand disassociated from us as atomistic, quasi-human moral agents. Rather, they mirror us. If they are just, it is because we are just, and if they are unjust, it is because we are unjust. Justice in the context of business then, can be said to be similar to the federal withholding tax in that people impose justice on business in the same way that people compel business to collect revenue for the federal government.

ENDNOTES

1. My thanks to Dennis Moberg and Jacques Delacroix for their insights on an early draft of this article.
2. The subject matter here concerns the federal withholding tax—not taxation per se. Although some conceive taxation to be a new (and seemingly dangerous) development, it is really the withholding tax that is relatively new.
3. A Fox News poll conducted in March 1999 revealed that 65% of those queried thought that the maximum percentage of a person's income that should go to all taxes, not just federal taxes, should not exceed 20%. Only 5% wanted the maximum to exceed 30%, as it does now for most people. A full 87% did not believe politicians when they promise to lower taxes. "Tax Cynicism," *The Wall Street Journal*, 15 April 1999: A:22.
4. Although citizens pressed the federal government in the early 1980s to approve income tax reductions, taxes have not declined except for corporations and for the wealthy. Susan B. Hansen, *The Politics of Taxation: Revenue Without Representation* (New York: Praeger Publishers, 1983), 1–2.
5. To further sweeten the prospect for taxpayers, Ruml proposed a tax amnesty for the prior year.
6. For more on Beardsley Ruml and the institution of the withholding tax, see Amity Shlaes, *The Greedy Hand: How Taxes Drive Americans Crazy and What to Do About It* (New York: Random House, 1999) and "The Greedy Hand in a Velvet Glove," *The Wall Street Journal*, 15 April 1999, A:22.
7. Carolyn Jones asserts that the Treasury had hired an additional 8,175 investigators by 1946. Carolyn C. Jones, "Mass-based Income Taxation: Creating a Taxpaying Culture, 1940–1952," in *Funding the Modern American State, 1941-1995: The Rise and Fall of the Era of Easy Finance*, ed. W. Elliot Brownlee (New York: Woodrow Wilson Center Press and Cambridge University Press, 1996), fn. 129, 139.
8. Plato, "The Republic," in *Great Dialogues of Plato*, eds. Eric H. Warmington and Philip G. Rouse, trans., W. H. Rouse (New York: Mentor, 1956), I 331c, 331e, and 338c.
9. J. Solomon, "On Virtues and Vices," in *The Complete Works of Aristotle*, vol. 2, ed. Jonathan Barnes (Princeton: Princeton University Press, 1984), 1982.
10. Aristotle, *Nicomachean Ethics*, trans. Martin Ostwald (Englewood Cliffs, NJ: Prentice Hall, 1962), V 1 1129b 28–32.

11. A quote from Euripides' lost play *Melanippe* used by Aristotle in *ibid.*, ftn. 7, V 1 1129b 29–30.
12. Aristotle, *The Politics*, trans., Ernest Barker (New York: Oxford University Press, 1995), 1280a7.
13. *Ibid.*, note to Chapter 9, p. 357.
14. Donald McCloskey, "Bourgeois Virtue," *The American Scholar*, (Spring 1994): 177–191.
15. Christopher J. Berry, "Adam Smith and the Virtues of Commerce," *Virtue: NOMOS XXXIV*, eds. John W. Chapman and William A. Galston (New York: New York University Press, 1992).
16. Peter Drucker challenges Smith's importance to the knowledge-based post-capitalist society that is currently emerging. Drucker claims that old "isms" such as communism and capitalism fail to explain the political, economic, social, and moral transformation currently underway. This would seem to imply that the bourgeois virtues to govern people in capitalist bureaucratic societies are increasingly less influential. At the same time, Drucker does not do away with capitalism and its bureaucracies altogether. Thus, the moral structures to govern capitalism that the moderns described would seem to still hold true today. Peter F. Drucker, *Post-Capitalist Society* (New York: HarperBusiness, 1993).
17. Martin J. Calkins and Patricia H. Werhane, "Adam Smith, Aristotle, and the Virtues of Commerce," *Journal of Value Inquiry*, vol. 32, no. 1 (March 1998): 43–60.
18. Adam Smith held prudence to be a quality concerned with protection and self-restraint. It regulated, through the utilization of good deliberation, sagacity, and good judgment for practical ends having to do with the prevention of harm to the individual, the individual's self-interested behavior. It had as its principal object personal security. Smith, *The Theory of Moral Sentiments*, eds. D. D. Raphael and A. L. Macfie (London: Oxford University Press, 1976), VI.iii.11 and VI.i.15.
19. *Ibid.*, VI.i.15.
20. *Ibid.*, II.ii.3.6.
21. Smith, *Lectures on Jurisprudence (B)*, eds. R. L. Meek, D. D. Raphael, and P. G. Stein (Oxford: Oxford University Press, 1978), 5–15.
22. Smith, *Theory of Moral Sentiments*, II.ii.1.9.
23. *Ibid.*, II.ii.3.4.
24. David J. O'Brien and Thomas A. Shannon, *Catholic Social Thought: The Documentary Heritage* (New York: Orbis Books, 1992) and U.S. Catholic Bishops, "A Decade After 'Economic Justice for All':

Continuing Principles, Changing Context, New Challenges,” *Origins* vol. 25, no. 23 (1995): 389–393.

Review of Glenn C. Loury



One by One from the Inside Out: Essays and Reviews on Race and Responsibility in America

Glenn C. Loury is unique. After growing up in humble circumstances on the South Side of Chicago, he managed to earn a Ph.D. in economics from M.I.T. and tenured faculty positions at Michigan, Harvard, and (currently) Boston University. As an outspoken African-American neoconservative, Loury became somewhat notorious. In the past few years, however, he has moved to the left on racial issues, challenging perspectives such as those articulated in the recent book by Stephen and Abigail Thernstrom (*America in Black and White*) with the same edge that he previously deployed upon liberal icons such as Malcolm X, Jesse Jackson, Derrick Bell, Cornel West, and Andrew Hacker. (For Loury's review of the Thernstroms, see the November 1997 issue of *The Atlantic Monthly*, pp. 144–54.)

One by One from the Inside Out received the American Book Award in 1996, and contains a wide range of Loury's essays and book reviews. Although many of the pieces represent the conservative side of Loury—and appeared in venues such as *Commentary*, *The Public Interest*, and *The Wall Street Journal*—the work also conveys the seeds of his recent political shift. In the Epilogue, Loury recounts a transformation even more momentous: how he overcame drug and alcohol abuse by being “born again” through “the power of Christ” (311–12).

Loury's conservative leanings, which seem to have been shaped by his assimilation of neoclassical economics along with his antipathy toward moral/cultural relativism, distinguish him from the

professorial mainstream and render him a genuine rarity among African-American intellectuals. Loury proclaims that “we black Americans are the most privileged, empowered people of African descent anywhere on the globe” (200). He admits that he is “no enemy of right-to-work laws” and that he distrusts “the capacity of public bureaucracies to substitute for the fruit of private initiative.” Correspondingly, Loury “gladly joined the Republican side on some highly partisan policy debates: on federal enterprise zones, on a youth opportunity wage, on educational vouchers for low-income students, on stimulating ownership among responsible public housing tenants, on requiring work from able-bodied welfare recipients, on dealing sternly with those who violently brutalize their neighbors” (20). He laments, furthermore, that contemporary America gives “only muted public voice to the judgments that it is wrong to use drugs, to be sexually promiscuous, to be indolent and without discipline, to be disrespectful of legitimate authority, to be unreliable, untruthful, or unfaithful” (211).

With equal energy, however, Loury also articulates perspectives that are more liberal. Proclaiming himself “a partisan on behalf of the inner-city poor” (195–96), he insists that “no one in America can afford to be truly color-blind” (197). He likewise chastises conservatives who fail to appreciate the legacies of racism and who blame the plight of the black lower class on “the follies of big government and big spending” (17). Loury is appalled by the “huge growth among blacks and whites in the incidence of teenage pregnancy and births out of wedlock,” but he rejects the materialistic explanation offered by certain Republicans and economists: “however one reads the evidence,” according to Loury, “it is difficult to attribute much of the change to the marginal incentives of tax and transfer programs” (208). And although some of the problems that plague ghetto residents are complex and “cannot be solved simply by spending money,” the “issue of spending this or that many millions of dollars on infant mortality really ought not to delay us very long, if as people who seek justice we are appropriately motivated by our sense of outrage” at conditions of “awful deprivation” (198).

Regarding affirmative action, about which Loury delivered a lecture at SCU sponsored by the Markkula Center for Applied Ethics, Loury again tries to do justice to various sides of the debate. (For more information, please visit the web site: <http://www.scu.edu/SCU/Centers/Ethics/>) On the one hand, he acknowledges “the legitimacy of the competing white interests” (108), speaks out unapologetically for the need to maintain high standards (109, 113), worries about maintaining the incentives black employees have for “identifying and correcting their deficiencies” (114), and ridicules Andrew Hacker’s accusation that an examination used to determine promotions within a police force was racially biased because it incorporated words such as “relevant,” “unsubstantiated,” “disposition,” and “tactfully” (233).

On the other hand, Loury condemns the view that affirmative action must be eliminated in the name of color-blindness. Loury endorses the attempt “to open previously foreclosed opportunities to women and minorities through advertising, outreach, [and] special training programs” (109); and he recommends the “color-conscious disbursement of public funds,” e.g., “targeted efforts to improve the schools, neighborhoods, and families where poor black children are concentrated” (107). “Social capital,” he insists, is unequally distributed between blacks and whites because of past racial discrimination (104), which “generally implies inequality in the outcomes that otherwise equally competent persons can achieve” (105). There is a real danger, moreover, that the inequality between racial groups will be permanent: “for as long as one can foresee, and without regard to legal prohibitions against

discrimination in formal contract, we may confidently predict the practice of informal social discrimination” along partially racial lines (102).

Loury ends up defending a “mend it, don’t end it” position, albeit one that might be too restrictive to please President Clinton (in the July 26, 1995 issue of *The New York Times*, Loury criticized Clinton’s major speech on affirmative action as “a transparent effort to finesse, rather than engage, the moral problems at the core of race and sex preference”). Loury touts “developmental” programs that focus on raising the performance of beneficiaries—e.g., some of the affirmative action policies employed by the U.S. Army (112–13)—rather than “preferential” programs that threaten to lower standards, create the presumption that the beneficiaries are less qualified, and compromise the incentives to improvement built into typical processes for performance evaluation.

An essay Loury wrote expressly for the book—“Self-Censorship in Public Discourse: A Theory of Political Correctness and Related Phenomena”—is one of its least polemical and most insightful pieces. Defining a “regime” of political correctness as “an equilibrium pattern of expression of inference within a given community where receivers impute undesirable qualities to senders who express themselves in an ‘incorrect’ way, causing senders to avoid such expressions” (153), Loury draws skillfully on his own experiences as a public intellectual along with authors as diverse as William Shakespeare, George Orwell, Erving Goffman, Albert Hirschman, Thomas Kuhn, Leo Strauss, Vaclav Havel, Michael Walzer, Thomas Schelling, Dinesh D’Souza, and Stephen Carter. Loury’s analysis is particularly valuable in light of our nation’s recent plunge into an often partisan debate about lying, perjury, and verbal evasion; his analysis also illuminates some challenges *Ex corde Ecclesia* is currently posing to Catholic universities.

Loury’s essay provides numerous observations that could be assembled to compose a primer on rhetoric and “strategic expression.” The following maxims are only a small sampling: “Naive communication (where a speaker states literally all that he thinks, and/or an audience accepts his representations at face value) is both rare and foolish in politics” (149); “Being sanctioned for the expression of disapproved opinions seldom befalls someone by accident” (156); “Meta-argumentation—arguing at the secondary level about the form that primary arguments should be allowed to take in the community—can become the refuge of scoundrels seeking to avoid the righteous condemnation that their morally dubious expressions have earned” (168); “Two strangers conversing on an airplane will feel each other out to learn if they have similar views on matters that otherwise would be better to avoid. Such conversations involve the tentative and halting display of one’s position by use of emblematic speech. Each speaker, seeking recognition and reinforcement, looks for the positive feedback that encourages the candor possible only among the like-minded” (171); “An advocate for ‘diversity’ may prefer not to be explicit about which differences are included and which (religious and political beliefs, for example) are excluded from that advocacy” (171); “A racist politician might use code words such as ‘welfare queen,’ ‘criminal element,’ and ‘states rights’ to appeal to like-minded voters, while maintaining what in the intelligence world is called ‘plausible deniability’ of this motive: if challenged, the speaker exploits the code words’ ambiguity of meaning and claims that he intended no offense” (171–72).

To illustrate how “the public discussion of vital issues can become dangerously impoverished” (158), Loury invokes the travails endured by numerous iconoclasts, including Lani Guinier and Robert Bork.

Loury is too polite and too prudent to invoke some of his own experiences: e.g., being denounced as an Uncle Tom or a traitor because of his criticisms of what he calls “the civil rights establishment.” Recently, however, he has been castigated as a “liberal” by some of his former allies on the right. In a 1991 speech, Loury deftly illuminated the prominence of racial identity in America with the following observation delivered at a neoconservative conference: “My breaking ranks confirms you in your own apostasy. It helps you to see your deviation from the ‘progressive’ ranks as valid and nonracist because here I am, a prominent black, agreeing with you. If by some magic I were suddenly to become white, my brilliant, perceptive, and courageous insights would just as suddenly be reduced to pedestrian, commonplace complaints, of little political or personal comfort to you” (197).

Glenn Loury’s combination of intelligence, vehemence, erudition, and rhetorical dexterity makes him consistently provocative. In the Epilogue to *One by One from the Inside Out*, he partially attributes the personal crisis he addresses to “a vastly inflated sense of my own self-importance” (317), but perhaps his pride has been a blessing as well as a curse. All of Loury’s writings, regardless of their precise place on the political spectrum, provide an invaluable challenge to moral and intellectual complacency.

Review by Peter Minowitz