Bruce Anderson, "Is There Anything Special or Unique about Business Ethics?"
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Is There Anything Special or Unique about Business Ethics?

Bruce Anderson

Introduction

The field of business ethics is dominated, and driven, by the problem of how to make business people more 'ethical.' And by 'ethical' those working in business ethics mean things like being truthful, honest, and fair in business dealings, treating co-workers and customers with respect and dignity, and being charitable. Being 'ethical' also includes not breaking laws and regulations, especially those concerning dangerous products, the environment, and crime. It also means following applicable professional codes and standards of conduct. An interesting characteristic of such discussions is that they presume that business is to be carried on as usual, but some fine-tuning is needed here and there. Independent auditors must be hired. Boards of Directors are encouraged to have more independent members. Mission statements are to be written. Annual reports and press releases brag about corporate environmental friendliness. And business students are required to sign up for business ethics courses. Broadly speaking, business ethics is presumed to be a matter of applying some good common sense. After all, "ethics is good for business."

Many people interested in business ethics are concerned with the purpose of business. Many scholars criticize the shareholder model of business and are in favour of a stakeholder model of business. Other more novel strands of work can be seen as responding to deficiencies in conventional portraits of business and business ethics. For instance, Helen Alford and Michael Naughton's argument that business should be for the common good of individuals and communities stands out as exemplary.[1]

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[1] Helen J. Alford, O.P., and Michael Naughton, "The Purpose of Business: Working Together for the Common Good," in *Managing As If Faith Mattered: Christian Social Principles in the Modern Organization*, ed. Helen Alford and Michael Naughton (Notre Dame: University of Notre Dame Press, 2001), 38-69. See also S.A. Cortright and Michael Naughton (editors), *Rethinking the Purpose of Business* (Notre Dame: University of Notre Dame Press, 2002).

I begin by examining Alford and Naughton's work. This leads to the heart of the paper which is an effort to present the broad lines of an answer to the question, "Is there anything special or unique about ethics *in* business?" To answer that question I exploit the work in economics done by Bernard Lonergan. My answer is 'Yes, business people as business people have special ethical responsibilities that other groups do not have.'

The Common Good Model of the Firm

Helen Alford and Michael Naughton's common good model of the firm is grounded on a distinction between *fundamental goods* and *excellent goods*, and a distinction between *particular goods* and *common goods*. These distinctions are used in two ways: constructively and critically. On the constructive side they use the distinctions to help answer the question "What is the purpose of business?" The critical side of their analysis involves using the distinctions to identify the deficiencies of the shareholder and stakeholder models of the firm. I will begin by summarizing the constructive part of their discussion. Then I will tackle the critical side.

According to Alford and Naughton *fundamental goods* provide the basis for everything else we do in the sense that they are the goods we need in order to obtain other higher goods which they call *excellent goods*. In the business context fundamental goods include wealth, profits, money, plant and equipment, and technical training. These fundamental goods form the economic foundation of an organization. They are fundamental because without them business would not function. For instance, without money and the tools of the trade a business would die.

But wealth and profits are not ends in themselves. Rather, they are a means to obtain food and security, to provide for families, and to support others in need. Alford and Naughton's position is that we need fundamental goods in order to pursue higher goods, the goods that enrich us and our communities, the *excellent goods*. Excellent goods are the goods we seek for their own sake; they are ends in themselves. Excellent goods are what really motivate us and give us the most profound reasons for why we work. Friendship, participating in cultural life, personal development, and character formation are all excellent goods. Business creates excellent goods as well as fundamental goods; for example, our characters (and many of our friendships) are formed and shaped at work and by work.. In fact, according to Alford and Naughton the good that provides the highest motivation and fulfillment of business is the integral development of the person.

To summarize, Alford and Naughton stress that fundamental goods are *for* excellent goods, and in the business context this means that wealth, profits, money, efficiency, and so on are simply the fundamental

goods that are necessary for the provision and achievement of excellent goods—the integral development of persons and communities.

The second dimension of Alford and Naughton's common good model of the firm is a distinction between *particular goods* and *common goods*. *Particular goods* include things like land, property, wages, profits, capital, products, and services. The characteristic they share is that these are all things that belong to, or are owned by, particular people.

By contrast, *common goods* form the basis of community life. Peace in our communities, cultural development, and justice are examples. Other things like transportation infrastructure, co-operative business arrangements, and partnerships are also classified as common goods because we can organize or hold such goods in common. Knowledge, virtue, and beauty are also considered common goods in the sense that they are infinitely sharable; they can be shared without diminishing them.

For Alford and Naughton the relation between particular goods and common goods is as follows. Particular goods are necessary for the existence of common goods. And common goods are more excellent than particular goods.

Turning to the critical dimension of their work, they use the distinction between fundamental goods and excellent goods to identify the deficiencies of, and to reject, the shareholder model of the firm. According to the shareholder model the purpose of business is to maximize the wealth of shareholders. Alford and Naughton see this as an oversimplified view of business operations. In their view, wealth and shareholder value are simply fundamental goods that are the means for attaining the excellent goods of character and community formation, goods that business also creates. They point out that the problem with the shareholder model of business is that it turns things upside-down. It relegates the pursuit of excellent goods to a secondary position and makes excellent goods the means to obtaining fundamental goods.

They also use the distinction between particular goods and common goods to reject the stakeholder model of the firm. According to this model the aim of business is to balance the competing interests of all the stakeholders. The problem with this model, they judge, is that it treats all goods as particular goods and fails to recognize the way a business is bound together by shared goals. Further it has no larger perspective. It does not have an integral perspective of a truly common good and only deals with the individual good of each person or interest.

Business Ethics as the Application of General Values

In the previous section I identified three different positions on the purpose of business: the shareholder, stakeholder, and common good models. Each has its own method of determining which behaviours count as moral or immoral, ethical or unethical, right or wrong, good or

bad. To be more specific, the shareholder model would make the ultimate criterion for business judgments be whether or not a particular choice will maximize shareholder value. For followers of the stakeholder model the ultimate criterion for business judgments would be whether or not particular courses of action sufficiently balance stakeholders' interests. And for business people supporting the common good model the ultimate criterion for business judgments would be whether or not integral human development is promoted.

What is interesting is that each model of business and each criterion of action is consistent with, and rests on, a position distinct from, or independent of, the operations of business itself. Apparently, the ultimate criteria used to make business judgments are not part of business activities or business operations per se. Arguing that maximizing shareholder value is the sole purpose of business depends on a particular view of economics, Milton Friedman's view. Claiming that balancing stakeholder interests is the purpose of business is consistent with liberal political theory and utilitarianism. And arguing that the integral development of the person is the end and purpose of business depends on particular positions on the person and religion, namely self-actualization psychology and Catholic social thought.

Let's probe a little deeper. Alford and Naughton's position is that excellent goods in the form of integral human development should be the end and purpose of business. This means that when business people make decisions they should consider the extent to which their moves block or promote integral human development. Convincing arguments can be made that the end and purpose of many other activities, not just those of business people is, or should be, integral human development. Consider the activities of people not engaged in business. Physicians specialize in curing and promoting their patients' physical and mental health. Visual artists explore the nature of what it means to be a person. Even elite athletes claim that much of their success rests on having a balanced and integrated life. Many parents stay awake all night worrying about how their children will turn out. And despite the fragmentary nature of scholarly writing and teaching we can at least argue it is all concerned with human development in one way or another. Such evidence suggests that there is really nothing special or unique about the end and purpose of business. The aim of business is pretty much the same as the end and purpose of any other area of human endeavour.

Even discussions of recent business scandals and the outstanding examples of ethical business behaviour recorded in business textbooks are evaluated in terms of values we would use to describe a virtuous person in any walk of life. Ethical business people are expected to be honest, truthful, fair-minded, respect the dignity of others, be kind and generous, and to follow relevant laws, rules, and regulations. We say a person acted ethically if their actions were consistent with or promoted such values. On the other hand, we condemn business people who commit fraud, steal, or evade taxes, pollute the environment, make

dangerous products, discriminate among employees, offer bribes, and bully workers. Again, judging such behaviours as ethical or unethical seems to take place in light of general values and criteria shared by people in all walks of life, not just business people.

But we also ask questions about business such as "How much profit is too much? Should the boss' salary be 300 times more than one of their employees? Should the products Americans need be made in China rather than by Americans in the USA? Should growth be the aim of business? How can we reduce the growing inequality in incomes? Should business be financed by government? Should taxes be cut or increased?" Such questions seem to be uniquely related to business activities. It is puzzling that such important questions would not be grounded in an understanding of business operations and business activities *per se*.

To state it another way, my question is "Why do we expect business ethics to be different from, for instance, bioethics?" If ethical decisions concerning stem cell research and cloning depend on understanding cell biology, why wouldn't ethical decisions concerning business depend on understanding how business works? Is there really no difference between an ethical business person and a virtuous person in any other walk of life? Is there really no difference between the values that are part of the decision process of a virtuous Chief Executive Officer of a Fortune 500 Company and the values of a virtuous local school principal, physician, retiree, or parent?

To zero in on the issue, the key questions seem to be: "Does the purpose of business and the value judgments concerning ethical behaviour in business simply depend on the non-business virtues of business people? Should business ethics be shaped largely by psychology and theology? Or is there something special or unique about business that demands particular types of ethical actions?"

Ethics *in* Business

In this section I want to tackle these questions: "Is there anything special or unique about business ethics *qua* business?[2] Is there an aspect of business ethics that is particular to, or restricted, to the activity of business itself?" My short answer is "yes, there is."

The longer answer rests on exploiting Bernard Lonergan's distinction between *basic* and *surplus* goods and services.[3] Before

[2] Philip McShane raises this issue in his essay, "Foundational Ethics, Feminism, and Business Ethics," available at: www.philipmcshane.ca.

[3] See Bernard Lonergan, *For a New Political Economy*, ed. Philip McShane, vol. 21, *Collected Works of Bernard Lonergan* (Toronto: University of Toronto Press, 1998); Bernard Lonergan, *Macroeconomic Dynamics: An Essay in Circulation Analysis*, ed. Patrick Byrne, Charles Hefling, and

beginning to do that it is worth stressing that my concern in the following sections will not be with what Alford and Naughton call excellent goods. Lonergan certainly believed that business is *for* a standard of living. For him the purpose of business is to provide a standard of living, that is, goods and services people need in the largest sense. Not only would that include what Alford and Naughton label fundamental goods, excellent goods, particular goods, and common goods, but it would also include leisure, the time to pursue higher interests. However, I want to stress that my focus in not on excellent goods. My concern is with particular aspects of the production and sale of *all* types of goods, regardless of whether they are fundamental, excellent, particular, or common goods. I will neither discuss what type of excellent goods business should be providing nor what sorts of goods and services business should not be producing and selling. The analysis that follows is focused on issues even more rudimentary than classifying goods as good or evil.[4]

Two Types of Goods and Services

Let's begin with the types of goods and services business people produce and sell. According to Lonergan there are two distinct types of goods and services: (1) *basic* goods and services and (2) *surplus* goods and services. *Basic goods and services* include groceries, newspapers, spy novels, gas for a car in order to go sight-seeing, tickets to baseball games, beer, movie tickets, video rentals, art supplies, home phone bills, and rent payments. If these goods are used for survival, and not to make other products they are *basic goods*.

On the other hand, if a fisherman pays for his boat to be re-painted, a carpenter buys a new table saw, a dentist buys a new dental chair, a

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Frederick Lawrence, vol. 15, *Collected Works of Bernard Lonergan* (Toronto: University of Toronto Press, 1999).

[4] For other work dealing with topics examined in this and the following sections, see Philip McShane, *Economics for Everyone* (Halifax: Axial Publishing, 1998); Philip McShane, *Pastkeynes Pastmodern Economics* (Halifax: Axial Publishing, 2002); Michael Shute, *Lonergan's Discovery of the Science of Economics* (Toronto: University of Toronto Press, 2010); and Michael Shute, "Real Economic Variables," 21 *Divyadaan: Journal of Philosophy and Education* (2010), 183-194. Much of the following discussion is based on work done in Bruce Anderson and Philip McShane, *Beyond Establishment Economics* (Halifax: Axial Publishing, 2002); Bruce Anderson, "Trade and the Failure of Economic Theory," 45:1 *Catholic Rural Life Magazine* (2002), 8-12; Bruce Anderson, "Economics As If Local Community Mattered," 46:2 *Catholic Rural Life Magazine* (2004), 16-19; Bruce Anderson and Philip McShane, "Grounding Behaviour in Law and Economics," in *Legislation in Context: Essays in Legisprudence*, ed. Luc Wintgens (London: Ashgate Press, 2007), 157-169.

bicycle courier buys new gears for her bike, a shipping company adds a new fleet of airplanes, or a corporation builds a new plant, the goods purchased and services performed are for maintaining equipment, replacing equipment when it wears out, or buying new equipment in order to produce and sell other goods. Lonergan calls such goods *surplus goods*. Surplus goods and services will be used over-and-over again to make other goods or to perform services—to catch fish, to build an extension on a house, to fill cavities in teeth, and so on. By contrast, basic goods get used up. Groceries get consumed and once you see a movie or the baseball game you cannot use your ticket again.

To state it simply, the sharp distinction Lonergan makes between basic and surplus goods and services depends on how the goods and services are used. Are they used-up? Or are they used to make other goods?

Lonergan also draws a line between business and non-business activities and restricts his analysis to business activities *per se*. On one side of the line are the goods and services produced and sold for money. Gifts, goods that are traded for other goods, and services that are performed for no pay (such as volunteer work and housework) are on the other side of the line and are not considered business activities per se. He is interested in the goods and services produced by business that are paid for with money in whatever form: cash, credit cards, direct debit, letters of credit, promissory notes, etc. Hence the production and sale of goods and services is connected to a variety of payments. And because there are two distinct types of goods and services—basic and surplus—it follows that there are two distinct types of payments.

Two Types of Monetary Circuits

Consider the set of payments corresponding to basic goods and services. Suppose you decide to buy a bottle of wine. The payments connected to the wine can be understood and organized in the following way. In your mind you *set-aside* $15 for wine. Money is ready for a basic expenditure. You make a *basic expenditure* when you pay for the bottle of wine. Your payment becomes part of the *basic receipts* of the wine shop that sold you the bottle of wine. The wine shop, in turn, makes *basic outlays*. It pays wages to employees who will, in turn, *set-aside* money to purchase basic goods and services, and so the cycle of payments continues. This process occurs over-and-over again and in that sense it is a continuous circuit or flow of money connected to the production and sale of basic goods.

A distinct flow of money connected to the production and sale of surplus goods and services can also be identified. Consider the example of a cargo ship owner. When the ship owner *sets-aside* a portion of his receipts to maintain the ship's engine we can say that the money demands surplus goods or is ready to buy surplus goods and services. Paying for the engine maintenance is a *surplus expenditure*, an

expenditure on surplus goods and services. From the point of view of the engine parts supplier such payments are *surplus receipts*. The engine parts supplier, in turn, has surplus outlays—their trucks must be maintained and at some point new ones will have to be purchased. Such expenditures occur over-and-over again and in that sense comprise a distinct circuit of surplus payments connected to the production and sale of surplus goods and services.

Although separate flows of money correspond to the production and sale of each of the two types of goods and services, the two circuits of payments are linked. For instance, the payments a carpenter receives for renovating family homes would be classified as basic receipts, and such payments would be elements in the circuit of payments connected to basic goods and services. However, some day the carpenter might need a new truck for his renovation work. The truck is a surplus good to be used over-and-over in his work to renovate family homes (basic goods). The payments connected to the production and sale of the truck are part of the surplus circuit of money. The interesting thing is that the carpenter uses the money he received for providing basic services (home renovations) to purchase a surplus good, the new truck. In terms of the flow of payments this situation can be understood as the carpenter directing money from the basic circuit to the surplus circuit of money when he sets-aside money for the new truck. In this fashion the basic and surplus circuits of money are connected.

There is an additional way the basic and surplus circuits are connected. Money can flow in the opposite direction from the surplus circuit to the basic circuit. For instance, the payments received by the business manufacturing and selling trucks to carpenters would be part of the surplus circuit. But the employees who make and sell the trucks are paid wages. These wages are, in turn, set-aside and used by the employees to buy basic goods: groceries, beer, home-heating, etc. In this way money in the surplus circuit is directed into the basic circuit. Lonergan calls these two flows of money that connect the basic and surplus circuits *cross-overs*.

The circulation of money above was related to the production and sale of new products. But there is a type of payments that are neither connected to the basic circuit of money nor the surplus circuit of money. Sales of antiques, second-hand furniture, or second-hand boats are merely sales that involve a change in ownership. Such sales are different from the purchases by the original owners. For instance, the payment received by the original seller of a new dining room table would be used to pay for the labor, wood, and other materials used to make the table. In other words, the cost of building the table is paid by the original owner. By contrast, any subsequent sales of the same table are simply a payment of money in exchange for owning the table. Bank loans, sales of shares, insurance payouts, gifts, inheritances, government transfer payments, tax payments, and charitable donations are payments that are also merely changes in ownership and possession. They do not move goods and

services through the productive process. Lonergan calls such payments *redistributive payments* because they are not directly linked to the purchase and sale of new goods and services.

Three Phases of Business Activity

To recap, Lonergan sharply distinguishes between two types of goods and services: basic goods and surplus goods. There are two corresponding distinct circuits of money: a basic circuit and a surplus circuit. The basic circuit and surplus circuits of money are connected by cross-over payments. Redistributive payments are simply transfers of money and goods in exchange for possession and/or ownership rights. Perhaps you have noticed that we have moved some distance forward in trying to identify relations that are unique to business.

In order to understand how the production and sale of basic goods and services is related to the corresponding flow of payments of money it is necessary to measure the number of each basic good sold and the amount of money paid for each good as it moves in the circuit during particular time intervals. We would have to do the same for surplus goods and the surplus circuit of money. Also, we would need to measure how much money is leaving or entering the basic circuit and the surplus circuit during particular time intervals. This means business people would have to differentiate between the production and sale of basic and surplus goods. Plus their accounting practices would have to be consistent with producing and selling two types of goods. Further, the data from various businesses would have to be collected and analyzed in order to understand the operation of the two monetary circuits in local areas, villages, towns, cities, districts, counties, provinces, regions, nations, internationally.

It is possible to envisage a situation where the production and sale of basic goods (bread, butter, meat, potatoes, bicycles) and the production and sale of surplus goods (tractors, combine harvesters, transport trucks, cargo ships) and their corresponding circuit of payments are in-step. So much food is being produced and sold each month and the corresponding amount of money circulating each week in the basic circuit is stable. New farm tractors are being produced and sold to replace the old ones as they wear out each month and the corresponding flow of money in circulation in the surplus circuit is stable. Neither the basic circuit of money nor the surplus circuit of money would be growing or shrinking. It also means that if, for instance, particular businesses engaged in producing basic goods cease their operations then other businesses would have to replace them for the basic circuit of payments to remain stable. Lonergan calls this situation a *stable or steady-state phase* of business activities. People might even be content with their standard of living.

But the circuits can be de-stabilized. A person in the agriculture business might have a good idea and invent a machine that enables

farmers to plant seeds in less time. (The machine is a surplus good because it will be used over-and-over in the process of growing crops.) The inventor's business may need to borrow money to manufacture, test, market, distribute, and sell the machines. This means that the surplus circuit would be growing as more and more money is borrowed and used to produce more-and-more machines and farmers purchased them. Likely, initial sales would be brisk, then sales would level off when all the farmers who wanted a machine had purchased one. The amount of money in the surplus circuit would not be increasing, but it would be greater than before the invention of the machine. The surplus circuit would stabilize at the higher level and as machines wore out farmers would replace them. Lonergan calls such an episode a *surplus expansion*.

Farmers who bought the machines would have a choice of either planting more seeds or planting the same number of seeds in less time. In other words, more food could be produced or the same amount of food could be produced for less work. If the farmers decide to produce more food the basic circulation of money will have to grow to keep in-step with the increased production of food. People will need more money to buy more food. And farmers will need to borrow money from the bank to buy more seeds. More seeds means, for instance, more grain. More grain means more loaves of bread. And more loaves of bread sold means that more money is connected to the production and sale of basic goods. At some point the production and sale of bread and the basic circulation of money will level out at a new level higher than it was before farmers borrowed money to plant additional seeds. Lonergan calls this type of scenario a basic *expansion*.

Lonergan characterizes such situations—(1) steady-state, (2) surplus expansion, and (3) basic expansion—as three phases in business activity. The idea is that a stable phase of business activity can lead to a surplus expansion. An expansion of the surplus circuit provides the conditions for an expansion of the basic circuit, as well as a subsequent increase in the production and sale of basic goods during a basic expansion. In this fashion, the surplus circuit serves as the engine of an economy. In light of this analysis the strategy for fighting poverty and underdevelopment would be to promote a surplus expansion that will lead to a basic expansion.

Ethics in Business during the Steady-State Phase

What are the consequences of, for whatever reason, withdrawing money from the surplus circuit or the basic circuit when the level of business activity is steady? If money is taken out of the surplus circuit by taxation the surplus circuit will be out-of-step with the production and sale of surplus goods. A diminished flow of money will not be able to finance the construction of new cargo ships or dental chairs. Because there will be less money in the surplus circuit, buyers of surplus goods will have less money to spend and sales of surplus goods will fall. Producers of

surplus goods will have to cut back on their production because they will have less money available to pay their expenses. Their output will fall. The income used to purchase surplus goods will also fall. In other words, if money is withdrawn from the surplus circuit it contracts.

If money is withdrawn by taxation from the basic circuit the consequences are similar. Consumers of basic goods will have less money to spend on basic goods such as groceries. Grocery stores will have less money available to buy food and pay wages and will have to reduce the amount of goods they sell in a particular time interval. In turn, employees will lose their jobs. In other words, if money is withdrawn from the basic circuit, the basic monetary circuit will contract.

However, these problems can be dealt with. If money is taken out of the surplus circuit by taxing corporate profits or incomes due to the sale of surplus goods, then the government should add an equivalent amount of money to the surplus circuit so it does not contract. It could do this by spending money on research and development, financing new industries, and paying for businesses to expand.

If money is taken out of the basic circuit by a goods and services tax on purchases of clothing, heating oil, beer, eyeglasses, spy novels, and toys then the government must make sure that an equivalent amount of money is returned to the basic circuit of money or else it will contract. It could do this through pension payments, welfare payments, and unemployment benefits.

The key point is that if more money is taken out of the basic or surplus circuits than is returned to them, the production of goods and services is adversely effected. We can express this as a general ethical principle for business people: The monetary circuits must be kept in-step with the production of goods and services.

Ethics in Business during a Surplus Expansion

The application of this principle seems straight-forward when business is experiencing a steady-state phase, but what about during a surplus expansion or a basic expansion? Let's tackle the key ethical question: "What are the ethical principles applicable to a surplus expansion?" To be more specific, "How can, and how should, money meet the needs of a surplus expansion?" Lonergan claims that accumulated savings will be too small to meet the needs of businesses who want to increase their production of surplus goods and services. He argues that once they use up savings they will still have the problem of requiring more and more money each successive time interval in order to increase production. The solution is that money must be, and in fact is, invented. Business people, for example, are given credit in the form of loans.

During a surplus expansion we would have an ever-increasing flow of money entering the surplus monetary circuit, and we would face the possibility of inflation. How do we avoid inflation during a surplus expansion? The answer is that the monetary circuit corresponding to the

flow of surplus goods must be treated differently from the basic circuit. Lonergan argues that during a surplus expansion as little money as possible should be added to the basic monetary circuit. For example, increasing the wages of people producing surplus goods would mean that more money would be available for purchasing basic goods. However, directing money from the surplus to the basic circuit would reduce the amount of money available for the surplus expansion, and excess money in the basic circuit would lead to higher prices of basic goods if the production of basic goods remained constant. The danger is that the surplus expansion would end prematurely, long before it reaches its maximum. In turn, the basic expansion would not be realized and the standard of living would not improve. The shortened surplus expansion would be characterized as a boom followed by a slump. Hence the intelligent move is that any increases in income received during a surplus expansion should be saved and invested, that is, spent on surplus goods and services.

Lonergan expects prices to rise during a surplus expansion because there would be more competition for materials, labor, and loans. But he does not see this as a problem. Rather, the rise in prices serves as an automatic mechanism that helps shift the distribution of income in favour of high income earners, thereby directing money to the surplus circuit. The rationale is that the greater the price rise, the greater the income. And the greater the surplus income, the greater the reduction in the purchasing power of income because the price of goods will increase too. Hence as prices rise, real saving is forced upon lower income groups. They would be unable to increase their purchases of basic goods and services. So the production of basic goods would remain stable.

On the other hand, the incomes of people in high income brackets will increase faster than they spend money on basic goods. The justification for favouring the rich during a surplus expansion is that the higher income groups have all the basic goods they need so they will save, and any increases in their income can then be invested and spent on surplus goods. This means that the increase in income over and above what they spend on basic goods will be directed back to the surplus circuit thereby keeping surplus production and the surplus monetary circuit expanding.

Lonergan emphasizes that this shift in income in favor of higher income earners should be done by increasing the quantity of money in circulation in the surplus circuit, not by decreasing the income of people in lower income brackets. People in lower income groups should not become less well off during a surplus expansion. In terms of the two circuits, an increasing quantity of money should be added to the surplus circuit from the redistribuitive circuit; money should not be taken from the basic circuit.

In fact, unless the increase in total income goes to the rich, thereby becoming surplus income, there will not be an adjustment of the rate of saving. In other words, if the wages of lower income groups rise, the

increased money will likely be directed out of the surplus circuit to be spent on basic goods. And because the quantity of basic goods would not have increased, prices of basic goods will rise because the money available to buy basic goods has increased. The problem is that the surplus expansion would be curtailed too early because the shift in the distribution of income in favor of the higher earners who should have been in the position to add their increasing income to the surplus circuit would not have occurred.

In light of the analysis above the general ethical principle during a surplus expansion can be expressed in the following way: The quantity of money in circulation in the surplus circuit must increase as fast as prices rise and as fast as the increase in the production and sale of surplus goods or else the surplus circuit will contract.

Ethics in Business during a Basic Expansion

In Lonergan's explanation of phases, you must have a surplus expansion in order to have a basic expansion. The invention, design, production, and sale of computer chips and assembly lines, for instance, precedes the production of new home computers. He emphasizes that it is essential that the surplus expansion reach its maximum if the subsequent basic expansion is to be as large as possible.

Presuming the surplus expansion reaches its peak, what are the ethical principles applicable to a basic expansion? The short answer is that the income of the lower income groups should be increased and they should be encouraged to spend their income on basic goods. Just as the expansion of surplus production requires an expansion of the surplus monetary circuit, an expansion of basic production requires an expansion of the basic monetary circuit. Just as a surplus expansion would be curtailed by not directing increased income to the surplus circuit, the basic expansion will be curtailed prematurely if increased income is not directed into the basic circuit to be spent on basic goods. In other words, if the increase in money in the economy is not directed to the basic circuit and spent on basic goods, a basic expansion will not occur. During a basic expansion the distribution of income must be in favor of lower income groups.

Again, we are faced with the danger that the production of basic goods and the basic circuit of payments fail to keep in-step. If not enough money is directed to the basic circuit in relation to the increasing amount of basic goods being produced, prices of basic goods will fall. But it would be wrong for manufacturers of basic goods to cut back on production. Rather, the flow of money into the basic circuit must increase proportionately and as rapidly as the production and sale of basic goods. The falling prices would, however, serve as an automatic corrective if enough money does not move into the basic circuit fast enough insofar as falling prices would encourage people to spend their

money on basic goods as the purchasing power of their incomes increases.

To oversimplify matters, Lonergan's ethical principle during a surplus expansion is that if you want to increase spending on surplus goods you should increase the incomes of high income earners because they will spend a larger proportion of their incomes on surplus goods than people in lower income brackets. But if you want to increase the amount of money spent on basic goods during a basic expansion the ethical principle should be that the incomes of the poor should be increased because they will spend a larger portion of their incomes on basic goods than wealthy people.

Further Complexities

For the purposes of this essay it is not necessary to examine even more complex situations. My aim is simply to indicate that Lonergan's work can be used to argue that there is a special or unique dimension of business ethics that cannot be neglected by business people. It is sufficient to point out that the analysis of business operations and applicable ethical principles in terms of monetary circuits is relevant to business people. However, it is worth noticing, at least, that taxation and government spending would de-stabilize the basic and surplus circuits when business is experiencing a surplus expansion or a basic expansion. Plus it would be important to come up with intelligent ethical principles relevant to keeping the circuits in-step with the production and sale of goods in such circumstances.

The complexity of situations becomes even greater when you consider foreign trade. With just two trading partners, each partner would need to keep their own production and sale of basic and surplus goods in step with the corresponding monetary circuit. Each partner would need to know the particular phase (steady-state, surplus expansion, or basic expansion) it is experiencing. Plus trading partners would need to know how the importing or exporting activities of each partner de-stabilizes the monetary circuits of its counterpart. For instance, if one of the trading countries has a huge foreign debt, how does that de-stabilizes its monetary circuits? Discovering the relevant ethical principles in such circumstances would be an important thing to do.

Conclusion

In this paper I portrayed business activities in terms of two distinct circuits of money and identified the needs of these circuits that business people must satisfy in order to keep business running smoothly.

Appropriate actions that must be taken in various circumstances can be collected and expressed as ethical principles in the following way:

1. Business people must be able to distinguish between basic and surplus goods and services.
2. Business people must understand the operations of the basic circuit, the surplus circuit, and the redistributive circuits of money.
3. The basic monetary circuit must be kept in-step with the production and sale of basic goods and services in all phases of business activity.
4. The surplus monetary circuit must be kept in-step with the production and sale of surplus goods and services in all phases of business activity.
5. Neither the basic nor the surplus circuit of money can be drained at the expense of the other.

I began this chapter by noting that contemporary discussions and debates about business ethics are consistent with, and shaped by, positions that are not grounded in the operations and activities of business *per se*. I raised the question whether there was something special or unique about business that called for a distinctive ethics *in* business. I answered by presenting Lonergan's distinction between basic and surplus goods and services, and explained how this crucial distinction grounds an ethics *in* business in the sense that business people do, in fact, have special ethical responsibilities in order to keep business running smoothly.

In order for business people to be ethical they must know the place of their own business operations and others' business activities in their local communities, towns, cities, counties, provinces, nations, and globally, and they must respond intelligently in light of the ethical principles unique to business identified in this chapter. To put it bluntly, in order to be an ethical business person it is not sufficient to be a "virtuous" person; ethics *in* business demands a clear view on how any business unit works, and is working, and it calls for intelligent actions in light of such knowledge. This is what is special about ethics *in* business.

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