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Part 1 Why Unethics?

Abstract

Globalization, privatization and financialization are the new conditions for late modernity/contemporary capitalism, which inhibit economic actors from behaving in an environmentally sustainable and socially responsible way. The overexpansion of the market and the dominance of market logic in all spheres of social life is the main underlying cause of the ‘ills’ of our age. When utility considerations continue to precede aesthetics and ethics in our decisions and actions then utility itself will be destroyed. If we desire to live in a rich, sustainable and well-functioning world, we must give priority to beauty and ethics over utility.

Keywords: market society, globalization, privatization, financialization, market metaphysics, beauty, ethics

1 Introduction: Market Overreach

The central thesis of this book is that the overexpansion of the market and the dominance of market logic in all spheres of social life is the main underlying cause of the ‘ills’ of our age.

As early as the 1940s Karl Polanyi warned that markets tend to dominate other spheres of social life, and induce the formation of a “market society” (Polanyi 1946). After World War II the overexpansion of the market received new impetus, and it has become pervasive in the last 40-45 years.

Globalization, privatization and financialization, the new conditions for late modernity/contemporary capitalism, inhibit economic actors from behaving in an environmentally sustainable and socially responsible way – that is, in a truly ethical way. The institutional system and its corresponding universe of values make ethical behavior virtually impossible, or contingent at best (Boda and Zsolnai 2016).

First, and at the core of the problem, is that *corporations* dominate the world of business (Korten 1995, Bakan, 2005). Today, corporations are one of the players in every second economic transaction. While the modern corporation has considerable merits, such as serving as a means to collect and unite into one organization the small investments of many individuals, it also has the inconvenient characteristic of dispersing and, ultimately, whitewashing responsibility. Limited liability also means limited moral liability. “The situation may be contrasted with the case of unincorporated businesses, where unlimited liability also means unlimited moral liability. No distinction can be made by the business and the person(s) conducting it because the reputation of the one is the same as the reputation of the other" (Róna 2013: 10). By nature, corporations and their owners have only limited responsibility.

The fact that corporations have many owners implies that individual shareholders do not necessarily have the power, or simply the interest, to control them, influence decisions, or hold management accountable. Shareholders are interested in dividends; that is, returns on investment. Dispersed ownership also creates a limitation on commitment towards the future of a company (one can sell one's shares at any time) and aggravates the dangers of a hostile takeover (Mayer 2013). Takeovers can easily happen, especially when a corporation makes long-term investments into the future which undermine their short-term profitability. Falling or stagnating share prices motivate owners to get rid of their shares. Therefore the real aim of corporations cannot be anything but putting shareholder value above everything else. Lynn Stout (2012) calls this the "shareholder value myth". The shareholder value myth, together with the competitiveness myth, have devastating effects on the social and environmental performance of business (Tencati and Zsolnai 2010).

Today's extremely complex *financial system* blurs ownership and accountability and makes it impersonal. Institutional investors, investment funds, and pension funds currently hold the large majority of corporate shares. Those institutions – generally corporations also – seek to increase profit at any cost. The financial crisis of 2008 revealed how derivatives and other complicated financial products mask reality even from the eyes of experts. Nowadays, investors choose between investment portfolios offered by their banks or agents, and rarely know how their money works. One of the most effective ways to save on costs is to externalize them: to make nature, society and future generations pay.

Globalization creates a division between corporate decisions and stakeholders, owners and workers, consumers and places of production. This makes externalizing costs (i.e. causing social and environmental damage) easier. Globalization contributes to masking the real nature of business activity, and externalizing production costs (Princen 1997). The institutional setting of today's global capitalism helps to *dilute responsibility*, and leads to the aggravation of the 'tragedy of the commons' at a global scale.

The invasion of the market into almost all spheres of life inevitably destroys the intrinsic value of human activities, literally corrupting them. I show that there are two interrelated problems concerning the effect of the market on human activity: (i) the introduction of extrinsic forms of motivation (especially money) as an incentive for undertaking activity may crowd out the intrinsic motivation of actors, leading to a decrease in the quality of the output of activities; and (ii) measuring the success of activity in one dimension (money) tends to distort the goal of such activity and results in socially and ecologically degrading outcomes.

The 'genius of the market' should be acknowledged, but we must award it an appropriate role and restrict it to an appropriate size. This is possible if the financial component of non-market activities is reduced or eliminated, and success is measured in a more multidimensional, holistic way.

Karl Polanyi (1971) teaches us that it is not money-making but the provision of sustainable livelihoods that is the primary function of economic activities. This implies the rehabilitation of the 'substantive' view of the economy. According to this perspective, man survives by virtue of an institutionalized interaction between the human community and the natural environment. That process is the economy, which supplies man with the means of satisfying his or her needs.

Maximization of self-interest and free market competition are the basic pillars of the Invisible Hand doctrine, belief in which is a prevailing theme of our age in the field of economics and beyond. The basic claim is that self-interested competitive forces bring benefit to all.

I use revealing cases to show that self-interest-based competition can result in environmental and social destruction. The first type of case is the ‘tragedy of the commons’ which occurs when competing actors follow their narrow self-interest and thereby destroy the collective good on which their survival depends. The second type of case concerns the ‘positional arms race’ which describes the situation when competing actors attempt to improve their own relative positions but arrive at a situation which is detrimental to them individually and collectively. The third type of case involves the ‘tyranny of small decisions’, whereby a number of decisions, individually small in size and limited in time, cumulatively result in undesirable outcomes. The fourth type of case is so-called ‘phishing for phools’. Here, economic players manipulate and deceive customers in the pursuit of profit, with no regard for the loss of customer welfare.

Moral disengagement mechanisms are today so prevalent in business and economic life. (Bandura 2015) Corporations and other businesses engage in and create practices and products that violate legal and moral rules and take a toll on the public.

Economic actors tend to fool themselves in order to fool others. While the evolutionary benefits to deceiving others are obvious, it is problematic that it could ever be in the interest of an organism to deceive itself. However, the primary reason actors fool themselves is to fool others (Trivers 2011).

The encyclical letter of Pope Francis (2015), *Laudato si'* (*Care for our Common Home*) represents an excellent opportunity to build a new conversation about ecology and economics in an era called the "Anthropocene" in which humanity is altering the biogeochemistry of the Earth, destabilizing the climate, and influencing co-evolution at the planetary level.

The most important suggestions in the encyclical include frugality of consumption and production, and acknowledging the intrinsic value of nature. Frugality implies rebalancing material and spiritual values in economic life (Bouckaert, Opdebeeck and Zsolnai (Eds.) 2008). This leads to the revival of the logic of sufficiency. Also, we should think about nature as the "commonwealth of life", appreciating the uniqueness and interconnectedness of all life forms on Earth. (Brown 2015)

Without respecting and nurturing 'place' we cannot achieve a state of ecological sustainability. Place-based organizations are not run on a purely materialistic basis. The non-materialistic features of a place (aesthetics, cultural heritage, community feelings, and transcendence, and so on) should be integrated into sustainability management. Place-based organizations break with the economic logic of efficiency and profit maximization, and organize their activities around the ideal of encompassing feelings of identity with and attachment to a place.

Important business, political and social decisions have an impact on the fate and living standards of people not yet born. Consequently, future generations have a stake in the present functioning of society. The imperative of responsibility (Jonas 1984) suggests that the present generation has a non-reciprocal duty to care for the future human beings who will be affected by its activities and policies.

Stakeholder theory says that organizations should consider the interests and claims of stakeholders and manage their activities accordingly. Using this perspective, the effective management of stakeholders is a strategic activity that is necessary for organizational success.

This book addresses two main problems related to stakeholder theory: (i) the narrow conception of stakeholders; and, (ii) the fallibility of stakeholders concerning their own well-being. I argue that managing for a narrowly defined set of stakeholders is not a guarantee that the functioning of an organization will be sustainable in an ecological sense, or beneficial for wider society, including future generations. Considering the interest of stakeholders solely on the basis of their own considerations may lead to unacceptable outcomes. Organizations should thus expand the set of stakeholders they address, and look beyond stakeholders' reported self-interest.

Modern economics is a highly materialistic enterprise. Economic agents are considered to be individualistic beings who seek to maximize their material self-interest. Based on the principle of materialistic egoism, modern economies produce an enormous abundance of goods and services, but at huge ecological, social and psychological cost.

The economic teachings of world religions challenge the way economic actors function today. The conception of Jewish Economic Man, Catholic Social Teaching, Islamic economics, Hinduist economics, Buddhist Economics, and the theory of the Taoist Economy represent life-serving modes of economizing which support the livelihoods of human communities and the sustainability of natural ecosystems. They inform and inspire spiritually-grounded economic initiatives worldwide.

A post-materialistic business model (Zsolnai 2015) may help activate the intrinsic motivation of economic actors to serve the common good, and suggests that success should be measured in a more holistic, multidimensional way. In a post-materialistic economy, profit and growth are no longer the final ends, but only elements of a broader set of material and non-material goals. Similarly, cost-benefit calculations are not the only means of making corporate decisions but are integrated into a more comprehensive scheme of wisdom-based management.

This book claims that "*Art Can Save the World*". The core of market metaphysics is what Martin Heidegger calls "calculative thinking". According to Heidegger, poetic thinking represented by genuine art is the antidote to this kind of thinking. I argue that models of poetic dwelling can influence people and organizations to transform themselves into responsive and caring beings.

Beauty reveals itself as the illumination of the spirit in the material world. If utility considerations continue to precede aesthetics and ethics then utility itself will be destroyed. If we desire to live in a rich, sustainable and well-functioning world, we must give priority to beauty and ethics over utility.

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