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Michela Betta

Ethicmentality - Ethics in Capitalist Economy, Business, and Society

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Michela Betta
Swinburne University of Technology
Melbourne, VIC, Australia

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About the Author

Michela Betta is a teacher, researcher, theorist, and writer. She studied philosophy and social sciences in Milan and Frankfurt, and completed her doctorate at the Johann Wolfgang Goethe University of Frankfurt. She has held academic positions in Germany and Australia where she currently lives and is a senior academic at Swinburne University of Technology (Melbourne). She is interested in ethics in relation to a variety of topics spanning organisation, management, business, education, law, and science. She has published on a variety of topics in scholarly journals and books associated with her research interests. She has also published three collections of short stories with the intention of exploring ethical thinking through literary media.

Introduction

The importance of ethics for society cannot be stressed enough. The role that ethics is currently playing in society, politics, economy, science, and in our whole culture remains unequalled. There might be many reasons for this. One of these reasons is that other theories, morality for example, have not been able to match the expectations. The other is that philosophy has not moved quickly enough to meet the demands of society. There are various causes for the diminishing attraction of morality. Bernard Williams (1985) argued that to understand what is meaningful in general, and what is meaningful to people in particular, we do not need morality and its abstract notions of "moral and nonmoral". Williams also observed that "the intellectual faculty central to ethical life, practical reason, is very different in its functions and objects from theoretical reason, which is what is deployed in philosophy and the sciences" (1985, 35). Ethics is interested in questions such as "what shall I do", and "what am I going to do", and from this perspective it is always related to people and their decisions. It seems now that by being interested in the economy, business, and society I might have made the task of discussing ethics more difficult. Then, how is it possible to address those two questions from within such big fields? Whenever we speak of economic processes, business corporations, financial systems, social interactions, and institutions we often refer to the individuals involved in them. These individuals are the ethical heroes or villains. And yet it seems impossible to discuss the economy, its political function, and the capital that drives it by merely looking at how individuals behave. Conversely, it seems impossible to gain some insight into the reasons that led to the Great Recession of 2006–2010 without discussing the role that individuals played in its rise, its unfolding, and its ultimately crashing down on society. Hence, it appears that it is important to focus sometimes on systems and sometimes on people. Thus, I have attempted to strike a balance within this book between macro domains and micro domains. Accordingly, I have paid attention to the interdependence between economy, politics, and society on the one hand, and the interdependence between people and business organizations on the other. A striking point emerging from the study carried out in this book is that even when discussing the economy, its capital, and the market, we are always implicating people and their interests, equality, expectations, and opportunities (or lack thereof). And even when we are focusing on individual ethical behaviors, we are always also implicating the contexts in which people's virtues, ethical practices, and entrepreneurial ideas can come to fruition. And this is the most powerful reason why ethics has become the most important theory we have available for understanding how capitalism functions, society thrives, politics governs, business succeeds, and people learn how to live well. Unavoidably, this also implies that ethics is the best theory we have to understand why those same things might at times not work well.

Book Parts and Chapters

In this book I have assembled three broad areas under one title. Part I is concerned with wealth production and the economic, political, and market contexts that this production needs in order to occur. Part II is concerned with money, businesses crises, the behaviors and contexts that are involved in them, and the power of management. Part III is concerned with creating ethical wealth, personal change, and individual innovation.

To facilitate the discussion of the issues mentioned, I have focused on three main areas that correspond to the above three parts of the book. These are capitalist economy, business and society, and ethical practices. Although I have emphasized issues that are relevant within the individual parts, I have also established links between the chapters and the parts.

Capitalist Economy

In the first three chapters, I have discussed capitalist economy from three different perspectives. From this part of the book, a notion of capitalist economy emerges that is quite different from the traditional one that tends to describe the economy as a self-contained domain dominated by economic data and charts. Already in Chap. 1, and through the work of Joseph Schumpeter, it appears that capitalist economy is something that exists parallel to society and politics, and yet it influences them and is influenced by them. This suggests that there is not a field called the economy that operates in isolation from other fields. The relationship between economy, society, and politics is not simple, however, as it is marked by cooperation and competition. Economy as activity in the first chapter turns into economy as a mentality in the second chapter. Here I have highlighted how in the past 150 years government has adopted the method of economic rationality. Michel Foucault's analysis of the rise of modern government has provided a solid reference. To govern in modern times has become a skilful exercise of acknowledging not rights, but economic interests. The intellectual attitude behind the discourse of modern government is what Foucault labeled "governmentality". The political form it took was initially liberalism, and then neoliberalism. Government has become a self-reflective attitude articulated by those involved in governing and aiming to provide a rational discourse about how to govern well, transparently, and fairly through a free market and in favor of people's economic freedom. The new government only creates freedom for people to use. And through their economic interests people become predictable and therefore governable. The second chapter reveals how the market becomes liberalism's most important instrument. Market freedom and people's freedom to pursue their economic interests are radicalized by neoliberalism. Foucault shows that, with neoliberalism, government no longer mediates freedom; it simply leaves it to the players in the market to shape and use it at their will. Some of the effects of the neoliberal radicalization of market and economic freedom might have to do with the emergence of financial markets. This is a development captured in Chap. 3. Here I particularly discuss the works of Anthony Atkinson, Paul Krugman, Thomas Piketty, and Joseph Stiglitz. The focus of this third chapter is on capital more than capitalism. The attention here turns to individual developments within the economy and society that permitted a shift toward a capital/financial activity within the economy to emerge. The financial sector has built a domain on its own, and its success seems to have occurred overnight. Finance appears to collide rather than cooperate with classic capitalism. This puts finance outside of governmentality. Whereas income from work and production has always been the trademark of capitalism, and the free market the trademark of governmentality, it is unclear what kind of trademark characterizes finance. Financial economy does not need work to create income and does not seem to need a local market to prosper.

Part I, therefore, presents a stunningly unique picture of the economy and its developments. In the three chapters within it, ethical issues have been interwoven with the specific content. Schumpeter was concerned with capitalism breaching its own logic through big business. Foucault reconstructed the rise of modern government and its persuasive discourse of economic interests against political rights. The creation of market freedom left him suspicious about the ultimate goal of liberalism. This suspicion became more palpable when he discussed the shift to neoliberalism. Still, Foucault could not but admire the political cleverness of liberal thought in using economic rationality to move economies out of mercantilism and old industrialism, and to modernize social life—and all in the name of freedom. Atkinson, Krugman, Piketty, and Stiglitz seek a kind of capitalism that creates opportunities, not inequalities. They are aware that no credible alternatives to capitalism can be created in the short term, and therefore their most immediate interest is in making present capitalism fairer—fairer not only in terms of creating opportunities but also in terms of creating access to those opportunities. They also point to the risks that new financial trends might harbor for material equality and well-being for people and societies in general. All of these authors have demonstrated an ethical attitude toward the issues at stake. Piketty in particular attacks notions of merit used by 1 % of income earners (supermanagers and superentrepreneurs) to cement their privileges. From the works of the authors in Part I, the idea of a mentality proper to capitalism and its institutions clearly emerges. These authors have shown how that mentality formed and sustained traditional capitalism and was itself infused with common values of fair go, equal opportunities, equality, and freedom. It remains to be seen whether capitalism, and neoliberalism as its current political system, will return to those values or develop a new regulatory mechanism of market freedom. From Part I, it appears that in capitalist culture and society, capitalism and ethics might have been antagonistic to each other, but never to the point that they excluded each other. Today, as in the past, their objectives might be different, but the route is the same.

Business and Society

In Part II, I focus on money. I do so from three different perspectives and by discussing various events as captured in Chaps. 4, 5, and 6 that build this part of the book. In Chap. 4, the rise of debt is taken as a possible trigger point of personal behaviors that have shifted importance from owning to owing. Debt is not a new feature in human life. However, personal and household debt is different from debt originating from an entrepreneurial activity. The popularity of debts might have to do with money losing its importance in the life of people, which implies a lack of care toward whether money is owned or owed. There is certainly a change in mentality where having credit and being in debt do not evoke the same feelings of praise or condemnation that they did the past. It becomes evident that the rise of debt has being sanctioned by both political and business operators. As a consequence, easy money attitudes have spread across many social and business domains—a fact discussed in Chap. 5. From the study carried out in this chapter, it seems that the lax attitude toward societal money has weakened the ability to weigh up risk responsibly and to act in terms of professional standards, particularly within the management and accounting professions. There is a sense that the rise of debts and creation of collateralized debts obligations and swaps have further enhanced a money mentality driven by carelessness. Investing in debts through borrowed money explains a behavior where people contract debts in order to make money. This money behavior, which has recently become popular within the banking and financial sectors, was behind the fall of some proud businesses along with the abandonment of corporate social responsibility (CSR). The analyses of this part of the book provide some solid insights into practices that now appear to have been quite unsound not only from an ethical viewpoint but also from a strict managerial perspective. The ethical deficiency was manifested in decision making driven by a mentality for speculation and risks that did not follow strict professional principles. Such mentality emerges keenly from the analysis carried out in Chap. 5, which is focused on objectively reconstructing some of the activities and decisions that brought HIH, Enron, and Lehman Brothers down. Chapter 6 provides a theoretical lens through which it is possible to elaborate in detail on some of the causes for their fall. One of the causes has been linked to the rise of business management and the diminished importance of ownership. Shareholders do not control organizations anymore because control in now exercised by the managers. The relevance of such a shift cannot be stressed enough because it undermines the level of responsibility that normally goes with owning. We are dealing here with a cultural shift, a shift in mentality that had a ripple effect on professions such as accounting. The managerial behaviors discussed in this part of the book are interwoven with ethical shortcomings. Drawing on several authors, I argue that managers and their management practices were behind the business collapses of the past decade. It remains to be seen whether management has caused more damage than good since its establishment as a business practice within modern business.

Ethical Practices

The third part of the book is concerned with ethical practices. The idea advanced in its three chapters is that ethics can better serve the needs of people when it helps them to live well in everyday life. The suggestion made here is that traditional theory, particularly morality, has shown little regard for everyday struggles and therefore has offered little help to people. In Part III, I discuss the role of ethics from three different perspectives that are, however, connected. The strength of Chap. 7, the first of the three chapters in this part, lies in its boldness. The main focus of this chapter is the formation of personal ethical capital. The claim made is that everyone has an initial ethical capital through the simple presence of human ethical dispositions. However, such dispositions require a certain environment in which to grow. Living with others, being a member of a culture, becomes the first step in which general ethical dispositions turn into specific ethical dispositions. I argue that these latter dispositions can be enhanced and form a person's ethical capital. Ethical capital is not static. People can lose it through unethical practices. People can improve it through ethical practices. A stable ethical capital will ultimately undermine ethical capabilities. The values of a society and the habits and practices of a culture never remain the same. Through technology and science, through economic and social improvement of people's lives, social values and cultural practices change. This requires an adaptation of people's attitudes and personal values in order to stay tuned in. A lack of ethical adaptation might diminish the value of people's ethical wealth. Ethical capital needs ethical practices to be maintained, and the best way by which this can be achieved is through steady growth of ethical capabilities. Ethical capital can shield against attempts from others to control the way we are. In this case, the stronger a person's ethical capital, the stronger that person's resistance.

Ethics and individual activity is an issue that returns in Chap. 8, particularly in connection with entrepreneurship. Here I have particularly analyzed practices of self-renewal and self-change as entrepreneurial actions that have innovative outcomes. No matter whether people decide to oppose the power oppressing them, or to become something that they were not previously, the trigger point is entrepreneurial, the implications innovative. In this chapter I have made a link to economic entrepreneurship and the mentality that drives it. That mentality nourishes the wish of people to change their conditions in the same way that the original economic entrepreneurs had the wish to modernize capitalism. The mentality and method are the same. The types of innovations differ. I have discussed how individuals who want to initiate a change can be seen as engaging in self-entrepreneurship. What emerges in both Chaps. 7 and 8 is people's intentionality. People choose to build their ethical capital, to change themselves and their conditions, and by so doing they manifest their particular ethical preferences. As I have further explored in Chap. 9, to choose means to exercise freedom and to act means to express virtues. In this chapter, Aristotle's ethics is discussed. Of particular interest here is whether his ideas can find some productive resonance in today's business life. Business ethics can be seen as a form of practical reasoning aiming to provide good guidance for business. I have advanced the possibility that business ethics could be seen as one of the legitimate heirs of Aristotelian ethics. It is to be seen whether the already evident split between business ethics and organizational ethics will strengthen or weaken this call. As a whole, Part III encourages ethics being viewed from a new angle. In particular, Chaps. 7 and 8 have provided the basis for an understanding of ethics that is more flexible than is traditional ethical doctrine. This might appear to contrast with the content of Chap. 9 in which Aristotle is discussed. But one interesting outcome from this analysis is that Aristotle is still in the ethics game. In fact, the discussion of Aristotelian ethics is done from a present-day perspective, particularly when it is linked to business ethics. From the chapters in this part of the book, it seems that to be ethical, people need a certain attitude toward the things they want to do. For example, a capital is ethical not because people use virtues to build it. A capital is ethical because it is built by virtuous persons.

In this book I have attempted to develop a sense of ethics as a mentality—a mentality that is involved in people's experiences and practices. Ethics is here a way of thinking and acting that is used by most people to achieve some of their goals. The notion of ethics as a mentality opens up possibilities for problem solving based on rational practical deliberations. There are choices to be made for human beings. How to choose is difficult, as it is difficult to stay true to one's chosen path. Ethics as mentality can help to choose based on what people are. Our immediate life is always the most objective reality we possess. And when we choose to go against what is an ethical standard or common sense, we choose against what is in our ethical interest. The difficult thing is that often it is difficult to see where a new path can take us. People might get blinded by unchecked expectations. People's hopes might be too big for their possibilities. The choices that turn out to run counter to people's ethical interests might originally have looked promising, or justified. There are risks because life is not a unitary, ordered dimension. Thus, how to keep together the uncertainties, confusions, temptations, difficulties, excitements, phantasies, and wants that build people's lives is certainly not easy. Aristotle was well aware of this difficulty, as he kept reminding people that "it is not easy to be good". Have a method, he seemed to say. Avoid the extremes, he added, stay in the middle when you can, be courageous in the right moment and for the right reasons. The question is whether it is possible for a human being to be so self-aware as to avoid fault. Should ethical alertness become a goal? Not a goal, but certainly an instrument for self-awareness or a personal attitude. Ethical alertness could be similar to Frankfurt's reflexivity that can be "a source of light which, in addition to illuminating whatever other things fall within its scope, renders itself visible as well" (Frankfurt 1988 162).

The book concludes with Chap. 10. In it, the notion of ethicmentality is explained at length. The most important issue emerging from the chapter is that ethics originates from people's ethical experience. Human experience is grounded in practices. These form a mentality that is too pervasive to be regulated or controlled. That mentality represents the background of social life where human beings conduct their everyday dealings by sharing values, beliefs, knowledge, hopes, and even a sense of competition. In their daily dealings, people are involved in practical problem solving to achieve the goals they set for themselves. It is here where ethics becomes important for what they do. Doing requires practical deliberation. Through such deliberation we learn how to identify what is important to us, what we want to care about. The term ethicmentality captures this combination of mentality, deliberation, and ethics.

Mentality is what connects all parts of this book. The idea of mentality has helped to elaborate on the possibility that the social systems in which we live and work are formed by practices that cohere and nourish the mentality we share, the social life we create. In some chapters, particular mentalities have been highlighted, for example capitalist mentality, governmentality, and money mentality. These mentalities describe a specific way of thinking and acting that form within defined contexts. They, however, are part of a larger mentality that relates to the whole of society. The central theme of this book is mentality in connection with ethics. Mentality is linked to social life and practices, and to people's ethical experience. Ethicmentality is used to highlight a way of thinking about the many issues that interest people and prompt their deliberations and actions.

Within this book I have chosen to take a positive outlook by taking up Williams' challenge to stand for a "positive ethical theory". I want to express a preference for the idea that ethics is concerned with helping people to improve, no matter the levels of difficulties that private and public life may entail for single individuals. It seems plausible that human ethical dispositions are the trademark of humanity. It is undoubtedly a problem that some people never bring these dispositions to fruition. The kind of ethical shortcomings that are depicted in Chap. 5 have not undermined the importance of this stand for a positive ethical theory. The corruption of some does not diminish the ethical stands of many others.

The twenty-first century is still young. Therefore it might be difficult to make predictions about how people will live for the remaining years, particularly whether they will have new ethical theories guiding them. It also seems impossible to speculate about how capitalist economy, society, business, and politics will change. It is surprising how much humanity has already achieved despite the setbacks of wars, social crises, and environmental calamities. But was this a great achievement? Williams reminds us that "we might be able to do everything we wanted, simply because we wanted too little" (1985, 57). There are good reasons to believe that ethics will be a powerful dimension of human life in the near future. This is all we can hope for. The issues that preoccupy people today might change, importance might shift to other matters, and working life might involve new activities and rewards; new thoughts might form and set new social values, more intense practices. Notwithstanding all these possible changes, there is a high probability that how we think about ourselves and our relationships will still keep people busy in the years to come. It seems even possible to say that for people, or for some people, or perhaps enough people, a good life might still mean an ethical life.

Melbourne, VIC, Australia Michela Betta

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Part I
Capitalism and Capital

Part I focuses on capitalism from three different angles. In Chap. 1, the work of Joseph Schumpeter is discussed. Schumpeter achieved what other economists never could in that he managed to analyze capitalist economy and business in conjunction with politics and government, society and culture. He paid great attention to the intricate relationships between these areas. What emerges from his analysis is a general sense of instability that he attributed to capitalism's internal contradictions, entrepreneurs' disruptive innovations, the continual reconfiguration of social classes and groups, and anti-capitalist attitudes of intellectuals and social critics. He, however, considered this instability to be less threatening than the rise of corporations that would transform capitalism by opposing the traditional capitalism of the small- and medium-sized firms and entrepreneurs. Corporate capitalism would lead to a form of economy that Schumpeter described as socialism because of the corporations' tendency to side with political elites and bureaucracies against all the other forces. Schumpeter's analysis of big business certainly anticipated interesting trends. His fear that entrepreneurs would be wiped out by the corporations, however, has not eventuated.

Chapter 2 is concerned with the intellectual conditions that provide the basis for the rise of modern government. The analysis focuses on Michel Foucault's reconstruction of how government came to be seen as a form of economic rationality. This rationality would result from an application of economic thinking to politics and it would reveal a new mentality behind the role of government, hence the term *governmentality*. Foucault stressed that neither the economy nor politics exist as facts and that their legitimacy originates from the simple act of governing. The act of governing in the nineteenth and twentieth centuries took the form of liberalism and neoliberalism. Market freedom became their trademark. The success of governmentality, Foucault suggested, lies in the importance it assigned to both the market and people's economic interests. It was a balancing act based on predictability. The economic interest made people's behavior predictable, and the government's responses in turn became predicable for the people. Governed and governors controlled each other. Through Foucault's work it becomes obvious why liberalism has been so successful, but doubts persist about whether neoliberalism will be able to expand on that success.

Chapter 3 deals with capital and its global influence. The works of the economists Anthony Atkinson, Paul Krugman, Joseph Stiglitz, and Thomas Piketty are considered to elaborate on the rise of income and wealth inequalities through a concentration of capital in the hands of a few people. These economists depict capital as being increasingly more financial than technological or industrial. The financial origin of capital makes it more difficult for many to understand capital movements, and even more difficult to regulate them. These authors assume that global capital has changed the nature of capitalism. The main concerns of these authors, however, are inequalities in wealth and incomes. Various solutions have been put forward to address these concerns. They include regulated incomes (particularly the elimination of extremely high salaries), taxation of consumption, national fiscal reforms to control capital movements within states, the introduction of a global income tax on capital, and international trade agreements being removed from the control of governments and corporations. Some of these solutions, however, depend on the good will of nations and governments. Here lies perhaps the most troubling aspect of the rise of global capital. Problems will accumulate, putting the wealth of nations at risk before the political agreements that are necessary to implement regulations nationally and internationally can be reached.

The three chapters included in Part I focus on the economy from the perspective of capitalism, government, and global capital. And yet the authors discussed in this part of the book have one theme in common. They are all concerned with the foundations, the basis of the systems they discuss. Schumpeter was troubled by the threats to the basics of capitalist activity that would inevitably undermine the whole system. Foucault showed how governmentality resulted from a concern about the foundation of good government for the public good. The economists of Chap. 3 raise concerns about the inadequacy of the basic principles of policies of income and distribution when it comes to rising inequalities and concentration of wealth. The topics discussed by these authors, and the feelings expressed through them, acquire an ethical meaning within this book because they reveal the extent to which the economy, politics, and social life influence each other. The economy depends on society and politics, but society and politics also need the economy to grow and build effective policies. How far global events can shake the relationship between these systems, and more importantly their ethical foundations, remains to be seen. These issues make the topic of Part I eminently important to ideas of justice, fairness, and freedom, but also to social progress and people's material security. These issues call for ethical reflection. Ethics comes alive in this chapter as something that is part of a way of thinking, part of a mentality that shapes the concerns discussed in this chapter.

Chapter 1
The Contradictions of Capitalism: A Schumpeterian Analysis

Abstract In this chapter, I discuss the works of Joseph Schumpeter. He was mainly concerned with capitalism and the conditions for its survival. He understood capitalism to be a rational organizational form that included a capitalist system (economy and business), a capitalist order (capitalist institutions and government, politics, and bureaucracies), and capitalist society (culture, mentality and habits, schemes of moral values, and middle-class expectations). Schumpeter argued that the capitalist system contributed to the prosperity of order and society. But he also thought that the capitalist system was exposed to internal contradictions that made it unstable. Threats came also from external sources. He viewed bureaucracies as being driven by political elites too eager to regulate the capitalist system, while cultural movements embodied by public intellectuals condemned capitalism for social and ethical reasons. Schumpeter linked their criticisms to a fundamental inability of capitalism to make itself emotionally attractive.

Introduction

This chapter is about capitalism from a Schumpeterian perspective. Schumpeter can be credited with being one of those rare economists who understood the reciprocal relationship between society and the economy. By pointing to the intersections between social life, private economic activity, and governments, he showed how capitalist economies have always been deeply interwoven with social policies and how social progress had often been strongly dependent on capitalism. Schumpeter also analyzed the internal contradictions of capitalism and their consequences. These contradictions, he believed, would originate from an incessant capitalist expansion

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that led to the formation of big business at the cost of small and medium businesses. But he also thought that the "creative destruction" (Schumpeter 1934) brought about by the entrepreneurial function created internal instability through the transformations and innovations it caused.[1] Schumpeter also spoke of external threats to capitalist stability. These threats would originate, in his view, from a general socio-cultural modernization and from the criticism of capitalism's opponents. Schumpeter realized that capitalism was unable to inspire emotional attachment. He wondered about this inability. He considered humanism, feminism, and other social phenomena to be direct products of a capitalist culture, and yet the main critics of capitalism came from those quarters.

Schumpeter's work represents a well-rounded historical analysis of modern capitalism. Schumpeter has been credited by various interpreters of his work with having spent the main part of his academic life writing successfully about economic issues and expanding on the theory of economic cycles and development. His works on the 1929 economic crisis and its effects are generally considered outstanding.[2] I will focus on Schumpeter as the social scientist and socio-economic critic.[3] His social interpretation of economic conditions has not been universally accepted, however. Some features of his work have been described as a "scholastic oddity" and his general attitude toward economic scholarship has been regarded as too elitist (Galbraith 1977).[4] Yet not many economists have had the ability to move beyond the perspectives of their own economic field to provide us with such in-depth analyses of the interdependence of economics, politics, and society that Schumpeter has.[5]

According to Schumpeter, to "evaluate capitalism is to evaluate a civilization in all its aspects" ([1946] 2004c, 202).[6] He sensed, however, that because

[1] I deal with entrepreneurship and innovation in Chap. 8.

[2] See Richard Swedberg (2004, viii).

[3] This does not mean, however, that I will neglect his economic analysis. Under the section *Capitalism as a Process* later in this chapter I detail some of his most important economic thoughts.

[4] See also Swedberg (2004), xvi and xix.

[5] Swedberg (2002, 2012) claimed that Schumpeter's importance for today's capitalist analysis cannot be stressed enough.

[6] The dates in square brackets indicate the year of the original publications. In-text referencing will include the original year of publication only the first time I mention one of Schumpeter's works. These articles have been collected in a book edited by Richard Clemence (2004), one of Schumpeter's most respected interpreters. I have decided to quote from this latter publication to honor Clemence's efforts to provide us with a compelling and well-rounded idea of how Schumpeter viewed some of the most controversial

such an evaluation would have to be as broad as possible in order to capture the features of a civilization, inevitably it would be marked by disagreement, especially because evaluations are often based on cultural or ethical perspectives that, in his view, could become a matter of preference. Schumpeter also thought that these types of perspectives are influenced by wishes that could make people lose their ability to distinguish between what is and what is desired. He captured this mood in the statement that "it is one thing to believe that the survival of capitalist institutions is desirable or undesirable; and quite another thing to believe that they will or will not survive" (2004c, 207). By saying this, Schumpeter was implicitly criticizing the Marxian idea that workers would start a revolution as a response to an allegedly "steadily increasing misery". The Marxian premises, he declared, have been "proven untenable" (2004c, 207). According to Schumpeter, the inherent hallmarks of the capitalist process, not a revolution,[7] would ultimately destroy the capitalist system (2004c, 207). Such destruction would take the form of "socialism"—a formal and functional term by which Schumpeter understood "an institutional arrangement that vests the management of the productive process with some public authority" ([1943] 2004b, 175). Capitalism was understood by him to be an organization that includes private ownership of the means of production, private gain from profit and private responsibility for losses, and private banks. He once noted that people expressing feelings for or against capitalism were fundamentally expressing an opinion or making an evaluation about a way of life associated with these three features (2004b, 175).

The Social Nature of the Economy and the Economic Nature of Society

Schumpeter believed that those features and their generally real or perceived interconnection influenced the way people looked at the system as a whole. He sensed that the notion generally *en vogue* in critical circles at the time of

issues of his time. The collected articles provide insights into Schumpeter's fears and concerns with regard to the future of democratic societies that, in his view, were the product of what he described as capitalist civilization.

[7] One only needs to look at the emerging economies of India, China, and other Asian countries as well Africa to realize that their people are more interested in good schools, less corruption, employment, and many other things that have always been very precious to the middle class of the West, than in revolutions. Not even within the cash-stricken members of the European Union were the highly qualified and skilled unemployed youth interested in revolutionary action.

his writing, namely that "capitalism involves exploitation of man by man", was the result of a general attitude toward the economy and its businesses based on a principled "ethical disapproval" (2004c: 202). He also sensed that evaluation of capitalism and its cultural meaning could become an exercise in negativity when it was generally believed that "the majority of people is poor *because* a minority is rich" (2004c, 204; emphasis in original).[8] But Schumpeter resisted such critiques and perceptions by pointing out that capitalism "cannot, any more than any other form of organization, be judged by economic results alone" (2004c, 197). He was convinced that, generally speaking, no one had any issues with capitalism as a system that produces goods and distributes them. In his view, criticism came from outside the economic field and was rather a mentality or a reaction to events taking place or problems occurring within the usual working patterns of capitalism. He strongly believed that not many people would be inclined to find "fault with capitalism as an engine of production". Instead, in his view, criticism proceeded "either from moral or cultural disapproval of certain features of the capitalism system, or from the short-run vicissitudes with which long-run improvement is interspersed" (2004c, 198). He certainly would have considered the business collapses and crises of the first decade of the twenty-first century as recurring events in a long-term unfolding development.[9]

Capitalist achievements should not, in Schumpeter's view, be evaluated only from a purely economic perspective. Rather, they should include the social and cultural concomitants of such achievements. It would be equally important to understand the influence of the capitalist system on other positive factors outside it. Therefore, another question that interested Schumpeter was how far the economic achievements of the "capitalist *epoch* should be attributed to the capitalist *system*" alone (2004c, 198; italics in original). The question here is whether technological progress and organization are independent of the economic system to the extent that they can claim achievements independent of capitalism. Schumpeter, although acknowledging their partial independence, still suggested that it is the capitalist system that ultimately allows for them to flourish by "concentrating human energy upon economic tasks, by creating the rational attitude favorable to technological development, and by setting high prizes upon success in the field" (2004c, 198).

[8] Recent studies about capitalism have persistently compared rich and poor and have captured that comparison in a succinct but powerful language of a rich 10 % versus a poor 90 %, or even more radically of 1 % rich versus 99 % poor. See Atkinson (2015), Piketty (2014), and Stiglitz (2013).

[9] I dwell on these collapses and crises in Chaps. 5 and 6.

In other words, although he thought that the introduction of new technologies would generally improve employment, those technologies alone would not be enough to guarantee full employment or employment on a large scale. Schumpeter believed that as a whole the capitalist process in its evolutionary character would always be able to absorb "at increasing real wage rates" the unemployment that the capitalist system generated through self-innovations, as well as any increase in population (2004c, 205). However, Schumpeter insisted that this should not blind us to the fact that unemployment would always be a feature of the capitalist system, and for reasons that were more social than purely economic. "In part", he stated, "unemployment is the price workmen and their organizations pay for the freedom they enjoy in capitalist society" (2004c, 206).

The need to consider capitalism as something that involves more than just the economy made Schumpeter advance the view that "no social system is ever pure, either in its economic or in its political aspects", which implies that "no society is ever homogeneous" (2004b, 176) and that, therefore, capitalism would include more than just two classes. Hence, he believed that the central element of capitalism was not classes or social groups fighting each other for supremacy. He also thought that an encounter/clash of social classes/groups would not constitute the end of capitalism or a crisis within the institutions that sustain its economic and social order. More serious than any clash between classes was, in his view, the risk that under normal conditions the capitalist process would lead to the suppression of the small- and medium-sized firms representing the backbone of the middle class, and favor the formation of big business. By capitalist process, Schumpeter understood an unstoppable change involving almost everything and leading to the formation of big business under policies imposed by governments and aiming to control wealth and property. Although inexorable, this "process of change" (2004b, 180) would present some contradictory elements from the point of view of the capitalist system and society. Under normal economic and democratic conditions determined by industrial innovations, credit expansions, and investment, small business would enjoy prosperity originating from the market and would not represent a threat to political arrangements.[10] But under less favorable conditions, for example during an economic downturn, small business would become politically more dangerous. In Schumpeter's view, small business would be able to determine political

[10] Even so, Schumpeter believed that small and medium business was generally threatened by big business. He thought that under conditions of prosperity, the latter would expand at the expense of the former.

outcomes through voting and political support of certain policies advantageous to its standing, and so acquire political influence. Schumpeter suggested that this advantage is not given to big business where its executives are less engaged in defending their positions and show a "pungent sense of property and the will to fight for it" (2004b, 181). The salaried executives of the emerging corporations, he stated, would not be subjected to the same conditions that small and medium business owners were. Hence, during economic crises big business and its executives might become the target of widespread hostility and government criticism. I expand on this turn of mood in the next section.

Capitalism as Fundamentally Unstable

The internal instability of capitalism was one of Schumpeter's main concerns. He argued that such instability would result from stretching the system's own economic limits and would weaken it from within. Instability would also proceed from a general hostility toward free market capitalism that, in turn, would originate from multiple sources. The crisis of capitalism, Schumpeter further argued, would affect the very basis of the democratic system, which ultimately depends on free market capitalist conditions of wealth production and distribution. His analysis offered a well-argued platform for a debate about the limits of capitalism and its organizational structures. At the time he was writing, the market and its capitalistic organizations were facing unprecedented governmental intervention as a reaction to the 1929 economic crisis and the emergency economy of World War II. They were, however, also under pressure from a general hostility toward the whole system. Such hostility was not only socio-politically motivated. Opposition also came from the agricultural sector and from the small–medium enterprise system driven by artisans and local economies. Schumpeter argued that free market capitalism worked successfully under specific market conditions, but when those conditions were absent the economic order might undermine itself. The capitalistic enterprise would need specific political and moral conditions in order to perform effectively. In his view, this meant that any outgrowing of those conditions could represent internal breaches that the system could not deal with successfully. Such breaches would have repercussions on people's material conditions outside the economic system. These repercussions would be paralleled by another form of instability based on an increasingly hostile perception of market activities.

Schumpeter wrote extensively about the "capitalist method" ([1943] 2004b). He argued that if left to work according to "its own logic", capitalism would progress toward ever greater stability. Threats to such stability would proceed from causes that would be both extraneous to the economic system ([1928] 2004a) and its processes (2004c) as well as from causes that would be internal (2004b). The latter would originate from a tendency of capitalism to outgrow "its own frame" and so contradict its own logic. Schumpeter was deeply concerned with capitalism and constantly wondered whether it was "stable in itself". He believed that stability could be guaranteed by specific economic conditions. Such conditions, Schumpeter further contended, were different from those of a political, social, or fiscal nature. He argued that economic stability could contribute to the other stabilities, although it was not "synonymous with them nor does it imply them" (2004a, 48). Already in the late 1930s, he advanced the theory that capitalism was in a state of decay and decomposition, and he identified several reasons why, in his view, capitalism was moving toward self-destruction. To elaborate on this important proposition, Schumpeter differentiated between the capitalist system (economic/business), capitalist order (capitalist institutions and governments, politics, bureaucracies), and capitalist society (mentality and habits, schemes of moral values, middle class expectations). These three spheres were exposed to changes initiated by the capitalist process. In the following section, I discuss each aspect of his structured understanding of capitalism as an all-encompassing phenomenon. I then contrast his analysis with his more bleak diagnosis that capitalism ultimately moves toward self-destruction, and that self-destruction would converge with a mentality that is fundamentally hostile to capitalism.

The Various Forms of Capitalism

Schumpeter had a very structured understanding of capitalism. He acknowledged that the expression *capitalist system* referred to the economic and business part of capitalism. This capitalist form is characterized by private ownership of the physical means of production, private gain from profit and private responsibility for losses, and, finally, the private banks and their creation of means of payments (2004b, 175; 2004c, 189). The capitalist system could take various forms, such as intact capitalism, pure capitalism, guided capitalism, state capitalism, stationary capitalism, competitive capitalism, and trustified capitalism. Intact/pure capitalism, which, according to

Schumpeter, existed from the Napoleonic wars to the end of the nineteenth century, was a period in history when "for a time, the state and its bureaucracy were in full retreat" (2004c, 193). The term *guided capitalism* emerged in Schumpeter's analysis of postwar capitalism and was used by him to describe state capitalism and the power of its "managing bureaucracy" to "allocate to private business as much or as little room as may be desired" (2004b, 187). Guided capitalism would, in his view, unavoidably end up as state capitalism, which he described as "a system that may be characterized by the following features: government ownership and management of selected industrial positions; complete control of government in the labor and capital market; [and] government initiative in domestic and foreign enterprise" (2004b, 187). Commenting on stationary capitalism, which was a feature in the classic economics of John Stuart Mill, Ricardo, and Keynes (see Schumpeter 2004e, 263), Schumpeter declared it to be a "contradiction in terms", persistently recurring in analyses where the various internal and exogenous elements shaping capitalism had been overlooked. These elements would include processes and institutions that "would become atrophic in a stationary world" (2004b, 179). He defined competitive capitalism as the capitalism of the individual capitalists and entrepreneurs, grounded in competitive society. In contrast, trustified capitalism would be controlled by organizations, big business, and large corporations. Schumpeter considered these various forms to be historical examples of capitalism in various sociopolitical conditions of different historical periods.

In general terms, Schumpeter seemed to think that every society "contains, at any given time, elements that are the product of different social systems" (2004b, 176). The *capitalist order* refers to the institutional form (2004a, 49) of capitalism and the politico-bureaucratic organizations that it brings about. Schumpeter did not have much patience with government bureaucracies which, he argued, would undermine the capitalist system by steering it toward guided or state capitalism. In his view, the order is embedded in *capitalist society* which represents the basis on which the order is erected. According to Schumpeter, the instability of the system could "if severe enough threaten the stability of the 'order', or the 'system' may have an inherent tendency to destroy the 'order' by undermining the social positions on which the 'order' rests" (2004a, 49). The *capitalist process* represents the dynamic part of capitalism as a whole, and Schumpeter defined capitalism as "essentially a process of economic change" (2004b, 179). Such change, however, would go in different directions and ultimately create a "mentality and style of life incompatible with its own fundamental conditions, motives and social institutions" (2004a, 71–72). I discuss the importance of the process later in this chapter within the section "Capitalism as a process".

A System That Undermines Itself

According to Schumpeter, capitalism is undermined by various factors and agents. These are its own internal logic, the conflicts within and between the many classes that exist in capitalism, the continual opposition of the bureaucratic elites, and emerging powerful social groups not classifiable as classes. Schumpeter challenged the Marxian idea that capitalism was characterized by just two classes, capitalists and factory workers, by arguing that no social system is ever pure and therefore every system always contains elements of previous social structures and stratifications.[11] In capitalism, Schumpeter argued, the classes are simultaneously cooperative and competitive (2004c, 201) and they include farmers, rentiers, the professional class, clerical white collar workers, skilled and unskilled workers, capital owners, and entrepreneurs. The entrepreneurs, however, would be distinguished from the capital owners, and they would acquire capitalist positions only when successful (2004e, 268). These classes are not separated by clear boundaries. Instead, they would "shade off into each other across border zones", highlighting an incessant rise and fall of different social and economic levels. It seems that Schumpeter was using the term class in the same way that Marx did, which means that classes have vested interests to protect and defend, and that they would do anything to ensure they were not crushed. But Schumpeter suggested that this class structure was predominant in the traditional view of capitalism, also called competitive capitalism. Changes occurred with the advent of trustified capitalism, or big business and corporations that threatened the existence of entrepreneurs and individual/family owner capitalists alike. As explained earlier, Schumpeter thought that executives, by having no class understanding, had no class interests to defend. But they would have an exclusive relationship with the political elite and bureaucracies that supported big business during cycles of economic equilibrium or stability.

The advent of trustified big business and its corporations has generated a new type of businesspeople whom Schumpeter called the salaried executives and the shareholders (2004b, 180). Of these two groups, the executives would work in large-scale businesses; compared with the members of the other classes they would have no sense of property, and, consequently, they

[11] Some theorists have rejected this criticism. David Graeber (2011), for example, has strongly argued that many tend to forget the "as if" nature of Marx's analysis and that Marx "was well aware that there were more bootblacks, prostitutes, butlers, soldiers, pedlars, chimneysweeps, flower girls, street musicians, convicts, nannies, and cab drivers in the London of his day than there were factory workers" (2011, 354). That awareness, however, never transpires from Marx's work, and neither does the fact that he wrote in the hypothetical mode.

would not fight for any business property beyond their salaries.[12] According to Schumpeter, during difficult times big business executives and shareholders would not only be in a less favorable position to defend their ground than were the owner-managers of old. They would also face attack with a much "weaker spirit". In political terms, Schumpeter argued, the various classes/groups competing in the market would have different powers. Business owners and family businesses in small and medium-sized firms would be "less exposed to political attacks" because they would represent a strong force in political elections (2004b), and no political order would ever put their votes at risk. "The political structure of a nation is profoundly affected by the elimination of a host of small- and medium-sized firms the owner-managers of which, together with their dependents, henchmen and connections, count quantitatively at the polls" (1943, 140).

During a recession or depression, political bureaucracies, as well as social critics and anti-capitalists, tend to restrain from attacking workers, farmers, and the professionals. Instead, their criticism is directed at big business salaried managers and executives. Ultimately, Schumpeter thought that, contrary to big business, farmers, organized labor, and the owners of small- and medium-sized firms would be able to exploit the advantage gained in difficult economic periods "without making any concessions to big business" (2004b, 184). The consequences of such class interrelationships would be political and social, but they could also affect how the economic system as a whole performs. When small- and medium-sized firms can exercise political influence, Schumpeter noted, big business usually has to adapt. There can be various reasons for this. For example, big business can have its major shareholders outside the country, or the executive officers might not be citizens of the country. Here it becomes clear that, for Schumpeter, the traditional term capitalism designates small- and medium-sized businesses, farmers, and organized labor—but not big business.

Under conditions of prosperity, small- and medium-sized enterprises would be at the mercy of big business which is always in a position to either absorb smaller businesses or push them out of the market. The exercise of such power, Schumpeter argued, creates a situation that weakens the capital-

[12] Interestingly, although during the economic downturn of 2006–2010 many private investors lost their life savings or retirement investments, and the losses of some organizations and institutions that had invested in the share market were in the range of millions of dollars, there was a general acceptance of these changes of fortune. This seems to confirm Schumpeter's thesis that the social groups that grow around big business are unable to protect, and, more importantly, defend their wealth and property.

ist interest of the traditional capitalist classes/groups. At the same time, capitalism would be weakened by the executives of big businesses who, by being salaried, would have no sense of property and ownership to defend against government intervention. Here Schumpeter drew one of his most dramatic conclusions: the weakening of the traditional classes and the capitalist system they represent, means simply that "big business is in fact a midway house on the road to socialism" (2004b, 181). By this he was referring to an institutional arrangement in which the public authority would increasingly acquire a substantial say in how the economy had to be run. In other words, Schumpeter seems to suggest that big organizations and corporations would embody a new form of capitalism. That new capitalism would succeed in absorbing the market shares of small- and medium-sized firms and weaken the middle class as the class that more than any other represented competitive owner-capitalism. Also, by being entrepreneurial themselves, big corporations would oust the entrepreneurs, the innovative agents of traditional capitalism. At the same time, big business would enter into arrangements with political elites to control money, credit, and investments to its advantage. As a consequence, big business would bring traditional capitalism to an end.

A Class Spirit Under Threat

Traditional capitalism, Schumpeter declared, must be judged on complex grounds, not just in terms of economic data. This means that social and cultural achievements would have to be taken into consideration in order to understand capitalism. But while economic achievements must be attributed to the capitalist system, other achievements would depend on factors such as institutions, society, and the capitalist order. Thus when people express an opinion about capitalism they would do so about "a certain civilization or scheme of life" (2004b, 175). Schumpeter meant here a lifestyle created and influenced by the middle class. A distinguishing character of this class, Schumpeter observed, is its pacifism and inclination to apply "the moral precepts of private life to international relations" (1943, 128). By being fundamentally pacifist, this class would be "ill equipped" to address the domestic and international problems that a country normally faces. The middle class would be "politically helpless and unable not only to lead its nation but even to take care of its particular class interest. This amounts to saying that it needs a master." What would have to be protected was a way of life that would guarantee its position within the capitalist system. Such protection, Schumpeter contended, is going to be denied because capitalism is essentially an "evolutionary process" (1943, 131) that marches ahead without taking notice of what occurs around it. Schumpeter believed that within capitalism there is no "sharp break" but rather slow and continuous transformation. Such a transformation, however, would end up destroying the very system that generated it.

Capitalism as a Process

The notion of process comprises the central component of Schumpeter's capitalism. Sociologically, it is based on the assumption that capitalism thrives only under peaceful conditions. Schumpeter was convinced that "total war" under modern conditions would lead to a concentration of efforts that would overwhelm the absorption "mechanism" of the capitalist market. This means that war-planning by governments de facto "suspends the normal operations of capitalist processes" (2004b, 177). Schumpeter believed that capitalist process was a process of business-economic and social and cultural change. This process more generally affected the social traditions that always "sheltered the structure of capitalism" (2004c, 208). One powerful side effect of this process would be the rise of big business. Other side effects would be the redistribution of political power, a more radical criticism from within the order (society), and attrition between the economic system and order (2004b, 181). But because the capitalist order would not survive without the system that gives it the cash to govern and to maintain its policies and bureaucratic and political elites, the negative consequences of any attrition would bounce back to the order.

Economically, Schumpeter's capitalist process is evolutionary. An evolutionary process would be unstoppable and be determined by issues that would be internal to the economy. Although Schumpeter emphasized the social implications of economic activity, one of his preoccupations concerned economic development and more specifically how it occurred. To explain development, Schumpeter used the notions of "economic change" and "business cycles" (to be understood as economic progress) ([1935] 2004d, 139). The cycle would essentially be "a source of energy within the economic system" ([1937] 2004f, 165) capable of disrupting any economic equilibrium in place. Theoretically, Schumpeter considered equilibrium to be the condition from which an economic cycle arises through the "impact of innovation" which he perceived to be the internal force that animates economic life. The "wave" introduced by innovation would cause movement within the economy by bringing about a new economic cycle within patterns of "prosperity, recession, depression, and revival". Cycles are continuous economic realities, but they usually start after a revival and "at the beginning of a prosperity" (2004d, 141), although the two are different phases driven by "different forces".

According to Schumpeter, some cycles are inevitably long because it would take time for innovation to sink in. He pointed to how the "railroadization" or "electrification" of countries like the UK and US took almost a century to be completed, involving for each country "fundamental transformation of its economic and cultural patterns, changing everything in the lives of its people up to their spiritual ambitions" (2004d, 143). We are only a few decades into the technological transformation introduced by the Internet, and there are good reasons to believe that it might take an equally long period of time to roll it out across many regions. Similar to previous innovations, this process will also have profound social and cultural implications. Schumpeter did not overlook the impact of "social resistance" to some changes. Nor did he neglect to consider the practical consequences of uncontrollable events capable of disturbing a given equilibrium. In relation to the latter, he pointed to political and natural events capable of disturbing the general economic equilibrium. He was convinced that the main task of economic theory was to help understand social structures. He paid great attention to the effects of people's economic activity on the economy in general. "Obviously, the face of earth would look very different if people, besides having their economic life changed by natural events and changing it themselves by extra-economic action, had done nothing else except multiply and save" (2004d, 138). He understood economic life to be a unique process that would unfold in a "disturbed environment" ([1949] 2004g, 322). This idea of the disturbed environment refers to the business cycles that, Schumpeter pointed out, some people describe as scourges because of the economic and social upheavals they cause, including cyclical depressions. He noted that many commentators would like to get rid of business cycles by introducing a more guided economic process. He, however, opposed such an idea because it would ultimately call for more governmental intervention.

Schumpeter tirelessly pointed to the possibility that budget pressures would make governments more interventionist. The ever-changing principles of taxation are, in his view, examples of the disintegrating effects on social property of bureaucratic policies fundamentally "hostile" to capitalism (2004b, 181). To expand on this suggestion, Schumpeter pointed to the role of old bureaucracies within the European continent. Their “pre- and extra-capitalist origin” (1943, 154), he argued, would oppose them to the middle class and “its interests or its scheme of values” (1943, 155). These bureaucracies would often find a powerful ally in a public mind that rejects “the capitalist scheme of values”. For Schumpeter, private wealth was under attack because of a general moral aversion to private property. “All those bars to the effective functioning of capitalism embody what to most of us are cherished achievements” (2004b, 183). Schumpeter seems to suggest that economic crises will strengthen “intellectuals and organized labor” in quite radical ways (2004b, 183) and that these crises will in turn strengthen the managing public class and its bureaucratic apparatus and subject banking and finance to restrictions by narrowing their sphere of activity (2004b, 186). Where economic equilibrium is in place, the capitalist system remains stable, although in a continuous state of “transformation into something else” (2004a, 71). But while such stability is economic, the social and cultural spin-offs of this system would be unpredictable: the capitalist scheme of values seems to be continually working on “rationalizing the human mind” by forging a “mentality and a style of life that are incompatible with its own fundamental conditions, motives and social institutions” (2004a, 72). It is to this mentality and style that I turn in the next section.

Capitalist Society

Schumpeter made several striking observations centered on capitalist society. He feared that the public mind had resolved to leave capitalism behind. Public condemnation of this system had become “a requirement of the etiquette of discussion” (1943, 63). The public mind that, in his view, flourished in capitalism, had taken many forms. It had produced “radicals” who spoke in the name of working people and masses articulating a critique which, according to Schumpeter, was unfounded because “there never was so much personal freedom of mind and body *for all*” (1943, 126, emphasis in original). Feminism was also, in his view, an essentially capitalist phenomenon in the same way that modern pacifism and “international morality” (p. 128) were. Schumpeter thought that humanism coincided with the emergence of capitalism (p. 147) and so did modern medicine (p 126) with its initial research into cancer as well as syphilis and other infections. Capitalist science and education brought about the “public intellectuals” (p. 150). The intellectuals would embody the most contradictory element of all—educated by the institutions of capitalism, and yet their most fierce critics. In spite of this, Schumpeter observed, the middle class and its self-understanding could not approve any attack against the public intellectuals without the risk of crushing the very "freedom it approves" (p. 150). It is a dialectical process where the main driving force, the middle class, "besides educating its own enemies, allows itself in turn to be educated by them" (p. 161). This is the predicament in which the middle class is placed.

Schumpeter saw how these same intellectuals "invaded labor politics" without adding any improvements to the conditions of the working people (p. 154). He believed that the absence of real improvement in the conditions of the industrial workers would lead to a conflict between the interests of the intellectuals flanked by a political class organized in political parties and the economic interest of those individuals they claimed to represent (p. 154). Another product of changing capitalism would be the modern corporation. The corporation would initially cooperate with entrepreneurs and owner capitalists (family businesses), but ultimately corporate interests would narrow the activity scope of the entrepreneurs and middle class and kill their traditional capitalist roots (p. 156).[13] As a consequence, the middle class family (p. 158) and its home, where in the past the main function of "earning, saving, and investing" took place (p. 161), would disintegrate under the pressures of transformations brought about by a relentless capitalist process. This process would also undermine the "capitalist ethics that enjoins working for the future irrespective of whether or not one is going to harvest the crop oneself" (p. 160).[14] This to Schumpeter signaled the end of the classic owner and introduced the "homo oeconomicus" (p. 160), the professional businessman. Schumpeter was very much aware of the difference that persisted between economic and social conditions—a difference that he captured in his statement that "from an economic point of view a successful physician is to be classified as a worker", but socially "he does not simply belong to the working class" ([1911] 2002, 416).

A Difficult Relationship

Although Schumpeter regarded capitalism to be a form of civilization that had improved the conditions of many, advanced research and medicine, and created many forms of liberty and choice, he was adamant about the

[13] Schumpeter's perception of the role of the entrepreneur and middle class is inflexible, as he seems to be incapable of imaging an evolution in the identity of the entrepreneur and the middle class.

[14] Daniel Bell (1996) has described the loss of the work ethos intimated by Schumpeter as one of the two most toxic cultural contradictions of capitalism.

inability of the economic system to engage society emotionally. He once observed that "*emotional* attachment to the social order … is the very thing capitalism is constitutionally unable to produce" (cited in Swedberg 2002, 246, italics in original). He realized that people tend to emphasize too quickly capitalism's problems and shortcomings and to overlook too easily wide-ranging achievements. From Schumpeter we are continually reminded that capitalism is exposed to "struggles and vicissitudes" (2004f, 166) that would affect it externally through social, political, and natural (sometimes even adventitious) circumstances, and internally through business cycles, economic change, and innovation. It is this idea of capitalism's internal struggles and vicissitudes and the notion of external challenges that shows a powerful link between economics, society, and culture. Schumpeter paid great attention to the relationship between economy and society. But he seems to have overlooked the role of ethics not merely in traditional capitalism but also in the emerging capitalism of the big corporation.

The Ethical Challenge for Capitalism

Schumpeter mentioned ethics when he wanted to highlight the anti-capitalist discourse of emerging intellectuals. He no doubt would have considered today's business ethics as emanating from a critical mentality particularly active in business schools. The fact that he did not single it out as a special social phenomenon could indicate that he did not consider it to be a unique form of intellectual criticism. Ethical considerations in the eighteenth and nineteenth centuries were not new, but they were influenced by a Marxian perspective that emphasized the working and living conditions of the poor. In the 1920s, however, ethics was increasingly, although still timidly, called upon to reflect about business firms. Donham (1927) was one of the first to declare that business firms pose risks to the welfare of society. He stated that "the nation is full of idealists, yet our civilization is essentially materialistic" (p. 406). The Marxian influence on this statement is evident, and Donham's understanding of the economic system of that time puts him in direct opposition to Schumpeter's notion of civilization. Donham observed that various and new conditions would "compel a complete reappraisal of the significance of business in the scheme of things" (p. 406). Under the influence of Heermance (1924), who proposed the creation of a code of ethics for the legal profession, Donham insisted on the creation of a code of ethics for business. He observed that the main objective of responsible people was to multiply the number of people who could "handle their current business problems in socially constructive ways" (p. 407). Donham made an emphatic call for responsibility. "The huge economic structure which has been built up on the basis of scientific advances", he argued, "is in the hands of business men, and the leadership required is the socially minded leadership of men who harmonize their selfish economic point of view and their social objectives with strong emphasis on the side of social responsibility". Donham was singling out the emerging big corporations that were subject to very little public and legal control. Schumpeter would probably have agreed unconditionally with Donham on this point. Despite his engaging work, however, Donham remained a solitary voice. It took more than 30 years for a public discourse about ethics in capitalist business to emerge. Theorists such as Bowen (1953) and Baumhart (1961) can be credited with being the founders of modern business ethics. Their main goal was to elaborate on regulatory frameworks that would mitigate the repercussions of business failures for the wider society. Their targets were the emerging big businesses. But whereas Bowen developed a theoretical discourse about business ethics, Baumhart adopted an empirical approach to find out what businessmen thought about their role in business and society. Baumhart was involved in writing up the findings from one of the first studies ever conducted about business ethics.[15] In discussing this study, Baumhart observed that the participants viewed "the corporation as being more than a money-making producer of goods and services" (1961, 12). He also noted their high level of ethical ideals. He further declared that "these executives see a business enterprise as a society of human beings—a society with obligations not only to the people who provide capital, but also to employees, customers, suppliers, government, and even, at times, competitors" (p. 16). In concluding his review of the study, Baumhart declared that "anyone who is pessimistic about U.S. business ethics would qualify his views" after reading samples of the returned questionnaires. "They contain many heartening examples of courageous decisions made for ethical reasons" (p. 176). Undoubtedly the HBR study and his review helped popularize business ethics.

Discussions about the ethical responsibility of business corporations were outside Schumpeter's interest. From his writing, however, it appears that he was aware of those discussions occurring. But he perceived them as a threat to the capitalist system that made them possible. His faith in capitalism as a

[15] The principal investigators of the study were the then editors of the Harvard Business Review (HBR), namely John J. Brennan, James J. Valtz, John B. Shallenberger, and Vincent P. Staton. The study included a lengthy questionnaire about business ethics which was completed by some 1700 HBR executive readers that attracted a response rate of 34 % of the 5000 cross section polled. From the data reported in Baumhart's article, it appears that the questionnaire included essay-like responses.

rational organizational method that would always find a solution to the problems it caused, if left to its own devices, remained unabated. Toward the end of his career, Schumpeter was deeply troubled by the rise of the corporation. He saw the corporation as a natural enemy of the entrepreneurs and owner capitalists. He did not trust trustified capitalism which he thought to be too close to political institutions. I have described his misgiving about the corporation earlier in the text. I have also pointed out Schumpeter's conviction that capitalism was a safe system. And although he wrote about the possible risks posed by big business—which some years later was called managerial capitalism (Chandler 1984)—he could not anticipate the level of disruption that corporations and organized business would actually cause to the capitalist system of the 2000s. His main concern was about a middle class under siege along with individual owners and entrepreneurs. Big business emerged strengthened from World War II and the economic recovery of the 1960s and 1970s. But in the early 1980s, there was a resurgence of entrepreneurial innovation driven by individual entrepreneurs in emerging technological and information industries, as well as science. This resurgence proved that Schumpeter's fears about the end of the entrepreneurs were partly unfounded. More recently, social and cultural entrepreneurship have joined economic entrepreneurship proving the historical resilience of the entrepreneur. Perhaps it is not the entrepreneur that will succumb. Perhaps entrepreneurs will outlive corporations. The dice have not yet been thrown.

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Chapter 2
Governmentality and the Economy: A Foucauldian Perspective

Abstract In this chapter, I continue my historical contextualization of capitalism. I deal with how capitalism became synonymous with liberalism and, later, neoliberalism. The terms liberalism and neoliberalism came to describe the politico-philosophical discourse underpinning capitalism. Drawing on some of Foucault's works, I reconstruct how liberalism grew out of a reflection about good government. To describe liberal thinking about government, Foucault used the term governmentality. Governance became central to liberalism. It was exercised over people via economic interest. In developing the notion that individuals are driven by material interests, rather than abstract liberties, governmentality made people's economic interest its goal. The most crucial innovation of liberalism was the market where economic interest could be pursued. Through their economic interest, individuals became predictable from a governmental viewpoint. In being predictable they became governable. Although liberalism created the market as a place where individuals could exercise their economic freedom, liberalism always retained the ultimate responsibility about the free market economy. Later forms of liberalism, also known as neoliberalism, introduced a more radical understanding of government by shifting from governance to self-governance. Government became minimal and responsibility for economic activity was transferred to individuals in the market.

Introduction

That economic relationships and forms of exchange have existed throughout history is not disputed, and David Graeber (2011) has dug deep to uncover some of them. How those relationships and exchanges emerged, or by what were they conditioned, however, is not easily established. It is even more difficult to establish how those relationships and forms became naturally

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capitalist. To uncover their conditions, a particular type of analysis is necessary. This analysis, although using an historical perspective, would have to combine various methods in order to lay bare the normative, social, and cultural conditions of capitalist structures. No capitalist system can exist beyond a normative framework that is itself part of a wider culture. In Chap. 1, I discussed Schumpeter's understanding of industrial capitalism and his warning about the inherent contradictions that undermine its existence. Schumpeter pointed out that those contradictions were the result of specific capital developments and changing social and moral values. Schumpeter was attentive enough to capture the essence of economic values. He was, however, less skilled in elaborating on how those values came about. In other words, from Schumpeter's analyses it is possible to appreciate an economic system that is projected toward the production of prosperity and is continually adaptable. But what is generally missing from his works is the origin of that system and the elements that drive it. Since its inception, capitalism was bound to specific political conditions. These political conditions have helped shape capitalism as we know it or as we have known it since the first industrial revolution and its development into subsequent innovative cycles.[1] Capitalism as we know it is also described as the free market economy. The expression *free market* is not intended to imply that the market itself is free. Indeed, by being an abstract space where people interact, the market is neither free nor unfree. It is people and their interactions in the market that can be free or unfree. It is this latter idea of the market freedom that reveals how capitalism is also the product of a culture of exchange (see also Swedberg 2002).

How capitalism normatively/culturally formed, and how the market became its defining feature, are issues that have never been analyzed in

[1] In using Schumpeter's ([1949] 2004) periodization of the major historical innovations that marked the first and second industrial revolutions, it would be possible to have the first industrial revolution occurring roughly between 1783 and 1842. That was the age of steam and steel that further culminated in the "railroadization" of the world from 1842 to 1897. Schumpeter believed that a second revolution, bringing electricity, chemistry, and motorcars started in 1897 and was probably still ongoing at the time of his writing in 1945. Interestingly, Schumpeter spoke about how the expansion of credit became important in the second revolution and for the development of the next industrial cycles. The advent of more sophisticated mechanical instruments to be used in science and medicine, electronics, computers, new drugs and medical procedures, and so forth could be described as the third industrial revolution. It is not clear whether we are still in the third revolution or whether new technological and scientific discoveries that include information and nanotechnologies mark a new phase. Some commentators speak of globalization as the new face of capitalism but there seems to be little agreement about this.

detail. There has been a large body of literature about capitalism based on the assumption that capitalism is an economic system. It is from within this understanding that Marxism and other closely aligned but perhaps less radical anti-capitalist intellectual traditions have formed and have always been used to critique capitalism. Pointing to this fact, Daniel Bell (1996, 330) observed that the neglect of culture has been the weakest point of Marxian analysis. In using the term "culture", Bell wanted to point out that in the cultural sense capitalism was a "mentality or spirit, rather than just an economic mode of organization" (p. 285). He particularly emphasized the non-economic conditions that led to the rise of modern capitalism. Bell thought that those conditions were shaped by two historical events of magnitude—the new worlds discovered by explorations and the acquisition of personal freedom. The first event would need too much historical elaboration to contribute to the unraveling of the cultural conditions of today's capitalism. The second event is important, and Bell was correct in pointing to the rise of the free individual as a crucial cultural condition for liberal capitalism. But as he did not elaborate on it, it is necessary to look elsewhere for insights. Michel Foucault's work on the rise of modern government and its political economy can help explain how today's capitalism became synonymous with liberalism, and the market the place where economic freedom was practiced.

Government for Public Utility

In this chapter, I draw primarily on the analysis that Foucault developed in his lectures delivered at the College de France in 1978–1979 (Foucault 2008) when he held the chair in the History of Systems of Thought. These lectures mark a distinct phase in Foucault's historical analyses. He has been described as somebody who used history to "cut diagonally through contemporary reality" (Ewald and Fontana 2008). Acknowledgment of Foucault's historical method also came from the eminent historian Paul Veyne (1997) who once declared that Foucault had revolutionized history. In his lectures, Foucault analyzed how, at a certain point in history, thinking about *how* to govern became central to modern politics. Government was becoming conceived of as a practice that specifically targeted the population[2] (its health, productivity, and reproduction) as well the public good,

[2] The title of Foucault's lectures, *The Birth of Biopolitics*, might appear too far removed from the idea of political economy and modern government. In reality, however, it touches on them. Foucault argued that modern government coheres around the popula-

people and their activities, institutions, and the things of nature. Foucault believed that the notion of how to govern had to do with a wish to govern well. He described this attitude as a new art of governing influenced by the idea of frugal government, which first emerged around the eighteenth century. Foucault also discovered that, from the eighteenth century onward, words such as rights, legitimacy, and illegitimacy were no longer important within the then unfolding intellectual discourse about modern government. Rather, success or failure became the terms by which the consequences of governmental action were measured. Success and failure related to two important areas: economy and politics. Taking aim at these two areas, Foucault observed that to understand them it was necessary to analyze systems of thought insofar as "politics and the economy are not things that exist" (2008, 20). He rather described them as the product of a culture, of normative frameworks, and of a wider social mentality.

In wanting to contextualize his work on government historically, Foucault broadly identified three historical periods: from the late seventeenth to the eighteenth century, the nineteenth century, and mid-twentieth century. He referred to them as indicative historical periods, and moved almost casually from one to the other while singling out particular events marking changes and transformations, and generally avoiding mentioning precise dates or people.[3] The first phase is characterized by sovereignty. Foucault referred to the seventeenth century as the time of legal/juridical sovereignty based on individual rights. At that time, politics and economy remained as two separate spheres, with economic activity taking the form of mercantilism. Commenting on mercantilism, Foucault observed that it was not an economic doctrine as it mainly contributed to maintaining the independence of the single states from the empire. The normative justification of sovereignty,

tion. The inclusion of the population in the political calculations of government represented, in his view, the main differentiating factor from past centuries where the notion of a population to be sustained productively did not exist. Although important, I will not dwell on biopolitics, preferring instead to focus on other aspects of his work. Ultimately, Foucault himself did not systematically address biopolitics in his lectures. He was more concerned with explaining the intellectual, or cultural, conditions for the emergence of modern government and its political economy. He, however, analysed biopolitics quite extensively elsewhere (see Foucault 1979).

[3] Foucault always took an anti-hero approach to history by avoiding focusing too much on individuals and preferring instead to speak of discourse and discursive practices. In his discussion of Foucault's governmentality, Gane (2014) found Foucault's approach limiting.

he declared, lay in the priority of state interests, the so called *raison d'état*, over people and communities' interests. In that period of time, to gain protection individuals were required to renounce some of their rights, particularly in relation to freedom of movement, speech, and association. Foucault argued that mercantilism and sovereignty drew their legitimacy from the law and rights. The market was conceived of as a general public space that took the form of a "site of justice" (p. 30). By this Foucault meant a place where distributive justice had to favor as many people as possible particularly in regard to food production and distribution. The buyers had to be protected against detrimental food and fraudulent people. Mercantilism and sovereignty required an interventionist state, a subdued market, and minuscule individual initiative. The normative self-understanding of that period, and the intellectual discourse underpinning that normativity found expression in the language of legitimacy and illegitimacy. Things were either legal or illegal, never good or bad.

With the advent of the eighteenth/nineteenth century, Foucault declared, a new way of doing politics emerged based on the centrality of the government rather than the state. Foucault did not dwell on the causes behind the new politics, suggesting that the causes could have been many and of varying nature. But he elaborated quite extensively on the intellectual reflection articulating such innovation in politics. In his view, it was related to the principle of good government. That principle, he noted, insisted on the "self-limitation of governmental reason" (p. 13). How self-limitation was to be articulated, represented, in Foucault's view, the central issue of emerging modern government during the transition from the nineteenth to the twentieth century, inasmuch as limitation did not occur through legal impositions. Rather, Foucault suggested, government had to show that its actions were reasonable. This was no easy task because "a government is never sufficiently aware that it always risks governing too much, or, a government never knows too well how to govern just enough" (p. 17). According to Foucault, this way of thinking about government was the trademark of liberalism. To govern in liberal terms, Foucault further observed, meant to strike a balance between public utility and individual initiative; it meant to take an economic approach to governmental action; it meant to govern just enough. Modern government is marked by a way of thinking, a mentality, that insists on how governmental action must be justified and justifiable. In liberal reasoning, the only way by which this could be achieved is through a stratagem that would serve the interest of the government and the interest of the people. In fact, Foucault noted, modern politics was different from sovereignty in that in modern government governors and governed depend on each other, while in sovereignty they opposed each other. By governing, government created the moral justification for its own existence.[4] By being able to justify its action, Foucault argued, government acquired the skill to scrutinize its own activities, but still it was not able to judge utilitarian outcomes impartially. Foucault suggested that to overcome this limitation, a body outside government was needed. That body was to be the market, and economic interest its spine. It seems, therefore, that the creation of the free market was liberalism's most innovative transformation. It also seems that the market and economic interest became liberalism's most powerful instruments.

Foucault spoke of "the irruption of the market as a principle of veridiction" (2008, 32). By this he meant that liberalism was concerned with governmental effectiveness which was to be measured in economic rather than political terms.[5] It is in the market, Foucault observed, that liberalism wanted to see governmental activity become transparent. For the intellectuals of liberalism, "the market must tell the truth; it must tell the truth in relation to governmental practice" (p. 32). Foucault assumed that the thinking behind government and good government reflected a new mentality toward the public good. The public good was not too be squandered, not to be wasted, not to be given away for free, but had to be increased productively through work. Liberal government understood its role as a guarantor, rather than surveillance. Government had to guarantee that proper economic activity could take place within the market with the aim of expanding the public good and the wealth of a nation. Activity in the market had to be economic in nature and be directed toward the realization of economic interests in practice. Foucault noted that within liberal government and its political economy, economic interest became people's driving force. In liberalism and its capitalist system, people do not seek freedom but rather their economic interest. What liberalism had to provide, Foucault argued, was people's freedom to pursue their economic interest. *Homo oeconomicus*, he further declared, became the new agent of free exchange, while economic interest became the principle of exchange and the criterion of utility (p. 44). Foucault, however, pointed out that the theoretical reflection that articulated a shift from a state that guaranteed or denied rights, to a government interested in economic freedom, was not

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4 While in sovereignty the raison d' état lay outside the state, in modern politics the reason for action lies at the heart of government.

5 Recently, and in line with Foucault's tradition, the philosopher Agamben (2011) also spoke of historical changes where modern power adopted an economic method to govern people and things.

something that occurred overnight. Rather, notions such as personal and individual freedom, economic interest, and reasonable government formed slowly over many years and through the works of various political philosophers who Foucault for some reason aligned with English empiricism.[6] The philosophy of the empiricists, Foucault claimed, created something that never existed before. It created "the idea of a subject of interest that disclosed economic interest for the first time as an expression of 'immediately and absolutely subjective will'" (p. 273). What Foucault suggested here is that concrete economic interest, rather than abstract liberty, became manifest in the will of free human beings. In other words, people's actions were understood to be driven by concrete, tangible needs rather than intangible principles. The philosophy of individual freedom and free work infused government thinking and slowly built the substance of liberalism.

The Interest of the Governed

In Foucault's view, economic interest became central to liberalism and its economic system because it made people's behaviors more transparent. The new political economy of liberalism, Foucault further noted, wanted to manage the population and its individuals through an instrument that was attached to personal freedom and that was, at the same time, mediated by market conditions. That instrument was economic interest. When people have an economic interest to pursue, they learn how to act rationally in order to realize it. This means that, from a governmental perspective, people involved in economic activity directed toward the achievement of economic goals can adapt to "modifications artificially introduced into the environment". In other words, Foucault declared, their behaviors become predictable. By being predicable, they become malleable. Foucault concluded that liberalism created homo oeconomicus,[7] namely an individual who was "eminently governable" (2008, 270). To Foucault, the government's emphasis on individuals and the population was a strategic move. The market was

[6] Foucault did not expand on this link to empiricism further. From his lectures, however, it appears that he included John Locke, David Hume, Adam Smith, and later John Stuart-Mill.

[7] According to Persky (1995), the term homo oeconomicus was first used by critics of John Stuart-Mill's work. Historically, however, it is linked to Adam Smith's *The Wealth of Nations*.

never to become the target of liberalism. Rather, it was a point of reference. Foucault argued that Adam Smith had already warned that it would be impossible to regulate the totality of the economic activity. At the same time, it became obvious that the economic interest driving people in the market could never be successfully "calculated, at least, not within an economic strategy" (2008, 279), and that therefore it was left to the market to moderate that interest. Freedom became the way by which the market was to be conceptualized. Self-regulation was the principle by which the market was to exist. According to Foucault, the free market, economic interest, and the self-regulating forces of the market became the substance of liberalism.

Organized Freedom

Liberalism became the intellectual discourse of a capitalism that had to organize others in order to allow them to exercise their freedom in the market.[8] These others are to be seen as economic subjects, namely the individuals who pursue their own economic interests within the market. But they do so by responding to resources that are made available to them. People's economic initiatives directed toward the realization of their economic interests would populate the market. Government had to create the conditions for this market to exist and for the people to operate in it. Thus, Foucault suggested that promoters of liberalism were keen to be seen as the power that created the conditions for free economic activity (p. 269). Reflecting on how freedom was conceived of in liberalism, Foucault stated that it was a kind of "consumer freedom", meaning by this that it could function only in conjunction with other freedoms such as "freedom of the market, freedom to buy and sell, the free exercise of property rights, freedom of discussion, possible freedom of expression, and so on" (p. 62–63). The liberal government and its capitalist system needed freedom; it consumed freedom. "This means", Foucault concluded, that "it must produce it … it must organize it" (pp. 63–64). Freedom became the essence of liberalism and its goal. In Foucault's mind, however, liberalism did not operate through the imperative *be free*. Rather, he argued, liberalism took on the task of producing the freedom that individuals needed in order to pursue their interests. In other words, liberalism made people "free to be free". Liberal government, Foucault

[8] How to organize, or to lead others, is a familiar topic with Foucault and he kept returning to it over the years, particularly in his work on the subject and power (1983) and technologies of the self (1988a).

emphasized, became concerned with the management and organization of the "conditions in which one can be free" (p. 63).

From Liberal Governance to Neoliberal Radical Self-Governance

Toward the end of his lectures, and perhaps somewhat abruptly, Foucault seemed to differentiate between liberalism and neoliberalism. He stated that liberalism and its governmentality became possible because of an application of "the grid of homo oeconomicus" to domains that were not "immediately or directly economic" (p. 268). This means that liberal economy invested many domains of life related to health, reproduction, education, and so forth. Liberalism was the doctrine of economic freedom and of the economic interest to be actualized freely in the market. Freedom within the liberal framework is not an abstract condition. Rather, liberal freedom originates through the freedom to work and the freedom to satisfy one's economic interests. Thus, for liberal thinking the main activity of the government consisted in providing the framework for exercising individual freedom to the advantage of private and public life. Although Foucault never dwelled on the representational political system related to liberalism, it became obvious from his writing that the liberalism of mid-ninetieth/early twentieth century was grounded in democracy. Democracy is the system of individual voting and personal freedom. Liberalism so conceptualized and so grounded had to do with conduct. The government had to conduct itself in a transparent way, and individuals had to conduct themselves in a way that could allow them to enjoy market freedom. In being able to anticipate people's conduct and behaviors, governmentality could govern in the name of freedom and individual choices. What government had to provide was the space where that freedom could be exercised, namely the market. Foucault stated that in liberal economy, "homo oeconomicus is someone who purses his own interest, and whose interest is such that it converges spontaneously with the interest of others" (p. 270). Adam Smith ([1776] 1970, 119) certainly captured the essence of such conduct linked to the economic interest in the following statement:

> It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.

In expanding into the twentieth century, Foucault observed, the discourse about how to govern took a turn. He considered that turn to signal a shift from exchange to competition, from liberalism to neoliberalism. In competition, Foucault observed, the economic subject of the past, who was mainly engaged in exchange, became the man of enterprise. That shift, Foucault further noted, pointed to a new idea about economic activity. In neoliberal thinking government became minimal, leaving to individuals and businesses to determine their own conduct in the market through their ability to exploit their own resources. In neoliberal governmentality, the economic agent becomes an "entrepreneur of himself" by virtue of "being for himself his own capital, being for himself his own producer, being for himself the source of his earnings" (p. 226). In order to conceptualize the self-entrepreneur, the self-enterprising individual, the idea of governance had to be revisited along with the notion of the function of government. Liberal governance became neoliberal self-governance. Neoliberalism, Foucault pointed out, developed a radical notion of independence from government and a radical notion of minimal government. The intellectual basis for such a double shift was the idea that individuals were able to govern themselves and did not need a government telling them how to behave. By being now radically free, they could use their own personal resources to maximize their economic gains. Foucault did not elaborate on the notion of the self-enterprising individual after 1979. Considering, however, that since the early 1980s there has been a sharp increase in entrepreneurial activities and enterprises strongly linked to a private persona (think of Bill Gates, Mark Zuckerberg, Steve Jobs, and many Silicon Valley individual success stories) and the use of personal images/life to assert success, it seems that his analysis has been quite authoritative.[9] This historical development is not extraneous to liberal and neoliberal capitalism. Indeed, it is profoundly grounded in it.

Foucault's Archaeological Method

Foucault's work about liberalism and neoliberalism is extraordinary in that his reconstruction of the intellectual discourse accompanying the rise of liberalism has proved invaluable. All his works are marked by his

[9] And also considering, on a more socio-cultural level, the resurgence of a body cult, the quest for body/gender realignments, and a new assertiveness of physical well-being along with expectations of personal fulfillment, it seems that Foucault was extraordinarily accurate in anticipating this historical development toward radical self-determination based on self-enterprising activities.

archaeological method (2003) of uncovering the discursive conditions for changes, shifts, and new paradigms. In his work about governmentality, Foucault applied his archaeological method to reveal the conditions and highlight the effects of a new discourse about government. Never interested in prejudging the events and actions he reconstructed, Foucault always remained politically neutral. This often made it difficult for his readers to understand where reconstruction and where critique lay. And because there has never been much judgment to be found in Foucault's books, he has at times been seen as implicitly agreeing with what he described. His work about governmentality has stirred up responses of approbation and disapprobation alike (see Dean 2010). Foucault's innovative analysis of liberalism resisted classification within the traditional left-right paradigm of progressive versus capitalist alternatives. In focusing on discourse and avoiding prefabricated ideology, Foucault was able to show how governmentality formed a set of values and principles based on an economic, rather than political perspective about society and social relations. For Foucault, government was not a question of setting normative parameters to be enforced. Government was a mentality rather than a technique, and it implied free followers and free leaders, something he believed many critics of political and government studies never really grasped.

Responding to those critics who took aim at Foucault's thesis about the rise of the self-enterprising mentality, Lemke (2001) argued that Foucault's conclusions have been proven correct. Lemke also supported Foucault in arguing that governmentality had created a new autonomy that invested individuals and institutions with the capacity for "self-control" (2001, 203). In a contribution written to commemorate the twentieth anniversary of Foucault's death, Donzelot (2008, 129) praised the "enduring relevance" of Foucault's theoretical work. Commenting specifically on his analysis of governmentality, Donzelot argued that it was corroborated by the advent of neoliberalism in the USA, the bureaucratic developments of the European Union, and the political rise of Margaret Thatcher. Berard (1999), echoing Donzelot, emphasized Foucault's influence on social theory through his ability to effectively bring together topics that might appear to a superficial observer as disconnected. But Foucault's analysis of liberalism has also been criticized, particularly his idea that modern political economy depends on freedom/liberties, rather than rights. McNay (2009) and Tribe (2009), for example, reproached Foucault for being ambivalent toward the topic of liberalism and his ambivalence, they argued, prevented him "from seeing a more radical potential in rights discourse as an insistence of a political claim about equality" (McNay 2009, 73). Honnet (2004, 474) also saw a risk in abandoning the collective rights discourse. He argued that the individual alone would not win against capitalist conditions that would only superficially empower people: “The ideal of self-realization pursued throughout the course of a life has developed into an ideology and productive force of an economic system.” Others have argued that while there is no point in denying the importance of groups in the classical theory of economics (Schabas 2005, 14–15), it remains irrefutable that human agency increasingly appears to be driven by individual choices within sophisticated social relations oriented toward utility. The individual as the target of governmental policies was not an invention of politics. Rather, the free individual living in a free society and pursuing personal interests was first conceptualized in the works of John Locke and was subsequently expanded upon by other philosophers and social critics such as David Hume, Adam Smith, Adam Ferguson, and John Stuart-Mill. For example, Ferguson declared that “if the public good be the principal objective with individuals, it is likewise true that the happiness of individuals is the great end of civil society: for in what sense can a public enjoy any good, if its members, considered apart, be unhappy?” (Ferguson [1767] 1995, 59).

Governmentality and Ethics

Foucault’s work about governmentality has implicitly shown why liberal individualism has been so successful over the years. People, Foucault added, always show a “willingness to exist as subjects”, which means that the “governed are engaged in their individuality by the propositions and provisions of government” (2008, 48). Perhaps it is this understanding of governmentality that can lend itself to ethical considerations. According to Connolly (1993), Foucault’s ethical sensibility here still remains unmatched. The freedom that Foucault saw emerge via a new discourse about government driven by economic thinking was not freedom based on human rights. From the analysis performed by Foucault, it appears that human rights are not the aim of economics. Gordon (1991, 42) argued that Foucault’s pointing to the self-enterprising aspects of liberal capitalism reinforces the idea of “economic activity as a discriminating use of available resources”. Gordon noted that Foucault appreciated, in spite of his skepticism, the intellectual force of liberalism as a discourse targeting self-scrutiny, namely governments’ “own incapacity” (1991, 47) to govern effectively and fairly. But it is possible that his appreciation was greater than this. Foucault certainly admired the cleverness of liberal thought and the establishment of the free market that helped move society out of mercantilism and early industrial capitalism–and all in the name of freedom. The enterprising and self-governing individuals and the mentality that created the (neo)liberal government appear, through Foucault's analysis, to be interdependent. Foucault was aware of the risks of his interpretations, but he was also urging people not to avoid thinking about the logic of government. "To work with a government implies neither subjection nor global acceptance. One can simultaneously work and be restive. I even think that the two go together" (quoted in Gordon 1991, 48).

Some have described Foucault's investigation of governmentality as a breaking-away from his most successful analysis of power and its modernizing strategies, or even at odds with his later work on the ethical subject, self-care, and technologies of the self (Foucault 1988a, b, 1991). However, these views have been rejected by some of his most respected interpreters (Donzelot 2008; Dreyfus and Rabinow 1983; Lemke 2001; Milchman and Rosenberg 2007; Rabinow 2009). Others have pointed to a substantial link between earlier and later studies (Barry et al. 1996; Gordon 1991; Miller and Rose 2008). Gordon (1991, 4) observed that there is "no methodological or material discontinuity" between microphysical and macrophysical approaches to the study of power. And Burchell (1991, 11) argued that introspective analyses of the ethical self are necessary because individuals are "most profoundly affected when the way they are governed requires them to alter how they see themselves as governed subjects". Foucault had always been interested in the political relationship between governed and governors. He understood governmentality to be an interdependent relationship between the parts of society. Speaking metaphorically, Foucault (1981, 236) described such a relationship thus: "by helping his flock to find salvation, the shepherd will also find his own". In other words, to govern means "to structure the possible field of action of others" (Foucault 1983, 221), and by so doing government learns how to govern properly. Foucault did not expand on government and the political economy after 1979, preferring instead to turn his attention to topics related to ethics and self-ethics, which made some lament his abandoning of the theory of liberal intelligence (Donzelot 2008). However, here lies Foucault's major discovery: that within Western culture there exists an understanding of individual and public behavior as something profoundly related to both freedom and self-discipline. There is no freedom without personal discipline, no collective freedom without a disciplinary mentality that shapes people's behaviors in the market and society. If people have goals, they have to discipline themselves in order to generate the resources and energies that will make those goals achievable. If people want to live in peace they have to create the conditions for cooperation, which implies being disciplined in terms of commonly accepted behaviors.

Conclusions

In concluding this chapter, I sum up what I believe are the five major aspects discussed by Foucault in relation to governmentality. These five major aspects relate to rights becoming less important within the market, economic interest emerging as an expression of individual will, people's behavior being rendered more predictable by economic interest, freedom being guaranteed in the market, and self-enterprising individuals being a product of a more radical understanding of freedom. After the collapse of sovereignty, there was a need to identify how to govern modern societies where individual freedom, economic prosperity, and the health of the population became the things to govern. The force known under the name of liberalism was to step forward and articulate a framework for public and private life. In speaking of a mentality about how to govern, Foucault highlighted the thinking, discourse, and practices of liberalism. Drawing from the philosophical tradition of John Locke and Adam Smith, liberalism became the new government (replacing sovereignty), democracy became the system that conferred legitimacy on government, capitalism the method of production, and the market the space of action. The main assumption in liberalism, however, was and still remains that individuals are rational, that their choices are rational, and that, therefore, once their goals become transparent, they will be governable.

Foucault masterfully articulated the historical workings of an intellectual discourse that described the art of governing under economic and market conditions. He understood this discourse to be the product of an intellectual movement that became known as liberalism and neoliberalism. Foucault remained quite abstract throughout his lectures, providing few empirical examples. Had he lived longer he would probably have added more detail. How far governmentality can reach depends on developments that Foucault could not have anticipated such as globalization, global markets, and political upheavals caused by new radical quests for freedom. From Foucault's work it appears that the theoreticians of liberalism and neoliberalism always assumed that when pursuing their economic interest people displayed predictable behaviors, which means that the way by which people tried to satisfy their interests contained some elements of rationality. It was that rationality that made them governable. Perhaps this was governmentality's strongest weakness. People are not always rational. The business, economic, and financial crises of the first 15 years of the twenty-first century have shown how irrational people can be, how erratic some behaviors have become, and how corrosive self-interest might ultimately have undermined the reputation of the market as a place of neutral freedom and open opportunities.[10] This could prove that the intellectual force of liberalism is in decline. It could also mean that the market, liberal capitalism's most effective normative and cultural instrument, has lost its regulatory power. But it could also prove that the neoliberal radical notion of self-governance has not worked according to the principles of governmentality, particularly within business organizations and corporations. By getting rid of governance and promoting the self-governance of individuals and businesses, neoliberalism might have undermined itself. History will tell.

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[10] I will explore the effects of these crises in Chaps. 5 and 6.

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Chapter 3
The Inequality of Capital: An Economic Critique

Abstract In this chapter, I discuss recent contributions to the literature concerning development and movement of capital under current capitalist conditions. I have emphasized the critical positions of several authors. Their works have initiated a debate about political, social, and fiscal strategies for a more effective control of capital, redistribution of wealth, reduction of poverty, and improvement of incomes. Current capitalism is understood to be structurally global, socially unfair, and concentrated in the hands of financial elites. The inequality caused by capital is perceived to originate from the cultural supremacy of the capitalist discourse that continually revises the definition of merit. Although it remains difficult, and probably even impossible, to agree on a single definition of capitalism, there seems to be agreement about its effects. Today's capitalism is considered to be fundamentally detrimental to both the economy and society, and in need of reform. What capitalism does today is not only a matter for market and political forces. Society is implicated in capitalism, and so is ethics. How far this latter implication goes remains to be seen.

The Return of Capitalism

There is a resurgence of capitalism in the sociological literature, political debates, mainstream media, and economic analyses. Some have suggested that this resurgence is paradoxical. Block (2000), for example, argued that not only academic economists and sociologists have rediscovered capitalism, but so too have popular media and conservatives. He observed that today even those who in the past consciously avoided using the word capitalism, preferring instead to speak of the free market economy, the entrepreneurial economy, or the competitive economy, are now less shy about speaking of capitalism in the same way that Marxists once did. The "Marxian claim that capitalism as a system is global, unified, and coherent", Block wrote, has paradoxically also "been embraced by the apostles of

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neoliberalism" (Block 2000, 85). But whereas, according to Block, Marx projected that perspective in order to call for a total revolution, it seems that today neoliberals are using it to highlight the inevitability of capitalism. Block's observations have been corroborated by Bockman (2011) who has argued that "far from a hegemonic juggernaut, neoliberal capitalism was a parasitic growth on the very socialist alternatives it attacked" (p. 1). In commenting on these authors but avoiding dwelling on their political emphasis, Swedberg (2012, 609) has observed that the global financial crisis revived economic sociology research by putting capitalism back in the spotlight. "Capitalism has made a comeback in the real world", Swedberg noted (p. 613), but in his view it is now important to clarify the kind of capitalism it has become and, more importantly, whether it has been replaced by globalization. The question whether globalization represents the new face of capitalism is still open. Although economic sociologists stressed capitalism's global tendencies already in the 1990s (Gibson-Graham 1996; Gray 1998), they did not assume that those tendencies would set a new direction for the way in which capitalism operates. Globalization was not yet an issue. Later analyses even reinforced the idea that capitalism was primarily determined by national interests (Block 2000; Hall and Soskice 2001). The general idea prevailed that capitalism was a national phenomenon that varied according to national conditions. The prevalence of individual national interests over a potentially global interest is still very prevalent, although capitalism is now said to be less homogenous and more varied.

Streeck (2010), for example, although still agreeing with the idea that capitalism was national by virtue of being always related to a national economy, claimed that there were various forms of capitalism existing concomitantly within nations and globally, and that these varieties would undermine the idea that capitalism was a single phenomenon. Different issues in different countries would determine national capitalisms. These issues could relate to specific regulations dealing with industrial relations, minimal wages and public pension schemes, healthcare policies, education, and so forth influencing governmental intervention in different countries. Commenting specifically on the United States, the economist Krugman (2009) suggested that American capitalism is determined by local conditions. These conditions would be related to national issues such as healthcare, free education, industrial relations, and the policies they call upon. Neither Streeck nor Krugman perceive how globalization alone could explain the success of the rampant capitalism they saw emerge in the late 1980s. Still, analyses about the varieties of national capitalism were paralleled by analyses proposing that globalization had become the distinguishing feature of today's capitalism (Gills 2010; Stiglitz 2003). Around the same time, Centeno and Cohen (2010) proposed that the notion of globalization should be abandoned altogether and that global capital should be spoken about instead. The notion of global capital suggests that capital is no longer national, or no longer very national, because it is invested in financial products offered by foreign countries to international investors to pay for national debts. Although these two authors still view national interests as continuing to determine the capitalist system, along with the national economy, local industry, and business activity, they argued that these interests have little influence on money movements invested in financial assets dispersed globally. Hence their emphasis on global capital. The call to emphasize capital rather than globalization has been responded to positively by the economists Atkinson (2015), Piketty (2014), and Stiglitz (2013).[1] Globalization seems to be off the table for now. What theorists seem to resist is the idea of a global system evoked by the term globalization, along with notions of a global culture, or even of an emerging global civilization that many, particularly academics, seem now to dislike.[2] This might be one of the reasons why the term capitalism is experiencing a revival. But what is meant by capitalism is by no means clear. Whereas in the past the notion of capitalism immediately evoked ideas of production and work, now capitalism increasingly seems to refer to capital and inequality. In the next sections, I will focus on some of these issues.

Economists, Capital, and Inequality

In the timespan of 3 years, the works by Atkinson (2015), Piketty (2014), and Stiglitz (2013) have galvanized critiques about capitalism. The way was paved a few years earlier by Krugman's (2009) call to conscience. In their criticism, Stiglitz and Krugman single out American capitalism; conversely Atkinson and Piketty take a more global perspective. Despite being predominantly economists, in their analyses these authors have addressed wider social and behavioral issues. Krugman opens his book with an impressive

[1] In this book Stiglitz has modified some of the positive statements about globalization he made in his 2003 book about globalization.

[2] Not only economists are sceptical about globalization. The philosopher Peter Sloterdijk (2014, 7) has argued that globalization is the end phase in a process that started with the circumnavigation of the earth. "The monopolization of the discourse on globalization by political scientists and sociologists, to whom we owe the continuation of journalism by morose means, would be quite bearable on the whole—were it not for the fact that the basic concepts of these debates are almost unrecognized philosophical terms whose amateurish use leads to insinuations and distortions of meaning."

chapter titled *The Way We Were*. Here he notes that "it is only in retrospect that the political and economic environment of my youth stands revealed as a paradise lost, an exceptional episode in our nation's history". Kruger refers to a situation of relative balance. The poor, he observed, were more numerous than the rich and yet still a "relatively small minority" because "most Americans lived recognizably similar and remarkably decent material lives" (pp. 3–4). As Krugman progresses through his book, he names the forces that, in his view, have altered that equilibrium: technological change, globalization, and the rampant wealthy elite. He, however, points out that these forces would not have been successful if it was not for national politics and policies oriented toward the dismantlement of the last bastions of Roosevelt's New Deal.[3] That deal, Krugman argues, created the American middle-class almost overnight, a phenomenon, he observes, that would contradict theories of a gradual evolution of the middle-class. Krugman argues that that the middle-class helped to establish a new equilibrium between and among social groups. One quite interesting aspect emerging from his work concerns America's political landscape, which Krugman populates with arch-conservatives (Republicans), new conservatives (Democrats), and the liberals—people like him who mourn the loss of a truly vital, competitive democracy. "Because in the end, democracy is what being a liberal is all about" (p. 273).

Krugman's criticism was echoed by Stiglitz (2013). Stiglitz points his finger at deep market forces "shaped by politics" capable of destabilizing working social institutions. But he goes further in his criticism, including national and international economic institutions that in his view are behind unsettling globalization and technological change. The "failures in politics and economics," he writes, are "related and reinforce each other" (p. 1). Already in 2003, Stiglitz claimed that international economic institutions, bureaucratic elites, and corporations were responsible for the East Asian financial crisis of 1997–1998 (2003, xii). He was convinced that, as long as these forces remained in control of how globalization unfolds, the benefits of a global market economy would not reach those who most need it. Stiglitz singled out the International Monetary Fund (IMF) for failing to improve

[3] Krugman might be too interventionist when reflecting about the New Deal. Piketty (2014, 549), for example, suggests that today as in the past many consider the New Deal to have been inefficient. Although it "created a large number of government jobs and social transfer programs, [it] was a costly and useless sham". Piketty further adds that saving capitalism does not require "a welfare state or a tentacular government" but better institutions that could run monetary interventions more effectively such as federal/reserve banks.

the economic conditions of emerging countries.[4] He particularly pointed to the failure of the IMF in managing Russia's transition to a free market economy (p. 6). Both Krugman and Stiglitz denounce the apathy of the American political class during the sub-prime crisis that led to the Great Recession of 2006–2010, also known as the global financial crisis.[5] They both converge in defining the global financial crisis as a manifestation of a deep malaise that, although caused by the macro level of technology and globalization, had its origin at the micro level of institutions and changing norms. Particularly with regard to the latter, Krugman criticizes the "runaway growth of executive pay", denouncing it as an overstatement of the executives' personal qualities and their relevance for the companies' performance (p. 144). Similarly, Stiglitz took aim at the big salaries but restricted his criticism to the bankers' large rewards. These rewards, he noted, seem to remain even when "their contribution to society—and even to their firms—had been negative (p. xliv).[6]

More recently, the economist Piketty (2014) has suggested that to understand today's capitalism, class struggles are no longer a secure starting point because they are never neutral enough to allow observers to see the qualitative patterns of wealth and income distribution. Accordingly, he emphasizes the distribution of wealth in terms of percentage because "the beauty of deciles and centiles is precisely that they enable us to compare inequalities that would otherwise be incomparable" (p. 252). Contrary to previous critiques of capitalism, Piketty does not target the magnitude of inequalities, although he does discuss it. Rather, his effort is oriented toward understanding how inequalities are culturally and socially shaped. Piketty draws from a vast variety of sources including historical records, documents, literature, and statistics to reconstruct how "concentrated wealth" emerged, persisted, vanished, and reappeared (p. 262) over a longer period of time and led to present day inequalities. Hence, he advances an argument against unjustified inequality that is not based solely on economic or fiscal data. The role

[4] Stiglitz's uncompromising criticism is surprising considering that between 1993 and 2000 he functioned in various roles as a member of the IMF directive, a vice president of the World Bank and an economic advisor to former President Clinton.

[5] According to Ile and Lewis (2013), it is not clear who coined the term Great Recession. However, it is said that it might go back to Catherine Rampell (2009) from the New York Times. By 2010 it was a colloquial term.

[6] The first commentators to point to the great divergence between the executive salaries that managers set for themselves, and their performance in relation to existing talent markets and firm achievements, were Lucian Bebchuk and Jess Fried (2004). Since then high salaries and paycheques have become constant issues in the analysis of inequalities of income across many disciplines.

of today's economists consists, in his view, in helping democracy "regain control over capitalism". This is so because "equality of rights in the marketplace cannot ensure quality of rights tout court" (p. 30). This view runs contrary to the Schumpeterian notion of the market enabling enterprising opportunities and to the (neo)liberal notion of the market guaranteeing (radical) freedom.[7] Piketty's view advances a new understanding of capitalism. I discuss Piketty's main arguments below.

Piketty, who shot into prominence with his book *Capital in the Twenty-First Century*, opposes the idea that markets are capable of self-correcting. He strongly believes that in capitalism there never was any "natural, spontaneous process to prevent destabilizing, inegalitarian forces from prevailing permanently" (p. 20). This characteristic of capitalism, he seems to suggest, has only recently become obvious, which is why economists now have a different role to play to guarantee that political rights are paralleled with economic rights. He observes that the only time when capital and the market were stable and convergent toward a reduction of inequalities was between 1913 and 1948. The shrinking inequality, however, was the product of "largely accidental" events such as the 1929 crash and two world wars. Piketty does not see the need for governmental intervention to address current inequality. He is more inclined to favor fiscal intervention based on the notion of public utility. This fiscal intervention would help mitigate the three forces of divergence that, in his view, are responsible for income inequality worldwide. He describes the first force with a mathematical formula: $r > g$; the second force he equates with processes of accumulation and concentration of wealth in the hands of a very small minority; and the third force is represented by income inequality caused by "supermanagers" and "superentrepreneurs" and their top earnings.

Through the formula $r > g$, Piketty (p. 25) wants to highlight how the rate of return on capital (profits, dividends, interest, rent, and other capital income) is always greater than the rate of growth (annual increase in income or output of the total economy). Concerning the second force, Piketty argues that accumulation and concentration of capital represents a function of initial wealth, namely wealth accumulated in the past that is not subjected to the uncertainty of the labor market. "Wealth originating in the past", he observes, "automatically grows more rapidly, even without labor, than wealth stemming from work" (p. 378). The third force is embodied by supermanagers, a distinct social group with the power of setting "their own remuneration" (p. 24), and superentrepreneurs, namely entrepreneurs turned rentiers and capital owners (p. 443). Piketty (2014) also considers forces of

[7] I have expanded on these issues in Chaps. 1 and 2 respectively.

convergence. These would be the forces that lead to a reduction, or compression, of inequality and that favor distributive policies. These forces would be represented by the diffusion of knowledge and technology, population growth, and a progressive global tax on capital.[8] The forces of convergence are not new. In fact, there seems to be an increasing social and political consensus about the need to have free and good education, and of skills and technological access for a greater number of people. Piketty reinforces this consensus, noting that when education is free and equal for everybody, it increases participation and the earning capacities of more people (pp. 70–11). Population growth would contribute to a reduction of inequalities because more people would lead to a quicker circulation of elites (p. 84). Of these three forces toward convergence, Piketty argues, a progressive global tax on capital would be the most immediate and effective strategy, and also the most innovative solution.[9] Accordingly, he considers this tax to be the most powerful response to the "implacable logic" of divergence. The reason why Piketty focuses on a fiscal solution is that, in his view, $r > g$ is not caused by market imperfection. Contrary to general assumptions, he argues that it is *because* of market perfection that divergence is possible. In other words, divergence is not a problem that could be solved by short-term political intervention in the market; rather it is a problem that requires a fiscal response with long-term and global goals.

Piketty advocates a fiscal solution to problems of wealth and income distribution, and declared that "the fiscal revolution of the twentieth century" made public education, free access to health, and public pensions materially possible (p. 478). He emphatically concludes that "at the heart of every major political upheaval lies fiscal revolution" (p. 493). Another "radical shock" (p. 514) would, according to him, reintroduce some equilibrium in wealth distribution and reduce inequalities. The means by which radical change could be actioned would be a progressive global tax on capital and high levels of international financial transparency, accompanied by new decentralized and participatory forms of organizations along with innova-

[8] Piketty is aware of how difficult it would be to introduce a global progressive tax on capital and therefore his arguing that the "nation-state is still the right level at which to modernize any number of social and fiscal policies and to develop new forms of governance". At the same time, he thinks that regional political integration, such as the European Union, could introduce effective regulation of the "globalized patrimonial capitalism of the twenty-first century" (p. 573).

[9] Piketty considers rates of 0.1 or 0.5 % on wealth under 1 million euros, 1 % on wealth between 1 and 5 million euros, 2 % between 5 and 10 million euros, and as high as 10 % for wealth including several hundred million or several billion euros. These rates would, in his view, help "contain the unlimited growth of global inequality of wealth" (p. 572).

tive forms of governance (pp. 482, 569). Piketty also pointed to the need to formulate new normative and ethical reasons for any fiscal change and to introduce new economic, social, and political mechanism of redistribution of income (p. 243).

In relation to the normative and ethical reasons for the current social and economic inequality, Piketty argues that it would be important to revisit the notion of merit and particularly the unethical hierarchy of wealth. In his view, the rise of supermanagers has been favored by an ill-conceived notion of merit. The mentality of merit draws on meritocracy, which was invented by the upper class "lest the universal suffrage deprive them of everything they owned" (p. 487). But, he asked, where "does luck end and where do effort and merit begin?" Here Piketty is referring to the salaries of the supermanagers, individuals who can negotiate their own remuneration packages "in some cases without limit and in many cases without any clear relation to their individual productivity, which in any case is very difficult to estimate in a large organization" (24). Within Piketty's hierarchy of income, the vast majority within the top 0.1 % of the US income hierarchy of 2000–2010 was represented by individuals whose income was made of capital return. Within the 10 % of the wealth hierarchy he identified several levels of supermanagers (pp. 302–3), or those who earn their income through labor. An important distinction made by Piketty is that "the 1 percent who earn the most are not the same as the 1 percent who own the most" (p. 254). It is important to understand that distinction. He observes that present inequality is based on accumulation and concentration of wealth in the upper decile of the social structure. This decile is split by him into three major groups: 5 % depend almost totally on compensation from labor, 4 % enjoy incomes made of compensation from labor and capital, and the remaining 1 % have capital as the only source of wealth.[10] And although he considers the rise of the supermanagers largely to be an Anglo-Saxon phenomenon in "both financial and nonfinancial sectors" (p. 315),[11] he saw it as expanding in all other advanced economies. Meritocratic systems that would accept the extreme levels of personal wealth would be, in his view, unjustified. The supermanagers are flanked by the superentrepreneurs. These, too, are claiming merits that are unjustifiable: "The entrepreneurial argument cannot justify all inequalities

[10] Piketty's groupings are not very different from past ideas of classes. The content might have changed. In fact, in his case it is even more difficult to identify their members, but the structure seems quite similar to the ones of the past. Perhaps once people think in terms of owning there is always an inevitability that separates social groups.

[11] Piketty uses the term liberally insofar as he includes academics, lawyers, and professionals with high salaries in this group of people. He polemically singled out American economics professors.

of wealth" (p. 443). The main dilemma undermining today's social consensus, he declares, is that every fortune, although historically partially justified, is potentially excessive. In other words, for Piketty "outright theft is rare, as is absolute merit" (p. 444). He claims that present inequalities so visible in the advanced economies and in some emerging ones, contradict the entrepreneurial mentality that characterizes recent economic and social development. "Historical experience shows … that such immense inequalities of wealth have little to do with the entrepreneurial spirit and are of no use in promoting growth" (p. 572).

Piketty's work has attracted strong support from academics and intellectual circles. But there has also been criticism. Bill Gates (2014), for example, criticized Piketty for paying too little attention to consumption. He particularly questioned Piketty's generalizations with regard to entrepreneurs and, more generally, his neglecting the social value of philanthropy. Gates made three observations. First, it is important to consider how wealth is used by individuals. Those who use their wealth to build businesses and employment or for charitable purposes, he argued, act quite differently from the capital owners who spend money in consumption by buying goods such as yachts and planes. "I would argue," Gates commented, that "the first two are delivering more value to society than the third." Second, Gates pointed to forces that counteract accumulation of wealth from generation to generation, where one generation might lose the wealth built by previous generations as often happened between 1910 and 1940. Third, Gates questioned Piketty's exclusive focus on wealth and income and his neglecting individual or household consumption. Through consumption, he argued, it would become possible to understand how people live and what needs to be done to resolve issues of inequality. These observations make Gates conclude that rather than a progressive annual tax on capital, as advanced by Piketty, it would be better to introduce a more articulated progressive tax on consumption.

Atkinson (2015) could not agree more. He, too, takes the view that to focus on growth independent of households and the generations that live in them might be risky. Growth neglects consumption, although, Atkinson further adds, consumption alone could not explain how far income can reach, particularly in relation to life-cycle variations. He also questions the stability of analyses based on statistics and numbers in the income distribution over several years because they can "quickly become out of date" (pp. 37–38). Taking a somewhat different perspective from Piketty, Atkinson argues that redistribution of wealth is not confined to a fiscal solution because inequality is embedded in social and economic structures (p. 3). In pointing to how diversified an economy can be, Atkinson sees the need for equally diversified solutions that would enable policy makers to address the heterogeneity one encounters in today's social life and between economic actors (p. 16).[12] Atkinson is oriented toward redistribution taxation rather than fiscal taxation of income and capital. His position presupposes a lowering of economic output and growth coupled with a new distributive justice. "A smaller cake more fairly distributed may be preferable to a larger one with present levels of inequality" (p. 243). Similar propositions about a small output have been criticized in the past, particularly because of the inherent risk of inefficiency related to costly tax-and-transfer instruments. In other words, money collected for redistribution could get lost in the process because of inefficient policies and decisions, a phenomenon known as the "leaky bucket". Atkinson, however, observes that this latter resistance to the small cake tends to originate from assumptions that the market economy is "by its nature efficient". The fact that governments already regularly intervene in the economy, he notes, would prove that the market is not efficient. And the Great Recession of 2006–2010, he adds, has proven that public interventions in the form of bailouts have been necessary to make the market remain efficient.

Atkinson admits that some governmental intervention might cause inefficiency costs that must be absorbed. He comments, however, that despite this risk, past results have proven the validity of the intervention argument. Surely, he concedes, there is always a material sacrifice for some at the individual level and a fair distribution for others at the social level (p. 272). Atkinson also observes that the notion of equality of opportunities would implicitly obfuscate the reality of outcome inequality (p. 10). In his view, equal opportunities are not enough to reduce inequality. What in his view is actually needed is a reduction of income inequality. Only then, he concludes, equality of opportunities would make sense (p. 301). Atkinson has taken a radical position because reduction of income inequality would require, among other things, governmental intervention in the market to determine wages and salaries that could help redistribute wealth more equally (p. 147).[13] But he also considers fiscal intervention in the upper wealth hierarchy in order to redistribute income from capital. Atkinson never mentions who is part of the 1 % from whom he would like to take more to give to those who have less. Nor does he refer to managers and executives or entrepreneurs, and in this respect he is shyer than Piketty. But Atkinson's notion of oppor-

[12] Atkinson cites here the economist Robert Solow who, in delivering a festschrift for Joseph Stiglitz in 2003, observed that "heterogeneity is the essence of modern economy".

[13] Such intervention would not be confined to minimal wages. Atkinson wants a structured policy determining upward and downward limits on wages and salaries.

tunity could be seen as a hint against entrepreneurialism. He also did not mention the big corporations or trades. Atkinson's capitalism appears to be a governed capitalism based on distribution and controlled outcomes.[14] Wealth did not seem to be an insurmountable problem for Atkinson, probably because he thought that "ownership of wealth does not necessarily convey control over capital" (p. 111). The central term in this latter statement is neither wealth nor capital, but control. When attention shifts from ownership to control the spotlight turns to management and the corporation.

Practical and Organizational Challenges

Despite their strong appeal, the recent works about capital and capitalism discussed here leave practical issues open. It is, for example, difficult to imagine how Piketty's global tax on capital could be implemented. As noted earlier, Piketty himself acknowledged this difficulty and reverted to a solution that involves national and regional agreements. These could take the form of national policies paving the way for the striking of social and/or trade agreements between different countries, or between regional areas including independent states such as the European Union, and different states such as the United States. Through cooperation between countries in taxation matters it could be possible to establish an international collecting agency. An organizationally reformed United Nations could create a global agency that collected taxes and redistributed tax revenues according to criteria agreed upon by all states. But is such an agreement ever likely to be reached? The economists discussed earlier assume that inequality is a major problem in all Western countries and that it has reemerged more forcefully after the compression period of 1929–1970. They seem also to assume that inequality has further increased in emerging societies. But this assumption might imply some unfairness. It is undeniable that the conditions of many Asian citizens have improved, that more opportunities have been created by

[14] The major threats to today's world are, in his view, climate change and political relations with China and Russia (p. 263). Considering the increasing animosities between Russia and the European Union and the United States, and the increasing engagement of the latter in the south-pacific hemisphere to counter China's expansion, his predictions seem to be confirmed. Climate change was a pressing issue for Piketty (2014) as well. He proposed an "ecological stimulus" (p. 568). In his book about the fractured American corporate elites and the increasing divide between politics and business, Mizruchi (2013, 286) too saw the necessity for government intervention for ecological purposes to help economic and business activity regain some ethical ground, and contain the consequences of aggressive political agendas.

some emerging Asian economies to address an emerging middle class. Many countries are still struggling in their attempts to steer toward economic development that would help catch up with Western economic standards. The question arises whether Atkinson's idea of less economic growth in favor of more distribution could be implemented without hampering the aspirations of those countries. Stiglitz, for example, is not so quick in condemning globalization, but he certainly would want to see global agreements and trade negotiations removed from the control of political bureaucrats and corporations. He does not elaborate, however, on how this could be achieved.

That it is not easy to reduce the influence of politics and business from transnational agreements is proven by the negotiations that led to the establishment of the Trans-Pacific Partnership (TPP) agreement between several Western and Asian countries in 2015.[15] Independent pressure groups and critics of international trade agreements dismissed the lack of transparency that accompanied the TPP agreement. Major points of criticisms of TPP were the creation of an investor-state dispute agency above state jurisdictions, the lowering of trade barriers, and the standardization of labor laws and environmental laws. The TPP agreement does not address any fiscal issues or create standardized fiscal policies, showing little appetite for global fiscal action aiming to tax capital. In 2013/2014, however, the United Nations voted on a resolution concerning international collaboration and fiscal cooperation. The resolution helped establish an annual meeting to be undertaken by the UN Economic and Social Council (ECONSOC) and representatives of national tax authorities.[16] Perhaps such developments are premonitory of a more articulated activity aiming to reduce tax evasion and capital movements across countries. Who is behind those movements is hard to tell. Faceless capitalists of the early twenty-first century make it more difficult to see ownership. Interestingly, in his text Piketty has an ominous message. Pointing to how capital ownership might change in response to the mechanism of supply and demand, he observed that "it is much too soon to warn readers that by 2050 they may be paying rent to the emir of Qatar" (2014, 7). Can a progressive global tax on capital prevent democracies from

[15] The trans-pacific partnership was created in 2006 by Brunei, Chile, Singapore, and New Zealand. Between 2008 and 2013 it was joined by Australia, Canada, Colombia, Japan, Malaysia, Mexico, Peru, the Philippines, South Korea, Taiwan, the United States, and Vietnam.

[16] The first official meeting occurred in Addis Ababa in 2015. A sub-committee of ECONSOC has been established to specifically foster and improve cooperation in tax matters http://www.un.org/esa/ffd/topics/tax-cooperation.html). The G8 Summit of 2014 held in Australia had a specific agenda item on tax evasion. It appears that international cooperation about taxation is speeding up.

being taken over by new oligarchies and their tax experts? Piketty's answer is clear. In the introduction to his book, he writes that "democracy will never be supplanted by a republic of experts—and that is a very good thing" (p. 2). When reaching page 577 the reader is not quite reassured by his initial optimism, however. Piketty himself does not seem to be so either. Landing on the last page of his book, he adds that the least well-off, the citizens, "should take a serious interest in money, its measurement, the facts surrounding it, and its history" because no one else, certainly not the better off, will ever do that for them (p. 577).

The Ethical Challenge

Gone are the days, it seems, when Weber spoke of the spirit of capitalism and Schumpeter of capitalism as a civilization. Both Weber and Schumpeter valued the role of the individual capitalist. Schumpeter, in particular, devoted substantial work to defining the role of the entrepreneurs and their creative destruction (1943). He understood them to be methodologists who knew how to disrupt a given equilibrium by recombining old processes into new possibilities.[17] To Schumpeter, this role would distinguish entrepreneurs sharply from capitalists and industrialists ([1949] 2004, 266–267). Schumpeter saw them as the innovators or business leaders. Still, their general lack of capital made them dependent on capitalists and their money. When active in economic life, Schumpeter thought, entrepreneurs would embody the productive synergy between the macro and micro levels of capitalism and represent the strongest cultural and economic counterbalance to corporate business. Schumpeter was convinced that what people needed were opportunities and the ability to develop them into new business ventures. There was no notion of equality in his theorizing because he assumed that opportunities, by being open to everyone, could smooth the disadvantages between people. Judging from the recent contributions about capital and capitalism discussed earlier, however, it seems that Schumpeter's entrepreneurial capitalism has lost its charm. Weber and Schumpeter regarded capitalism as a rational way of organizing the economy, but its increasing dependence on capitalist institutions, they feared, would turn it into a form of bureaucracy (Weber) or big corporation allied with political elites

[17] Schumpeter, however, warned against entrepreneurship mythology. "In the case of the entrepreneur it is even difficult to imagine a case where a man does nothing but set up new combinations and where he does this all his life" (p. 259). He thought that, as they grow older, entrepreneurs would settle down to administrative positions.

(Schumpeter). Such a development would eliminate the individual initiative of the entrepreneur and replace it with the manager. For both Weber and Schumpeter, capitalism was also made possible by social, cultural, and ethical components that they variously described as "mentality", "ethos", "lifestyle", and "economic ethic". According to Swedberg (2002, 251), it is these elements that Weber and Schumpeter thought would help create and maintain "a healthy capitalism". They did not see institutions alone as being able to preserve the positive features of capitalism. As mentioned in Chap. 1, Schumpeter was also alerted to the internal contradictions of capitalism and its inability to inspire emotional attachment to its culture and values. Reflecting on the cultural contradictions of capitalism, Bell ([1978] 1996, 295) once spoke about the "eclipse of distance". By this he meant a new mentality, attitude, or behavior that undermined the sober and prudential character of bourgeois capitalism of the Weberian and Schumpeterian style. It was the installment plan, the consumer credit, Bell explained, that allowed people to get money before it was earned and that destroyed the ethos of early capitalism. The lost sense of "delayed gratification" (p. 295), he surmised, might have created the conditions for a new mentality that unashamedly accepted debt in the forms of credit.[18]

[18] What for Daniel Bell represents a cultural contradiction undermining traditional capitalist ethos could also be seen as a modern form of democratisation of money. To be able to borrow in order to pursue an idea, to realise a plan, is not necessarily wrong. Many people would not have survived in the past without being able to contract debts in order to address immediate needs, nor could many today. Entrepreneurs would not have succeeded in their major projects. The microcredits and financing initiatives created in the 1980s to help poor people gain small credit on cheap rates to start-up projects such as buying a goat, building a food stall, planting a vegetable garden, and so forth, are tangible proof that credit/debts could be used as a means to establish trust between poor people and financial institutions. From this perspective, banks might have done more to help people come to freedom, independence, and ultimately happiness, than any political or welfare system. Who would deny the innovative change initiated by the the *Grameen Bank*, the first modern microcredit institution founded in 1983 by Muhammad Yunus (see Yunus et al. 2010). He started the project in the small Bangladeshi town of Jobra by first using his own money to offer small loans at low interest rates to the rural poor. Earlier initiatives in microcredit led to the establishment in the eighteenth/nineteenth century of the Irish Loan Funds for poor people and of the German Raiffeisen Bank as a financial cooperative that helped German rural farmers. And in the 1950s the Pakistani Akthar Hameed Khan created group microcredit for community collectives (https://en.wikipedia.org/wiki/Microcredit).

Conclusions

As is always the case with studies about capitalism, capital, and business, different interpretations and conclusions are inevitable depending on where theorists are positioned on the state–market axis. Economists tend to see capitalism as a well-defined system that can be regulated through economic rules of demand and supply, price exchange, and production and consumption. The most striking examples of this understanding are Atkinson, Krugman, Piketty, and Stiglitz, all of whom believe that more public intervention in the market and fiscal corrections on the national and global level might correct capitalism's defects (the idea of perfect/healthier capitalism) and create more equality. For sociologists, the issues are rather more complicated because for them society is not something that can be regulated like a system. Rather, society is the big place where situations are often fluid, where everything is influenced by both rational and irrational elements variously embedded in culture, language, technology, tradition, intellectual innovations, and so forth. Social scientists such as these tend to assume that individuals are not naturally governable. An analysis of capitalism from an ethical perspective would also require different referents, and it would include businesspeople and corporations. Reflecting on how corporate capitalism performed in the first decade of the twenty-first century, Streeck observed that the big corporations had become "predators" escaped from their "cages" (2010, 234–235).[19] This is strong criticism. Through ethical enquiry, it might become possible to identify some of the practical conditions that led to present day's capitalism, its corporations, capital, and inequality. Ethical enquiry is traditionally concerned with intentions and choices and the behaviors that result from those intentions and choices. Perhaps by paying more attention to practical outcomes of people's actions, it would become possible to shift away from abstract notions of the good. What is at stake is the "future of ethical thought and practice" (Williams 1985, 171). In his never-ending polemic against the theorists of the good moral life, Williams once observed that ethical thought and ethical practice (pp. 199–200) should stand up to reflection—this standing up would involve a "practical convergence, on a shared way of life" (p. 171).

[19] The word *cages* could be read as a reference to Max Weber. Toward the end of his life, particularly in his later writing about capitalism, Weber came to speak about the "iron cage" in which modern capitalism was putting itself and society. The iron cage marked a striking difference between what Weber ([1904] 1958) once called the spirit and ethic of early capitalism and its later development.

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Part II
Society and Business

Part II includes Chaps. 4, 5, and 6. An intriguing aspect emerging from Chap. 4 is the altered relationship between owning and owing. I explore this relationship through the work of various authors from various disciplines. It appears that people relate to money based on priorities that are not always rational. There is also a sense that although shunned in the past, debts are playing a major role in the present. Of interest is the rise of private and public debts, with the banking and financing systems providing people and businesses, as well as public and private institutions, with easy money. An obvious question is whether the simple fact of debt signals a decreased importance of the ethos of credit. To understand the type of importance that money has today vis-à-vis the rise of private debts, I investigate the notion of importance. I do so by discussing Harry Frankfurt's work about care. It seems that people identify with the things they care about. But people do not care about things because of their material worth alone. Although money is generally important to people, people do not seem to identify with it, and the rise of debts seems to show an instrumental relationship to money. The rise of debts might signify a decreased care about money. Here might lie the key to some of the events that marked the business crises of the early 2000s.

In Chapter 5, I discuss the collapse of Australian HIH, American Enron, and global Lehman Brothers. Here it appears that money was used recklessly to pursue irrational business goals. Particularly striking is the lax attitude toward the accumulation of debts within both HIH and Enron. In these two businesses, debts were at times itemised in budgets as future revenue particularly when debts took the form of risky acquisitions or new markets. Practically, however, that money did not exist. Within Lehman

Brothers, debts, particularly in the forms of mortgages and personal loans, were bought, collateralized, finalised into bonds, and then sold in the form of financial packages. What made them attractive was the blessing of the rating agencies that declared them safe, and then their high returns. But customers buying these packages did not realise that a high return meant high risks, and that, at that time, high risks were due to these packages being essentially collateralized debts, obligations, and swaps. Chapter 5 takes a business perspective by focusing particularly on the actions of managers within HIH and Enron, and of the financial entrepreneurs within Lehman Brothers and the wider financial system of that time. The actions of managers, traders, and financial advisors and planners and their organizations seem to have been driven by an uncontrolled drive to make money at all costs, even by turning debts into investment options that were thrown at individuals and society with impunity.

In Chap. 6, I analyze some of the reasons that led to the three collapses. I discuss the possibility that managerialism might have been behind these three dramatic events. Three aspects seem to stand out. The first aspect is concerned with owners losing their power to influence investments and decision making. Here the managers became an independent class/group with vested interests to be defended against the owners' interests. The second aspect relates to the managerial structures in place in the three corporations that revealed a combination of flat and hierarchical decision-making processes with flawed control mechanisms in place. And the third aspect deals with accounting and its changed role through its deep involvement with management. But there are also issues at the personal level where individuals did not act according to best business practice. The general lack of basic responsibility toward customers is the most worrying finding.

These three chapters have drawn a worrying picture of complaisance at the level of both social and business behaviors. There is a sense that, in the period considered here, to care about money had lost its importance which was particularly reflected in the rise of debts. The rise of debt seemed to signal the end of old frugality and the ethos of work that allowed people to own credit. Business corporations showed little interest in emphasizing credit and realistic revenues, intent as they were in promoting speculation and toxic risks. This attitude also revealed, and still reveals, a distorted understanding of debts. The past 20 years have been marked by an altered relationship between banks and customers. At one point it was a relationship with no common goals. Although political institutions have emerged as less corrupt than businesses from the events that marked the years between 2000 and 2015, it is undeniable that political laissez-faire played a role, and the generous bailouts that followed the global financial crisis of 2006–2010, also known as the Great Recession, might have been an attempt to redeem the effects of the poor decisions of the past. Today's business might need more governance than management to perform well.

Chapter 4
The Importance of Money

Abstract In this chapter the focus is on the shift in the importance of money where debt seems to have lost its social stigma. In the economic and financial domains debts have also changed status and become a popular monetary instrument for investments that are not linked to any enterprising activity. To make sense of what is currently happening to our relationship with money I dwell on the difference between being important and having importance. It seems that what is generally important might have no particular importance for people. It also seems that things acquire importance through people's care. A question arising from here is whether the present status of debts has to do with people seemingly caring less about money particularly when money takes the form of credits. There are ethical issues related to this shifts in importance from credit to debt. But the motives behind such a shift are difficult to establish. There is a sense here that traditional ethics theory is not capable of sorting these motives. But a theory of care alone might not provide an answer either.

Introduction

When it comes to money, two major issues stand out. First, everybody seems to think that money is generally important because it allows people to regulate their interactions with others within the economic and social systems in place (instrumental importance). Second, the importance of money is often symbolic and grounded in a mentality (cultural importance). To elaborate on these two issues, it is necessary to clarify what it means that something is important, and then to elaborate on whether people care about money. In dealing with these two issues, it will become apparent that something acquires importance through people's caring activity. In other words, it seems that although money might be generally important to people, how people care about money will qualify that importance. In Chap. 3, Piketty (2014) was quoted urging citizens to take a serious interest in money, its

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measurement, the facts surrounding it, and its history. They should do so, he argued, in order to understand where money goes and how it can impact on their lives. From his work, it appears that he is concerned about the difficulty for ordinary people to form informed judgments related to the present complexity of money, the transactions involving money, and the monetary policies of capitalist societies. Piketty's exhortation is influenced by how he perceives the importance of money today. He seems to see people as victims of money transactions that they do not control. And he is accurate when it comes to the macro level of money transactions and state collection and redistribution of resources. But on the micro level the picture might be a bit different. It is undeniable that money is part of the fabric of a society. People can relate to money in psychological ways particularly when money is an integral part of their private and personal lives. In private and personal relations, people perceive money from the perspective of who they are, rather than the perspective of what money can do for them. Here the value of money is symbolic and its meaning is social. Social money is different from economic money, but that difference is less obvious than is often assumed. Furthermore how ultimately people care about money might be less rational than is generally assumed.

Economic systems depend more often than not on how people relate to them and, more importantly, on how social practices and habits shape them. Ultimately, the economy rests on culture because before there is any money exchange there are people and their cultural practices. An example could be the notion of owning and owing. One can own reputation and one can owe a favour. The substantial values underlining this type of owning and owing are personal. But owning and owing can also be impersonal. Historically, the ethical relationship between owning and owing has been stronger in regulating social life than the law has been, a fact masterly captured by both Machiavelli and Shakespeare. Money has so many different possible meanings for people and communities that it might be impossible to consider it as an exclusive instrument of economic exchange. In recent years, however, there have been changes in perceptions as credit seems to have given way to debt. It is not clear whether, from a cultural perspective, debt means that credit is no longer important for the status of a person, a firm, a community, a government. It might never be possible to reconstruct the cultural shift that allowed the formation of the current debt attitude. It is however easier to identify the role that banking and finance have played in supporting a change of heart about questions related to debt and credit. To address the issues mentioned in this introduction, in the following section I dwell briefly on the role of money in past and present social life. I then turn to debts to highlight how their importance might have superseded credits in a twist that has strained owning and owing. Following these elaborations, I explore the meaning of importance and how we perceive something as being important. I do so by building on Harry Frankfurt's work about care. I conclude the chapter by sketching some general trends related to money and business.

The Importance of Money

Money has historically always played an important role in people's lives. Notably, in his book *The Prince,* Machiavelli ([1515] 1961) unceremoniously reminded the political leaders of his time about their obligations toward their subjects' possessions. Written specifically for the Renaissance prince Lorenzo De Medici, the book is a guide about good government, and in Machiavelli's mind that consisted of respecting people's property. "But above all a prince should abstain from the property of others; because men sooner forget the death of their father than the loss of their patrimony" (Machiavelli [1515] 1961, 97). Failing to respect property would lead to the loss of power and loyalty, with dire consequences for those who wanted to maintain their own authority and ultimately their principalities. Property also figures prominently in some of Shakespeare's most intriguing plays, sometimes appearing as the primary cause for the rise and fall of the plays' protagonists, and sometimes remaining in the background like a grey eminence watching over the display of the intrigues of love, trust, loyalty, killing, and power. Eisaman Maus (2013) argued that it has been the political appropriation of property that Shakespeare—as if responding to Machiavelli's warning—has variously highlighted, as for example in *Richard II.* In this play, Eisaman Maus observed, "theft rather than murder seems to constitute the last, unbearable act of tyranny that destroys the allegiance even of previously loyal subjects" (p. 3). Anyone familiar with Shakespeare and the mentality of his time knows that issues related to property were strongly felt, engaging "with the domain of politics, ethics, and law" (p. 11). Reflecting on Shakespeare, Eisaman Maus noted that if his dramas have revealed something beyond the unusual situations they depicted, it was a tension between property-holding and political power. It was never really clear, she concluded, which one was more important. Eisaman Maus suggested that Shakespeare neither glossed over nor ignored the many problems and issues related to money and property. In fact, he "broods intensely if intermittently upon them, making them extraordinarily productive but even less resolved" (p. 131).

Money has been an issue for social research since the 1970s. Wiseman (1974) was one of the first to explore how money affects people and he came to the surprising conclusion that "in a moneyless society there would still be in all of us a desire for possession, since this preceded the institution of property and has its origins in the human constitution" (p. 262). In other words, it seems that "the abolition of money could not abolish the money motive, but only the particular manifestation of it that we now see" (p. 262). Subsequent research reinforced this notion of the money motive, with Furnham and Okamura (1999, 1158) noting that money attitudes are "essentially independent of a person's income". One of the reasons for the money motive was linked by Wilson (1999) to people's attitudes to merge "money stories and life stories". As people protect their personal stories by surrounding them with secrecy, Wilson observed, so are money attitudes "kept secret" (p. 63), which means that money becomes something like "nudity" because "it requires certain equivalence or it verges on obscenity". In Wilson's view, there seems to be a sense of "potential exposure, social and psychological", underlying general "reticence about money" (p. 177). Several other researchers are in agreement about a perceived difficulty in people to talk publicly and openly about their private money (Furnham and Argyle 1998; Furnham et al. 2012; Wiseman 1974). This is contrasted with money in the market that seems to have "a language of its own" (Wilson 1999, 156). Money in the market would be able to talk through its bullying status, and have the power to control others and to get what it wants (p. xii), except for genuine affects (Melitz 1970; Sandel 2012). Wilson argues that public money is usually associated with men, while personal money (for food, children, nurture, and so forth) is likely to be associated with women.

Reflecting on the ethical dimension of money, Wiseman (1974) also made the observation that some people tend to aggregate with those who are "not being indebted" (p. 240). Such behavior would reveal an antipathy for indebtedness. He understood this attitude as a mentality, a desire originating from an intolerance, or incapacity, of gratitude. He found such an attitude to be at odds with the ethical understanding that "to owe is the real condition of everybody's life; it is the folie de grandeur of the self-made man that he has done it all himself" (p. 241). The attitude of the independent self-made person would rest on a denial of an "original debt" that everyone will in the end pay with their life. Original debt evokes here the original sin. Judging from how central debts have become in people's lives, Wiseman might have been too hasty. Back in the 1970s, he noted, there was a notion that "self-respect is closely bound up with paying one's way" (p. 242). Today that understanding of respect might be fading out at the speed with which debt has lost its social and moral stigma.

In Chap. 3, footnote 18, I made the comment that some debts might have helped democratize money. I particularly referred to micro financing as a form of distribution of money aiming to help impoverished communities and individuals in third world countries and emerging economies overcome their conditions (Yunus 2007). However, micro financing never represented an easy access to money. In fact, it was linked to productive returns through labor and economic activity. In this sense debts helped to make money fairer because it was open to more people based on their ability to work. This notion of labor and economic activity have until recently built the basis for personal and business credit ratings in advanced countries, too. But in the past 20 years there seems to be a trend toward acquiring debts for reasons that are less productive. This is particularly significant in consumption and private household debts where loans are not linked to any economic undertaking. Even more surprising is the eagerness of lending institutions to provide loans for exclusive consumption purposes. Also mortgages have become more easily obtainable. And there are mortgages guaranteed through pension funds. What is disconcerting is how easily people can live with the idea of having one million in mortgage debts and not fret about it. In other words, a new mentality seems to have formed in business and society that more money can be made through debts. Work and business activities alone are no longer the only money sources people use to live and prosper. To understand how the changed status of money and appreciation of debts occurred might require longitudinal historical analyses. In this chapter, I focus on more contemporary facts and events.

The Importance of Debt

Particularly the Great Recession of 2006–2010 has revealed how past economic success was based on the trading of debts and collateralized obligations. Since the mid-1990s, debts have become regular household items. But debts are no new features of social life. There seems to be a general perception that debts are as old as money itself (Coggan 2012) or even older (Graeber 2011).[1] But what is new is how popular debts have become through banking and finance systems that do not seem to sanction debitory behaviors. It even seems that some financial institutions have recently built their wealth on debts. To live on debts for some institutions, it means that somebody must be made an "indebted man" (Lazzarato 2012). The power of

[1] This would be the case in early human settlements were there was no money and yet there was an economy of exchange of natural and manufactured products, and slaves.

debt, Lazzarato notes, is that it is embedded in a tricky idea of freedom. "The debtor is 'free', but his actions, his behavior, are confined to the limits defined by the debt he has entered into" (p. 31). And it seems these limits advantage the institutions that set them, and not the debtor. Lanchester (2010), for example, observed that the institutions that should monitor debts have now become the originators of debts and have abandoned their traditional role of mediators.[2] Although, in his view, "banks are necessary to take deposits and lend money and create liquidity for individuals and businesses", he perceives a disconnection between the traditional role of the banks and their current attitude toward money (p. 250). The problem with debt, he further commented, is first that banking now consists primarily in making loans to customers (p. 67), and second, that banks are not some conventional "add-on to capitalism but are the center of how it's supposed to work" (2010, 25). In other words, debt would not just build a variation in a whole banking activity. Debt, Lanchester declared, "*is* the economy" (p. 25; emphasis in original). No matter what the condemning public discourse tells us, Lanchester continues, debt seems to be a good thing for the corporate world of finance which indefatigably trades in debts (pp. 59, 67).

Relating particularly to the corporate world of bonds and loans, Lanchester declared that finance has increased its "political muscle" (p. 21) making the financial sector acquire "direct ownership of capitalism" (p. 19). Through an increase in risk taking, financial banking seems to have increased its standing because, Lanchester noted, more risk brings more money (p. 19). There is a general perception that a relaxing of leverage and an increasingly indulgent attitude, both toward debt in general as well as toward private debt (especially related to mortgages and personal loans), have given debt a status of social acceptance that it never had before. Coggan showed that through changes in interest rates and lending practices house prices in the US jumped suddenly in the late 1990s (2012, 141) creating a new debt mentality. But that mortgages are actually a social problem never seems to surface in the public discourse. Critically commenting on the undesirable practice of contracting highly illiquid investments as personal loans, Lanchester denounced a general "conspiracy to discourage us from thinking of mortgages quite as badly and bluntly as that" (2010, 60).

A radical interpretation of the cultural meaning of present days' debts has been advanced by Graeber (2011), who, like Lanchester, opposes the use of debts to advance the economy. In addition Graeber opposes the use of debts to regulate international relations between states, or between states and

[2] Lanchester points to a split between business/industry and banking/finance. "Money doesn't care what industry is involved in, it just wants to make more money" (p. 198).

private banking institutions. In relation to existing debts, Graeber wondered why they "have to be repaid". This expectation, he argued, would have nothing to do with economic rationality but rather with a moral expectation. The moral expectation, he continued, would be grounded in the principle that, "surely one has to pay one's debts" (pp. 3–4). Graeber is politically engaged in a debate that aims to reduce or completely eliminate the debts of poor countries and the debts of poor people. To write off debts would not require an economic decision, Graeber declared. Rather it would be necessary to consider debt to be a moral rather than economic variant of social life. According to Graeber, the expectation that debts must be repaid is influenced by an old tradition based on the notion of "primordial debt" (p. 71). Primordial debt, he added, has many sources. One of these goes back to the French philosopher and pamphleteer, August Comte. Comte was convinced that people had an unlimited obligation to society because everybody was born as a social debtor. This moral stand, Graeber observed, is linked to "the ultimate nationalist myth" (p. 71) that would oppose individual interests to social interests.

A debt in today's society is an IOU (meaning literally "I owe you") relationship where what is owned is calculable. An IOU is different from owing a favor. A favor is vague and imprecise. Pointing to money, Graeber stated that "a coin is effectively an IOU" (p. 46). This status of money, he continued, was not invented to facilitate the "myth of barter and exchange"[3] but as a surrogate for debt because "a debt … is just an exchange that has not been brought to completion" (p. 121). Essentially, Graeber believes that debts exist as forms of exploitation and violence; they can create a sense of guilt, and their moral resonance consists in the fact that "debt and power, sin and redemption, become almost indistinguishable" (p. 380). Referring to the world of finance and politics, Graeber stated that in reality a debt is nothing more than "the perversion of a promise" corrupted by "both math and violence" (2011, 391). In their works, Lanchester and Graeber pursue a micro sociological and anthropological approach. At the same time, their understanding of banking and finance as a compact system that forces its rule on people, seems to overlook the influence that individuals have on institutions. As if proving that people have an influence on how money is integrated in social life, Furnham and Argyle (1998, 9) report on research conducted in behavioral science where debts were associated with changed attitudes and behaviors toward money. Those studies, these two authors observe, reveal a

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[3] Here Graeber is taking aim at Adam Smith who once spoke of the innate "propensity in human nature … to truck, barter and exchange one thing for another" (1970, 117).

noticeable shift from abhorrence to acceptance of debt, an easy acceptance of family households debts, a tendency to incur debts in order to keep up with some members of the money group, indebtedness from poor money management, more acceptance of irrational purchasing patterns, people's increased lack of a realistic time horizon (some easily fall into debt), a decrease in moral inhibition toward incurring debts, and an increased fatalistic attitude and acceptance of unfolding events (external locus of control) (p. 114). These attitudes, together or separately, may have played a role in changed social patterns and allowed for a new mentality to emerge with regard to debt. It appears that debts have lost their stigma, and thereby acquired a new status. Debts are now traded or even sold to clients by banking institutions. Debts are instruments of power. And finally debts are well integrated in people's private life. It might be difficult to account for the importance that debts have acquired today in economic and political decisions made at the macro level. It might, however, be easier to understand private attitudes toward money.

The Importance of What Is Important

What emerges from the above is that although money is generally important, its importance for people depends on how people relate to it. In reflecting about what people care about, Harry G. Frankfurt (1988) made the observation that "nothing is important unless the difference it makes is an important one" (p. 82). To care often implies personal commitment, because "caring about something is not to be confused with liking or with wanting it" (p. 83). The differentiating element here is that the importance of something originates from care, because "caring about something *makes* that thing important to the person who cares about it". Frankfurt, however, also considers the situation in which everything might be important. In such a situation, though, how to care about becomes less important than what to care about, because "if *anything* is worth caring about, then it must be worth caring about what to care about" (p. 92). Frankfurt argues that there are two, possibly compatible, modes in which something might become important to a person. First, importance might exist independently of whether one cares about the thing in question (community safety and health, primary education). Second, a thing might become important through the fact that one cares about that thing (work, study). It seems possible to say that it is not the worth of something that induces people to care about it. At the same time, however, the importance of caring forces people to choose something that they will be able to care about (p. 94). Decisions to care about something seem to be instigated by personal rather than rational or moral energy. To Frankfurt, "what is important is distinguishable from the question concerning what is morally *right*" (p. 82). The reason for that difference is caused by people's interests, which according to Frankfurt are determined by all sorts of possibilities. "For the most part the ideals to which a person devotes his life are not exclusively or primarily moral ideals", a fact that is not limited to those who care little about ethics. Indeed, Frankfurt made the point that "it can hardly be disputed that, for the most of us, the requirements of ethics are not the only thing we care about" (p. 81). The subordination of ethical considerations to other types of considerations would be justified, in his view, because certain things become important to individuals only when they can change people's situations, and the conditions surrounding this change might not be related to ethics at all. There is also a sense that things become important, rather than being important per se, and by becoming important they shape people's lives. Thus caring is the activity that "serves to connect us actively to our lives in ways which are creative of ourselves and which expose us to distinctive possibilities for necessity and freedom" (p. 93).

Frankfurt differentiated between rational decisions and moral/ethical decisions. He argued that both types of decisions are selfless/impersonal insofar as they target either objective judgment (eat to avoid starvation) or demand personal renunciation (dilemmas). But somehow Frankfurt seems to suggest that care is an activity that opens up a third field of inquiry which is separate from the classic fields of epistemology (what to believe) and ethics (how to behave). He clearly has no name for that field but he identifies it with the ability to discern whether what is generally considered important has also importance for people. The third field would advance a new thematic preoccupation with the question *what to care about* (p. 80). The question of care is neither impersonal nor exposed to people's judgment. For example, I might care about some people who remain indifferent to my care. A newborn might not be able to distinguish his situation and actively show gratitude. Parents do not get offended by the infant's indifference because they know the importance of their care, and the difference that it makes to them and to their child. The question arising now is whether this notion of importance can be used to elaborate on how people relate to money. According to Frankfurt, it is not the material worth of things that makes people care about them but rather other more personal motives.

Frankfurt suggests that people identify with the things they care about. Thus to neglect them would amount to violating "ourselves" (rather than violating moral duties, as traditional ethics would have it). It is not easy to establish what the motives behind the feelings of care are, and Frankfurt acknowledges this difficulty when he states that ethical theory cannot shed light on the motives' origins (p. 91). Still, Frankfurt speaks of "possibility" and "freedom", which are traditional ethical notions, although he does not expect traditional ethics to provide the bedrock to people's judgments and decisions in relation to care. What type of enquiry would become possible through this third field is the most urgent question. Frankfurt mentions the type of agency involved in care and caring: it is both voluntary (self-imposed) and involuntary (volitional necessity). It is voluntary because people want to care about something, and it is involuntary because they cannot but care about something. But there is no coercion involved, which would exclude care anyway. He also mentions the attitude of care, namely people's preparedness to submit to something that is beyond their voluntary control (p. 89), and further notes that to submit to a sense of care produces feeling of liberation (p. 88). This is a crucial position that Frankfurt (1988) further explains with the idea that "there must be limits to our freedom if we are to have sufficient personal reality to exercise genuine autonomy at all" (p. ix). Frankfurt does not think that traditional ethics could make explicit the motives of care or the sense of submission. If the third field of enquiry is related to neither epistemology nor behavioral ethics, it remains to be seen what it is. It could be an ontology of care. This question will be discussed in Part III.

Implications for Money and Credit

How people relate to money depends on how they care about it. When the caring activity is strong, the importance of money increases. But if people were to care about money because of the intrinsic economic value of money, their care would be of little duration because more money would be needed to sustain that care. A consequence would be that during inflationary times, when the value of money decreases, no one would care about money. Thus, what makes people consider money important cannot be its economic value alone. In fact, worth is subject to changes and therefore money is best described as relating to liking, wanting, and desiring. These are passing states of mind that cannot help form a "continuing subject". A person whose care is projected has a future, a "distinctive course" driven by agency and self-consciousness. "This is not exactly because the agent, in guiding his own behavior, necessarily does something *to* himself. Rather, it is more nearly because he purposefully does something with *himself*" (Frankfurt 1988, 83). In understanding this difference it becomes possible to identify how important money is for individuals. The suggestion here is that individuals can achieve the goals they care about because they have the right ethical attitude. This attitude helps people recognize the importance of the things they care about. Through their care individuals do things—first with themselves, and then to themselves.

Money is important also for business and the economy. People understand this importance and adapt to it by taking money seriously. Still they might not care about money. Our business and finance systems are based on the difference between money being important to people and people caring about money. When people care about something they tend to identify with that thing, to elevate it to an ideal that cannot be broken without violating themselves. The sense of care that is "creative of ourselves" seems to have disappeared from today's business activity. There is a sense today that with the shift from ownership to management important elements of care that characterized past business activity have been lost. Money has been separated from ownership and has become a strategic means of production in operational terms. It is within such a mentality that debts could become the new driving elements of today's banking and finance. It is not clear whether through debts money has lost its exchange value or actually increased it. But from the point of view of how people relate to money today, it seems that money has lost none of its attractiveness. What has changed, however, are attitudes toward credit. In order for debts to have become so important, credit must have lost its importance. Credit might have lost its importance not because the worth of money is now in doubt. Rather, it seems that credit has lost its social value because people stopped considering credit to be important for their personal standing, or important enough to care about it beyond its basic economic value. Perhaps this is one of the explanations for the rise of debt. And this might be one of the reasons behind the economic and financial crises of the 2000s. I explore these crises in Chaps. 5 and 6.

Conclusions

From the above it seems that people attach importance to things according to how much they care about those things. It also seems that the more we care about things the more those things can influence what we are, even help create the way we are. Money is one of those things that are important within modern societies because it regulates interactions based on human activities. Money is a constant feature of social life. In personal life, though, money seems to play a more subtle role. Money can be part of people's private stories, or it can become an instrument in the way one aligns oneself socially. The private attitude toward money is said to have changed through a new mentality marked by an acceptance of debts. Debts have become a constant presence within current banking systems, as well as in private households. Whereas some commentators have condemned the rising debt mentality, others consider debts to be forms of oppression that should be eliminated. The rise of the debt seems to signal the end of credit as a feature of personal standing. To have credit today might not be as important as it was in the past. A consequence is that presently credit does not seem to be important enough to define the social standing of a person. Whether this cultural shift from credit to debt has played a role in how the economy has operated since the mid-1990s is something that warrants some investigation. The past 20 years have been characterized by great economic and financial instabilities. Money has played a central role in how those instabilities played out for private people, communities, and even states. One of the most disconcerting effects of past crises is the rise of debts, and with it a money mentality that is no longer rewarding the ethos that once brought credit to people.

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Chapter 5
Three Case Studies: Australian HIH, American Enron, and Global Lehman Brothers

Abstract In this chapter I examine three events that had unprecedented effects on the capitalist economy, business, and society of many Western countries, and to some extent of the whole world. I refer to the collapse of Australian HIH and American Enron in 2001 and the collapse of Global Lehman Brothers in 2008. The reconstruction of some of the most relevant facts surrounding their fall provides new insights into the causes of their bankruptcies. The reasons behind their crises and failures were to some extent unique. There were outdated managerial practices in the case of HIH, audacious managerial and accounting practices related to risk taking in the case of Enron, and out of control financial, banking, and managerial practices related to the securitization of toxic obligations and debts in the case of Lehman Brothers. But the three businesses had one bad habit in common: the accumulation of debts based on borrowed money and speculative thinking in terms of their profit. It now appears that HIH and Enron paved the slippery slope that led to the Great Recession, also known as the global financial crisis (GFC), of 2006–2010. These three cases serve as a reminder that even powerful corporations can capitulate when their actions and transactions breach the conventions of good economic and business practices that still represent the commonly accepted limits of the free market economy.

Introduction

The three events analyzed in this chapter provide an unprecedented example of bad management and bad business, shaking society's trust in the self-regulating practices of big business. I have chosen to present these events as three case studies. Australian Insurance HIH was a firm that emerged from several mergers that occurred over a period of 100 years stretching back to the late nineteenth century. At the time of its demise, it was one of the oldest and most illustrious firms within the international insurance industry. Enron disappeared only 10 years after its establishment as a business firm with

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global ambitions and a year after reaching the top of the index American 500 which every year celebrates the most successful American companies. The shock caused by its bankruptcy was deeply felt in America. Lehman Brothers' collapse set a new pace in what was already taking the shape of a global financial and monetary crisis.[1] This banking institution, with a history deeply entrenched in the political history of the US, and described as the "imperious" bank, ceased to exist after 164 years of unprecedented success. With regard to the final strokes that led to the bankruptcies of both Enron and Lehman Brothers, some lack of clarity persists, especially when it comes to the external, non-economic causes of their demise. As always, when big players disappear it becomes difficult to identify the reasons. It seems that in all three case studies that I am presenting here, there were far too many internal and external problems to be able to analyze their cases in terms of just one mistake or misbehavior. In this chapter I describe complex events based on facts, memories, narratives, perceptions, interpretations of incidents, and so forth, and therefore it is difficult to provide a perspective based on objective information. The reconstruction of events that caused serious problems for economies, businesses, people, and communities often requires a depth of analysis that stretches over several fields and years. Here I have provided some general reflections based on facts as well as on observations made by various commentators in a number of fields. My aim is to identify common elements, beyond the common addiction to debts, that could help formulate a more insightful understanding of the problems that led to their fall.

When Australian HIH and American Enron collapsed in 2001 the shock was felt across all relevant social, political, and economic sectors within their respective countries. The worries that these two cases evoked were, however, counterbalanced by the hope that they would be two unique events and that once the air was cleared of their wrongdoings, things would return to normal. But things did not return to normal after 2001. Several other prominent organizations failed subsequently: Global Crossing, Qwest, NTL, Adelphia Communication, and WorldCom in the USA; One.tel, Harris Scarfe, and AMP in Australia; Arnhold in The Netherlands; PARMALAT in Italy; and several other companies in Europe. This comprised a sequence of business collapses that ended with an even bigger bankruptcy involving American Bank Lehman Brothers in 2008 and with repercussions across the globe. Billions were lost in a timespan of just 7 years, and wealth was wiped

[1] Peter Stella (2010, 485) has argued that, from a monetary policy point of view, it is useful to differentiate between the crisis period as before and after the insolvency of Lehman Brothers on 15 September 2008.

out irremediably from the bank accounts of millions of investors. The stock market, and particularly Wall Street, also suffered big losses but, as is always the case with the stock market, it bounced back pretty quickly. In this part of the chapter, I focus on HIH and Enron. I regard their bankruptcies as the beginning of a longstanding and ongoing crisis that culminated in the collapse of the investment bank Lehman Brothers in 2008.

HIH: From Small Birds to Big Salaries

The Australian insurance giant HIH[2] went into liquidation in 15 March 2001 with a total debt of AU$5.3 billion. A year before its collapse it was believed to have a total of AU$7.3 billion in assets. Much has been written about HIH in newspapers. However, the most detailed and critical documented account was written by Mark Westfield in his 2003 book *HIH: The Inside Story of Australia's Biggest Corporate Collapse*. Hence, I will refer to his book to recount the essential events that preceded HIH's collapse.

The history of HIH seems to center on the actions of a single man and his network of friends. These men made decisions, transferred money from business to private accounts, and increased premiums and the firm's levels of debt with little or no consideration for the consequences of their actions on their shareholders and the community at large. Ray Williams created HIH in 1992 after a long gestation marked by the rise and fall of other businesses. The abbreviation HIH derives from a series of mergers and acquisitions that included CE Heath International Holdings. Thereafter its abbreviation did not have an obvious basis. It could, nevertheless, refer to either Heath International Holdings or Heath Insurance Holdings. According to Westfield (2003, 7–8), CE Heath was founded by Cuthbert Eden Heath in the late nineteenth century and soon acquired prestige through its innovative and adventurous risk taking. CE Heath was an underwriting syndicate of Lloyd's that, after abandoning marine insurance, turned to insuring people, assets, dry land, and, in the 1860s, cars. Interestingly, its owner anticipated the potentials of a motorized society and introduced car insurance when many others dismissed it as a frivolous enterprise. It was this syndicate that in 1973 insured the World Trade Center, the two New York towers that before 9/11 symbolized the business power of the US economy, and at the same

[2] I have used some of the material presented in this chapter about HIH and Enron in a paper given at an International Conference on *Corporate Governance and Ethics: Beyond Contemporary Perspectives*. Macquarie Graduate School of Management, Sydney, Australia, June 28–30, 2004.

time the United Airlines fleet. It evokes a sense of tragic symbolism to think that the former were destroyed by planes of the latter.

The written commentary that appeared in the wake of the HIH bankruptcy typically focused on the managerial style of Ray Williams. Westfield (2003) presents important details that suggest how it was precisely Williams' style that damaged HIH's relationship with the Swiss insurance company Winterthur after the two companies merged in 1994. It seems that Williams did not provide Winterthur with the necessary reports and auditing checks. "Although it had been a majority shareholder for three years, Winterthur still didn't know whether HIH was adequately reserved or not" (2003, 88). Winterthur also openly questioned Williams' authoritarian managerial style and his preference for London as a platform for his aggressive international acquisitions and the place where he sought out his most supportive business partners. But the major problem in the eyes of Winterthur's auditors was HIH's habit of protecting its exposures through reinsurance instead of creating a reserve of additional assets. Finally, the Swiss refused to accept Arthur Andersen[3] as the exclusive accounting and finance auditor of the new joint venture.

Another striking aspect of the HIH story is that the board of directors was "dominated by its management" (Westfield 2003, 97). After 3 years the Swiss abandoned HIH, and Williams was again fully in charge. Williams did not show any particular interest in sharing responsibility for his actions with his colleagues. In the late 1990s the Lloyds syndicate in the UK was going through a serious crisis brought about by the Exxon Valdez oil tanker disaster in 1988, the Piper Alpha crisis in 1988, Hurricane Hugo in 1989, and various minor disasters that involved several of its agents. One of these agents was Frank Holland, who wrote to Williams seeking financial help. Holland was a former chairman of CE Heath, but, beyond this fact related to a distant past, there was no direct business relation between him and the current HIH, and yet Williams gave him £157,000 in 1993 without telling his directors (Westfield 2003, 28–29). Williams always put friendship above responsibility, which is also shown in his invitation to a former London partner and friend Michael Payne to be a member of the HIH board without consulting his directors. One can hardly resist the impression that there must have been a general indifference about the consequences of some far-reaching decisions made within HIH. As already mentioned, it had always

[3] It is worth recollecting here that Arthur Andersen was Enron's auditor and consultant, a fact that after the fall of Enron many found disturbing and undermined Andersen's role as auditor.

been HIH practice to rely on reinsurance of exposures instead of creating a reserve margin through the acquisition of assets to cover future risks. It appears that, by using reinsurance, "HIH didn't tie up valuable assets, which enabled the company to report higher profits than it otherwise would" (Westfield 2003, 42). It is generally known that maintaining adequate reserves is fundamental to the insurance industry which must cover itself against potentially huge reimbursements. Westfield reports that in 1997 "HIH spent over $400 million a year in buying reinsurance protection". Such a strategy allowed HIH to reinsure itself without having to pay insurance money to other insurers in the industry. It seems that the board fully supported this practice.

The consequence was that HIH would be its own insurer. "The board thought this was a good idea because it boosted profit, but in agreeing to it they added another layer of risk to HIH" (Westfield 2003, 72). Subsequently, HIH operated for a number of years without the protection of reinsurance for its large exposures. According to Westfield, in the eyes of the insurance industry, HIH was a company run "by and for the benefit of senior management". Even after being publicly listed in June 1992, HIH did not appear to have been run in "the interests of shareholders" (p. 41). Private insurance and worker compensation insurance had in the meantime become a commodity and the industry treated it in exactly that way. The interests of both the insured and the shareholders were regarded as being of secondary importance. It seems that this approach was common across the industry. A number of insurance companies at that time employed dubious methods to deceive both the general public and the industry regulators (p. 77).

Clearly, regulators' mechanisms or efforts were inadequate. The HIH management frequently changed their financing while failing to properly inform their shareholders, or provided misleading details. Shareholders often voted on decisions "with only a fraction of the information they should have been given" (Westfield 2003, 62). HIH management played with the company's financial reserves in order to deceive investors and market analysts. The standard accounting practices at the time allowed many manipulations and strategies that put companies at risk, allowing them to declare profits when there was in fact no money at all. One of the stratagems used by HIH was the so-called reinsurance contract in which a company arranged a down payment with another insurance company of a certain sum, $200 million for example, that was expected to increase or more than double, to $450 million for example, during a period of 10 years under a fixed rate of return. But instead of considering the $200 million as assets to build in value, HIH under the contract could write the entire amount of $450 million as a reserve, in spite of the fact that this money did not really exist (2003, 62).

The same practices seem to have been used at FAI (Fire and All Risks Insurance), the Australian company taken over by HIH in 2000. According to Westfield, "because both companies were having to resort to such stratagems to increase their profit and reserves, it was likely at the time of the HIH takeover of FAI that both were commercially insolvent, although they gave the impression to the outside world of being financially strong." (p. 120). These accounting deceits would not have been possible if appropriate auditing had been in place. In October 2000, the auditor Arthur Andersen signed off accounts stating that the company had AU$938.9 million in net assets. In late February 2001, HIH, which was then Australia's second-largest general insurance company, "was valued by the market at a mere AU$83 million, or less than one-seventh of its value a year earlier" (Westfield 2003, 224). As Westfield comments, "this world of brash men driven by a powerful desire to make as much money as possible, as quickly as possible, from wherever they could get it wasn't a completely alien concept to Williams who had extracted some handsome salary packages and fat payouts in his days" (2003, 118).

In his book, Westfield describes how in 1951 Williams brought small birds to injured migrant workers in the firm belief that the birds would contribute to faster recoveries, thus reducing the duration of their convalescence and the total cost of compensation (Westfield 2003, 2). It seems that there always was something very peculiar in Williams' behavior toward the people directly and indirectly involved in his insurance business. While some have accused him of naivety in running the business, Justice Neville Owen, the chairman of the Australian HIH Royal Commission into the collapse of the insurer, condemned Williams' "thirst for expansion" as the real cause of the HIH collapse (Ryan 2003, 25). According to Ryan (2003), the way that Williams ruled his empire was authoritarian and paternalistic—a style that turned aggressive during business transactions. He always paid special attention to his employees, expecting a high return. "The quest for loyalty" (Ryan 2003, 25) was imperial. Williams has been quoted as saying "We do it my way or not at all". It seems possible to argue that HIH was an old type of organization that presented a hybrid element of ownership and management. That the two sides never seem to have understood each other probably caused tremendous damage to the whole business.

Enron: The Fall of the Wall Street Darling

The first problems concerning Enron's liquidity appeared in the public domain in October 2001. The energy deregulator, regarded only a year before as the 10th most successful company in the US by business media and Wall Street, collapsed on 2 December 2001, filing for bankruptcy with US$65 billion in non-payable debts. The facts surrounding the Enron bankruptcy appear to be more transparent than those related to the HIH collapse, perhaps because of the different management styles within the two corporations. With regard to the Australian organization, Westfield (2003) described a number of people who had worked for many years in the field of insurance, who knew the tricks of the business, and who became powerful thanks to the network of relationships that they had built over decades. As already mentioned, one of the businesses that led to the birth of HIH went back to the late nineteenth century. Compared with HIH's long business tradition, Enron appears more like a meteorite flaring into view and disappearing just as quickly. The following reconstruction primarily relies on Peter Fusaro and Ross Miller's book *What Went Wrong at Enron* (2002), which the authors present as a "guide" to "the largest bankruptcy in US history".

Enron arose from a small and unknown Texan firm named Houston Natural Gas whose main trade consisted in moving natural gas through some of Texas' pipelines. Its destiny changed in 1984 when Ken Lay, a former professor of economics at George Washington University, joined the company as its new chief executive officer. In 1985 the Houston Natural Gas changed its name to Enron, which, according to Fusaro and Miller (2002, 5), "was a signal of the company's ambition, given its resemblance to that of Exxon", the American energy giant par excellence. The style within Enron was notoriously aggressive and entrepreneurial at the same time. But this seems to have been counterbalanced by a total lack of control over the very entrepreneurial spirit that made Enron the favorite of Wall Street and business analysts elsewhere at the time. External perception of success did not reflect internal effective practices. Fusaro and Miller (2002, 41) argue that Enron's management lost control over all of its units and often did not know what some of their employees were doing. They point out that, for example, in 1998 Louise Kitchen, head of Enron's European gas division, created a subdivision called EnronOnline using a team of 380 programmers, traders, managers, and computer hardware experts, without chairman Ken Lay or other senior managers even noticing. The project was launched in 1999 and brought Kitchen high reward. Fusaro and Miller (2002, 75), like many other market observers at the time, acknowledge that "the kind of entrepreneurial autonomy behind the creation of EnronOnline was an Enron virtue that helped make it the darling of the business press". However, it was not this entrepreneurial spirit alone that contributed to its image as a modern and courageous corporation. Enron's chairman and management developed different ways of regulating their contracts. For example, they invented sales devices with strong support from creative accountants who, while helping inflate their paper profit, left the corporation perpetually struggling for cash. An example reported by Fusaro and Miller is Jeffrey Skilling's initiative of transforming Enron into a gas bank that arranged long-term contracts with suppliers similar to an investment bank that acquires a pool of house mortgages. Skilling was a former Harvard business student who became Enron's business strategist and visionary.

Enron created so called "swaps contracts", allowing some of its customers to swap a fixed price of a share or obligation for a floating price or vice versa. Other contracts combining the swap contract and a different option were called "swaptions". Enron also created a series of "custom contracts" to address the specific needs of the producers and consumers of energy from which it could charge fees. Its extravagant and aggressive accounting practices culminated in special purpose entities (SPEs). Fusaro and Miller, who are themselves financial experts, argue that this accounting device introduced accounting operations that do not reflect established traditional professional practices, especially because the SPEs created profits or losses over the years without being recorded in any accounting balance sheet. The standard approach for reporting financial transactions, including profits or losses, is called the mark-to-market prices system. It prescribes a need to adjust the price of acquired shares daily in order to assess whether they have returned a profit or loss, and to reflect current market prices. The other accounting approach is called mark-to-model prices and operates with prices given by a computer program. The risk here is that the financial operators tend to consider the computer-generated prices to be real prices. The advantage is that these prices indicate immediate positive earnings that would not result from the mark-to-market approach, while at the same time keeping such operations out of the accounting books. The mark-to-model system was Enron's preferred method, used to exaggerate profits.

The Enron people succeeded in enticing the Californian Public Employees' Retirement System to join their first SPE operation. This deal brought (financial) credibility to Enron, as well as more bank loans, and paved the way for recruiting other public pension funds. According to Fusaro and Miller (2002, 37, 41), the SPEs became the special field of Enron's chief financial officer, Andrew Fastow. Fastow created an independent financial unit at Enron that allowed him to "put more than $40 million directly into his pocket:

"Somehow, Fastow was able to build an empire of SPEs of dubious legal status without anyone at Enron, including its board of directors, standing in his way." The specific strategy related to the SPEs was that the absence of profits, caused by the starting of a new market, could appear as a recurring profit only through a stratagem that involved continually creating new markets. Enron attempted to spread the idea that this profit could not appear in the account sheets because it was reinvested in the creation of new markets. The SPEs created a financial basis for the new markets by diverting money to specific purposes. Enron was widely recognized as a profitable company, but in 2001 "no one seemed to know just how it made its money" (Fusaro and Miller 2002, 109). Enron's expansion for the sake of expansion seems to have been a necessity. It created markets in which it tried to perform as a sole trader. Examples here are the Internet, broadband, water, pollution permits, and electricity. None of these projects produced genuine profits, but they frequently brought notoriety and occasionally disgrace. It has been said that Enron was behind the California electricity crisis of 2001, but, as in many other cases, no evidence has yet been produced. According to Chapman (2010, 244), the deregulated market of electricity that existed in California greatly advantaged Enron.

The image emerging from Enron's practices is one of addiction. "Enron had become addicted to growth and, like a strung-out junkie, would do *anything* to get its next fix" (Fusaro and Miller 2002, 73, emphasis in original). The problems resulting from the executives' and managers' actions seem to lie less in their wish to expand aggressively than in their failure to do "the homework necessary to ensure their success" (p. 104). In their description of Enron's corporate culture, Fusaro and Miller (2002, 41–45) suggest that Enron was an "extremely dysfunctional organization" that, however, had one over-organized sector, namely human resources. Interestingly, the company managed its internal personnel affairs according to the iron rule of the "rank and yank" method. Human resources managers evaluated their employees' performance every 6 months, taking strong action if targets were not met. Enron could attract the brightest business students, and, as already indicated, some of its senior managers were associated with the most prestigious business schools in the country. So, while a flat organizational hierarchy seemed to exist at the managerial level, a strict vertical hierarchy was developed for the employees. This produced a hybrid system that could have contributed to the mess and disorder that spread across the whole organization, but which was probably instigated by dysfunctional management at the senior level.

Enron's crisis began in 2001 when it could no longer justify the gap between its ever-increasing paper earnings (US$823 million) and the losses from its operations (US$1.337 billion). Experts in the field (Fusaro and Miller 2002; Lipson 2010; Wilmarth 2010) have argued that the SPEs were the primary reason for its bankruptcy, although SPEs alone cannot provide a full explanation for such a spectacular collapse. Fusaro and Miller (2002, 114, 115, 122, 142) refer to the many mysteries surrounding the Enron disaster that might never be revealed. In the end, they admit the possibility that the crisis was accelerated by the rating agencies that, by withdrawing their positive ratings, might have pushed Enron over the cliff. This possibility had also been raised by former chairman Ken Lay. The role played by the rating agencies within the whole Enron case has also been highlighted by Lipson (2010). He, however, reproaches the rating agencies for having been too generous with their evaluation of assets that were highly risky, especially the SPEs. As mentioned, these entities were often based on securitized debts, namely transferred or sold subprime mortgages and off-balance-sheet items (Bryan et al. 2010), and therefore were almost impossible for the auditors to detect.

Lehman Brothers: Easy Credit and Risky Debts

The collapse of Lehman Brothers is different from the collapses of HIH and Enron. Within the timespan of 7 years, the market underwent such dramatic changes that it was impossible to reach agreement about the causes that led to the global financial crisis (GFC) of 2006–2010.[4] Economists and financial

[4] There is no general consensus about the exact timespan of the crisis, also called Great Recession. Some observers speak of the 2008 crisis, taking the year of the Lehman Brothers' collapse as the defining time. Like many others, I prefer to think that the crisis started in 2006 when the first mortgage defaults appeared, and ended in 2010 with the full implementation of the American Administration's bail-outs. Practically, however, the last action related to the global financial crisis was the decision of the American Security and Exchange Commission on 13 December 2013 to fine Merrill Lynch and force it to pay the SEC $US 131.8 million to settle civil charges over the bank's having misled investors in two mortgage bond deals. The SEC has now dropped all civil and penal actions against banks, hedge funds, and financial groups. The total sanctions paid to the SEC relating to the crisis culminated in the collapse of Lehman and amount to more than $US3 trillion. The main banks sanctioned were Citigroup ($US41.82bn), Merrill Lynch ($US36.75bn), Wachovia ($US23.77bn), UBS ($US19.81bn), RBS ($US19.69bn), Deutsche Bank ($US18.51bn), Goldman Sachs ($US18.45bn), JP Morgan ($US18.19bn), Morgan Stanley ($US17.09), and Lehman Brothers ($US16.69bn). Other banks forced to pay the SEC were Bank of America and Barclays; two hedge funds, Magnetar and Mizuho Financial Group, settled out of court. In settling

experts have named a number of causes for the GFC, which has been labeled the subprime mortgage crisis, a financial markets crisis, and a crisis of regulation. But consensus about the root causes remains unattainable, with experts pointing to several reasons such as lending, leverage, securitizations of debts, potentially insolvent borrowers, risk and mismanagement, deficient/excessive regulation, institutional failure, market failure, irresponsible rating agencies, behavioral issues, corporate governance, and monetary policies.[5] These reasons are perceived by some observers as occurring concomitantly and by others as being separate. One worrying conclusion, however, is that academics in economics and finance did not see the crisis mount and take shape. In an article written by seven academics affiliated with American and European business and economic departments and schools (Colander et al. 2010, 427) the authors point out that "the economics profession appears to have been unaware of the long build-up to the current worldwide financial crisis and to have significantly underestimated its dimensions once it started to unfold". If the academic experts did not see it coming, how could others less expert in economic matters foresee it?

In the analysis of the global financial crisis, the 1929 crash and subsequent Great Depression casts a long shadow, either because some observers think that the Great Recession, the GFC, differs "greatly" from the Great Depression (Kolb 2010) or because it is assumed that it was the greatest financial crisis since the Great Depression (Friedman and Weiser Friedman 2010; Galbraith 2010; Wilmarth 2010). These links to the 1929 downturn are important. Back in 1949, Schumpeter identified the main causes for that crisis in what he called an army of ineffective and dysfunctional small banks ("Lilliput banks"), mismanagement of the big banks, a mortgage situation out of control, and "speculative mania" (Schumpeter [1949] 2004a, 323–324). There appear to be some recurring patterns between the two big crises. One question that keeps surfacing is whether some of the reasons for the GFC were in fact extraneous to the fields of economics and business and were more located within society (as was the case for the 1929 crisis). This idea was suggested after the 1929 economic crash by Robbins (1934) who pointed to how governmental intervention and mounting social expectations about owning properties increased pressures on the economy (see also Mitchell 1935). On 15 September 2008, after the Bush Administration

their allegations, banks and financial institutions neither admitted nor denied wrongdoing (The Wall Street Journal quoted in newspaper The Australian 14–15 December 2013).

[5] The edited book by Robert W. Kolb (2010) is very instructive and well balanced. The contributions it includes come from economists and finance experts within several international academic settings.

refused to intervene and save it, Lehman Brothers filed insolvency and bankruptcy, paving the way to its own dissolution after 164 years of economic, financial, and political success. Peter Chapman (2010) has written a captivating story of Lehman Brothers, highlighting the involvement of the Lehman people and their bank in politics and government. Chapman reconstructs the entanglement between business, politics, and society through the activities of the Lehman family, especially Herbert Lehman whose political career was tied up with the Roosevelts beginning in the late 1920s. Herbert Lehman was governor of the state of New York for three consecutive legislations between 1932 and 1944.

In this case study, governmental intervention and market disruptions were so entrenched as to make it difficult to draw definitive conclusions about the level of responsibility. It is generally believed that when former president Bill Clinton signed the new Financial Services Modernization Act of 1999 (Gramm-Leach-Bliley Act) into law, the doors were thrown open to reckless borrowing, accumulation of debts by modest households, and recapitalization of debts within the financial sector to levels never seen before. The new law overrode the Glass-Steagall Act of 1933 that prevented merchant banks merging with investment banks. The Glass-Steagall Act was created by Roosevelt as one of the most effective instruments of his New Deal to hinder a mix between commercial and investment bank activities. This meant that commercial banks could only collect and handle deposits and make conservative loans, and consequently earn modest capital. But the reverse effect was that the Glass-Steagall Act officially created a new type of bank, namely the investment bank (Chapman 2010, 113).

To some observers and market critics, the Financial Services Modernization Act was the first in a series of events and decisions that would lead to GFC and the largest financial ruin the world had ever experienced (McDonald 2009, 7). According to McDonald, a former broker with Lehman Brothers, such a decision was influenced by political interests especially within the then Department of Housing and Urban Development. That department had for some time since the mid-1990s supported the view that ownership and more affordable housing for people should become a guiding principle in the allocation of credits. This mentality eased credit allocation, credit card loans, and especially mortgages to people "for whom rental would be a smarter option" (Swan 2010, 51). The term subprime mortgage describes mortgages to customers who in the past would have been classified as credit-impaired because of their FICO[6] (Gerardi et al. 2010; Keys et al. 2010;

[6] FICO was founded in 1956 as Fair, Isaac and Corporation by the engineer Bill Fair and the mathematician Earl Isaac. Since then it has become an institution in the USA where

Pafenberg 2010). In other words, these people's credit score fell below the minimum score that at that time was considered to be 660 points (Utt 2010, 133).

Political intervention in the US housing market[7] has a long history and is characterized by several initiatives leading to the Community Reinvestment Act of 1977 which required banks to increase easy mortgages in low-income communities. Since then, political intervention in the American housing market has been relentless, with banks threatened to be singled out for lack of community responsibility. "Mortgage officers inside the banks were forced to bend or break their own rules in order to achieve a good Community Reinvestment Act rating which would please the administration by demonstrating generosity to underprivileged borrowers even if they might default. Easy mortgages were the invention of Bill Clinton's Democrats" (McDonald 2009, 4). The government mortgages agencies Fannie Mae and Freddie Mac were at the center of the move toward easy money and enjoyed aaa/AAA rating from Moody's, Standard & Poor's, and Fitch (Tibman 2009, 55). Much has been written about the role of these three credit rating agencies (Crouhy 2010; Hosp 2010; Lipson 2010; Reiss 2010), and many commentators criticized them for their lax supervisory roles that to some revealed severe internal dysfunctional processes (Tibman 2009, 65). Reiss (2010, 191) even described them as responsible "for causing the crisis and misleading investors" because of their unchallenged market position and control of mortgage-backed securities.

At the time of the introduction of easy credit and subprime mortgages, there was also a monetary policy in place characterized by low interest rates. These had been introduced after a series of crises that hit the American economy and market. These crises included the saving and loan crisis of 1986–1995; the collapse and scandals that hit Enron, Tyco International, Adelphia, and WorldCom in the early 2000s (a long chain of events initiated by Pacific Gas and Electric filing Chap. 11 bankruptcy with a total debt of $36 billion in April 2001); and the dot-com bubble of 1995–2001 (Friedman and Weiser Friedman 2010, 31).[8] On 30 July 2002, 9 days after the WorldCom collapse,

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it offers analytic and decision-making services in credit scoring. More can be found on FICO.com.

[7] In 1938 President Roosevelt created *Fannie Mae* (Federal National Mortgages Association) whose task was to insure home mortgages. In 1970 *Freddie Mac* (Federal Home Mortgage Corporation) was established to support the activities of Fannie Mae (Swan 2010, 51). One wonders why the American administration did not build social housing instead of directly controlling some of the mortgage practices.

[8] Hayford and Malliaris (2010, 469) have slightly different years: 1987 stock market crash; the saving and loan debacle of 1989–1992; the Internet bubble burst of 2000.

the Sarbanes-Oxley Act was passed into law. The Act forced chief executive officers and chief financial officers to sign statements that all debts were disclosed, and to personally guarantee the validity of both the financial statements and company assets. The year 2002 marked an increase of legislative intervention into the financial market, putting Wall Street on notice on the one hand, but also forcing its people to look for new lucrative sources on the other. According to McDonald (2009, 73–74) "one of the unintended consequences of Sarbanes-Oxley was driving up the corporate bond market. Securitization of credit derivatives helped fill the revenue gap". Monetary policies also began to work downward, with the Federal Bank cutting rates from 6 % in 2000 to 1 % in 2003, opening the credit gates to millions of people.

Thus, it seems that the combination of easy credit and low interest rates led to the creation of money instruments based on high risk, low leverage, and securitization of debts. The securitization of debts occurred through the creation of financial instruments that were then used within banking institutions, credit agencies, and insurance agencies to cluster big mortgage debts together into bonds and credit obligations. These instruments were given unusual names such as the already-mentioned SPEs (special purposes entities) as well as SPVs (special purposes vehicles), CDOs (collateralized debts obligations), and CDSs (credit default swaps). Through them new forms of investments were created based on debits rather than on credits. While the CDOs created bonds on risky mortgages, the CDSs were a step further up in the sophistication of the trading of debts based on loans and mortgages that could be swapped. As Shadab (2010, 633) described the situation, the CDSs are contracts between two parties that trade credit risks. Risk becomes the object traded. The two parties are actually "counterparties to each other". CDSs are a new form of insurance where, however, one party might have an interest in undermining the other. "A CDS encourages speculation since the owner of the CDS does not actually have to own the underlying security. This is equivalent to buying fire insurance on someone else's house" (Friedman and Weiser Friedman 2010, 33). The tricky aspect here is that one of the parties to the contract could have an interest in that house burning down. As the term itself suggests, swaps were (and still are) risks that could be swapped from the banks that took the loan with whatever third party wished to insure the risk (Chapman 2010, 248). As Chapman further explains, swaps are complex instruments that look like insurance but do not

Concomitantly other crises occurred such as the Russian default and collapse of long-term capital management of 1998. Demyanyk (2010, 91) adds economic and financial crises that hit Argentina in 1980; Chile in 1982; Sweden, Norway, and Finland in 1992; Mexico in 1994; and Thailand, Indonesia, and Korea in 1997.

work like traditional insurance. In other words, more parties can take an insurance policy on a loan if they suspect that the bank taking the loan might fail to repay it. In essence, these are bets on the failing of a loan. In the early 2000s the market of CDSs became unregulated after the introduction of the Commodity Futures Modernization Act (2000). In 2010 alone, the CDS total market value was estimated to be between US$35 trillion and US$55 trillion.

No doubt, these were genial methods, but they were obviously far too risky even for “imperious” institutions such as Lehman Brothers, or for entire countries.[9] This proves that nobody or no-one is immune to failure, no matter how powerful, disproving Sorkin’s (2010) claim that some institutions are “too big to fail”. In the past, under the law that separated merchant from investment banks and institutions, mortgages were tightened up to the originate-to-hold model. Under conditions of unrestrained investments, however, mortgages became originate-to-distribute instruments that brought unexpected incentives to the market (Kolb 2010, 209). The financial and banking instrument central to such a process was securitization that characterized mortgage-backed securities (MBSs). The principle is that the loans are not held by a bank or financial institution until they are paid back, but they are sold as a credit. This means that the originator of the credit and the person or institution that ends up with the loan are no longer connected, introducing a break in the “classic principal-agent” (Martin 2010, 199–200) process. Several loans are pulled together to create a consistent set of debits and sold in the form of lucrative bonds capable of yielding a 7–8 % coupon (McDonald 2009, 74). Bonds, for example government bonds, usually paid a 3 % coupon; the low gain is counterbalanced by an absolute guarantee that bonds will always be repaid. The new credit instruments were the products of the entrepreneurial attitude of institutions such as Lehman Brothers and Merrill Lynch. The latter used CDOs already in 1987, and at that time lost millions of dollars (Chapman 2010, 208). But the new CDOs, SPEs, and CDSs were not based on simple calculations. They were complex devices based on risk and behavioral components created by brilliant mathematicians and others who worked in the risk calculating and predicting units of many financial institutions and banks.[10] Several experts have recently

[9] The global financial crisis hit entire countries such as Iceland in 2007–2008, and Ireland, Greece, Cyprus, Spain, and Portugal between 2010 and 2013. Banks and financial institutions that suffered from the credit and debit crisis were Citigroup, JP Morgan Chase, Goldman Sachs, Merrill Lynch, and Bank of America.

[10] For a study of this phenomenon the book by James Owen Weatherall (2013) is very instructive. Weatherall argues that since the early 2000s, the hedge funds in particular were “run by traders, called quants, who represented a new kind of Wall Street elite” trained in mathematics and physics.

acknowledged the influence of mathematical and statistical models on credit-granting decisions (Murphy 2010; Schwarcz 2010; Weatherall 2013). According to Chapman (2010, 248), the default swaps were an invention of mathematical experts employed by JP Morgan Chase back in the late 1980s.

Lehman Brothers hired "quants" who were attracted by the high and quick money that financial and economic businesses could pay (Chapman 2010, 208) compared with the low salaries of academic institutions or government agencies. According to McDonald (2009, 107), the whole process started "in the offices of large US mortgage brokers, particularly in California, Florida, and Nevada, where the prospect of a fast buck has never antagonized the natives". An interesting by-product of the securitization of debts, where low-guarantee mortgages were collateralized into a bond, was the emergence of shadow banks. These were institutions that provided the funds to borrowers but that did not have depositors themselves. Hence, before lending money to prospective home buyers, the shadow banks had to borrow liquidity from other physically existent banks. Once the acquisition was complete, however, they quickly sold on the mortgages to the Wall Street banks. McDonald (2009) and Tibman (2009), who worked for years as traders within Lehman Brothers, described how the creation of the collateralized mortgage and property debts attracted the approval of the executives, who apparently never questioned their sustainability. It seems that the mortgage people within Lehman enjoyed such a high reputation that they were beyond scrutiny, and no-one questioned their practices (McDonald 2009, 114). Some argue that after 2005 there was within Lehman Brothers strong "groupthink" and an attraction to risks (the unknown) mixed with "overconfidence" (Rizzi 2010) that ultimately led to unhealthy exposures. The change in the way money started to multiply through debts instead of credits implied a "magical transformation of debt, some of it highly shaky, into one of the biggest profit booms seen on Wall Street for years" (McDonald 2009, 113). In the end, Lehman Brothers could borrow funds on negligible costs and lend it out to subprime loans "at 12 percent per annum" (Swan 2010, 53).

What emerged at that time was a complete reversal of the logic of safety and money management. Debits became attractive and so did risk. The economy contemplates two types of risks. First, there are uncertainties that are predictable, embedded in probability, and calculated through mathematical formulae. This type of uncertainty is called *risk*. Second, some uncertainties are totally unpredictable (natural catastrophes, revolutions, attacks, and so forth). This type of uncertainty is described by experts as *Knightian uncertainty*, which is practically not a risk (Hayford and Malliaris 2010, 468). It is not a risk because past reliable statistical data documenting behaviors are not available. Already in 2005, Lehman Brothers had emerged as the second largest private mortgage broker (after Merrill Lynch). But when the crisis hit the mortgage market, the CDOs and CDSs in the Lehman's portfolios become increasingly unattractive and the bank was unable to sell them to raise the capital needed to address its own liquidity problems caused by a turn of investments (Murphy 2010, 128). By then every bank and financial institution on the market had realized that "other banks had portfolios that were at least as bad as their own" (Galbraith 2010, 39). Contagion then spread and the possibility of failure and even collapse became a bitter reality.

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Chapter 6
The Rise of the Managers

Abstract In this chapter I discuss the rise of the managers in the first half of the twentieth century and the implications that managerial practices had, and still have, on business in general. I use this analysis to gain additional insight into the collapse of Australian HIH, American Enron, and Lehman Brothers. Management is a relatively new phenomenon that emerged more forcefully with the rise of the corporation in the early years of the twentieth century. The rise of the managers had an enormous effect on ownership. Prior to the advent of incorporated businesses the private owners or the family owners had also managerial responsibility for their businesses. With the rise of new business forms and incorporated risks the managers took a more predominant role and as a consequence a separation of ownership from management occurred. In other words, when managers took control over the means of production, which also includes services, the owners lost direct control over how their money was used and invested. The incorporated firm became the working place of the managers in the roles of chief executive officers, chief financial officers, and chief operational officers, also known as executive managers. The managers represent a separate group/class driven by self-interest. Not only employees and workers are subjected to the decision-making power of the managers. So, also, are owners, shareholders, and, increasingly, societal stakeholders.

Introduction

The target of this chapter is not only modern management but also the organization in which it is embedded. I use the term organization instead of corporation to better align with various theoretical perspectives that became

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prominent in the late 1990s.[1] The organization is a relatively recent phenomenon in modern economy and business, and is probably what characterizes modern management theory and practice. In fact, classic economic theory does not address the organization (see Rotschild 2001; Ryan 2001). Keynes reportedly dismissed it, and Adam Smith neglected it (Solomon 1993). The expansion of the organization seems to occur at the cost of classic economy, and some observers are inclined to believe that the "unprecedented changes" happening within the economy result from the growing predominance of the corporate organization (Iannone 1989, 9). The emergence of the modern business organization had a strong impact on the public from the beginning. Negative and positive feelings alike shaped the public opinion. Proof of this can be found in the first texts on business ethics published between the 1950s (Bowen 1953) and the 1970s (Baumhart 1961; Hoffman 1977). A recurrent theme in subsequent publications was the poor reputation of business and its operators (Drucker 1989; Newstrom and Ruch 1989; Sherwin 1989; Solomon 1993; Velasquez 2002).

In the early 1990s, new analyses started to emerge targeting management and the organization from a critical theory perspective. This new discourse changed the general analytical tone by redefining the organization/corporation as a place where people and things are subjected to the power of management, to a place where management is perceived as a practice that increasingly exercises control over ownership. One prominent critic, Deetz (1992a, 2), proposed that the organization be perceived as the "dominant institution in society" capable of imposing "personal identities" on its employees. For their part, Alvesson and Willmott (1992, 5) advanced the possibility that the new organization was ultimately in the position to "produce people—workers, customers, as well as citizens". A decade earlier, Coleman saw in the advent of the organization a transformation of people into positions (Coleman 1982, 25–26). The organization emerging from these studies is capable of subjecting its employees to subtle forms of discipline and control (Deetz 1992b), depriving working people of their specific human dignity. The subtle powers that Deetz saw form within the organization was in contrast to what French (1995, 8) described as the "invasion of the social system" by the big corporation.

[1] The term *corporation*, however, is at times more intimidating as it evokes size and powerful incorporated interests. Organization can often be confused with organizing, the activity of business, and it not always conveys the sense of compactness that the term corporation does. The term *firm* is the most innocuous and I will use it only in citations or in relation to citations.

When speaking of the organization, it is always necessary to first describe the form in which it manifests itself. It seems that an organization becomes visible through *management*. Deetz called it "management as a medium" (1992a, 228). It is management that concretizes the organization through working strategies and relationships stretching across the organization's legal entity and the people working within it. Understood in this way, management has the appearance of an intelligible system where the organization becomes visible first of all through procedures. Alvesson and Willmott argued that these procedures have consequences for people and society as a whole, where there is always a risk that "the technocracy of management overrules the democracy of citizens" (1992, 5). At the same time, however, while the organization becomes visible through management, management as a practice, its aims and goals, remains in the background, surprisingly acquiring its strength from its own invisibility in public life. Deetz observed that "managerial success is strangely invisible" (1992b, 228)—and yet management practice "becomes an end in its own right" (p. 217).

If management is understood to be the medium of visibility in the public space, *accounting* seems to emerge as the procedure through which, according to Power and Laughlin (1992, 117, 126), the organization "becomes visible to itself". Power and Laughlin further suggested that accounting is a force that operates in a self-referential way and is therefore capable of providing "the very definitions of the areas that it regulates". This is a strong statement that highlights how "the technical neutrality of accounting practice is illusory". Further extending this critical understanding of accounting as a new management instrument, Llewelyn (2003, 668) argued that "accounting numbers create organizations". Accounting is no longer the activity that innocently brings items together on a budget sheet and advises owners or management about what to do in the future. It seems that accounting has acquired further resources that only 50 years ago would have been regarded as completely extraneous to its core nature. It appears that accounting is playing with language to make sense of its numbers. Power and Laughlin (1992, 132) further suggested that accounting is a potentially colonizing force that threatens to "delinguistify the public realm" because language, as a medium of representation, surrenders to financial statements. But when a language can no longer speak within its original system of signs and signifiers, of meaning and representation, then "genuine conversation" (Deetz 1978, 19) is no longer possible. Genuine conversation is the ability to speak from a tradition and to agree about the object of the conversation without having to interpret the speakers' intentions. When such conversation is missing, only "pathological communicative practices" (Deetz 1992a, 9) or "pathological or 'distorted' forms of communication" (Power and Laughlin 1992, 123) occur.

The above critics and commentators clearly perceive the business organization as increasingly capable of causing considerable harm to the whole of society. The notion that the business organization becomes visible through the medium of management, but remains invisible in terms of its practices (including aims, goals, and success), further suggests that it escapes public scrutiny. There may be manifest consequences emerging from this invisibility, however. What is not visible might not be easily influenced or corrected when deviant practices occur. This means that managerial disorders or messes might be overlooked. The authors quoted above also lamented that one of the most ancient practices of commercial life, namely accounting, had undergone substantial alteration within modern business organizations and firms by increasingly turning into an instrument of management rather than remaining closer to its humble origins. An important question arising from the above is how management activity that remains invisible to the external eye can be understood. It seems that, if it were possible to *see* more clearly how and why HIH, Enron, and Lehman Brothers fell, it would perhaps be easier to acquire a more thorough understanding of the dynamics of failure that unfolded within them and so inform management theory and practice. Hence, to analyze the first two case studies that follow, I use Alvesson and Deetz' notion of "insight" to look carefully at what happened within HIH and Enron in the years preceding, and particularly the years immediately before, their collapses. Alvesson and Deetz (2000, 18) define insight as a way of "producing a unity of interest in the data … and understanding of the conditions for such a unity". The Lehman Brothers story is too embedded in the whole financial and monetary system as well as governmental policies to be captured through the notion of insight. Hence, the analysis of the third case study will be more business-system and macroeconomic in nature.

HIH and Enron

Although very succinct, these two case studies have helped to gain some insights into the dynamics of failure. Three issues keep surfacing: the existence of a managerial group, class, or elite that has intensified the conflict between ownership and control; hybrid managerial styles and structures; and accounting practices that diverged from tradition. I expand on these three aspects to gain some critical insight into management practice and its limits.

Some critics have argued that at a certain point within the development of capitalism, but certainly toward the end of the 1960s, the economic system became integrated into the managerial system. Accordingly, an alteration of priorities occurred, which Lash and Urry (1987, 3–5) described as a "process of disorganization" never seen within post-war business. Lash and Urry point to several possible causes, but particularly elaborate on three. These were the expansion of large financial institutions and the separation of banks from industry, the expansion of the service class (managers, professionals, scientists, and educators) to the detriment of the working class, and the development of new cultural fragmentations and pluralisms accompanied by a reduction of time–space separations. In this section, I focus only on the second aspect because it seems to have played a major role in the collapses of HIH and Enron. In their analysis, Lush and Urry tend to move away from the notion that the service class was the result of a structural imposition, characteristic of Marxian analysis. Rather, they suggest that the service class was ultimately the result of a process of "self-formation". Lash and Urry further argue that this process changed an organized economic system into a disorganized one in the context of which new forms of centralized power emerged.

A similar thesis had been advanced earlier by Burnham ([1941] 1966).[2] Writing under Second World War conditions when, in spite of them being allied against Hitler, capitalism and socialism started showing a new type of economic rivalry, Burnham described the emergence of a class never seen before, which he called the managerial class. This class would be completely detached from the business it ran and the people in it. Its new characteristic would be the distinctions it introduced into the social environment of the organization. More precisely, Burnham (1966, 82–94) differentiated between four groups of individuals, classified according to what they do: some are in charge of the "actual technical process of producing", others are responsible for the profit through sales strategies, still others are involved with the banking and financial system of a company and form the "finance-capitalists", and finally there are the shareholders who are "formally and legally the owners of the company". Burnham considered the first group, those in charge of the actual technical process that controls the means of production, to be the

[2] The dates in square brackets indicate the year of the original publications. In-text referencing will include the original year of publication only the first time I mention the author.

managers. Back in the late 1940s, Burnham declared that managers were about to become the "dominant or ruling class" in society insofar as control, not ownership, conferred power. Burnham argued that being the owner of the means of production did not necessarily equate to having power anymore, which in his view meant that "income and power have become unbalanced"; the finance-capitalists or the executives and stockholders are the owners of the means of production, but they do not have access to the "instruments of production" which are under the control of the managers, namely operating executives, production managers, and plant directors, whom he referred to as superintendents. Burnham wrote his text more than 70 years ago. Therefore, it is necessary to translate his language into modern terminology in order to make his analysis applicable. Thus, the term production used by him must be understood as capable of also describing the production of financial services.

Although Burnham, under the influence of the then Marxian discourse, used the term class, the major contribution of his work is related to the alienation of ownership. The contention here is that being the owner of the means of production does not count for much anymore. Even in modern business organizations, including those that are multinationals, the owners do not determine the investment strategy of the company. Income and control have become separated. Many of the people who suffered severe financial losses through the collapses of HIH and Enron, for example, were investors and shareholders. They were powerless owners. It seems that control no longer needed ownership to work. This issue has been considered by Deetz at length, and his conclusion was that "control of the organizations shifts from profit-centered owners to career-centered managers" (1992, 210). Alvesson and Willmott (1992, 6) also became increasingly suspicious of the relationship between owners and management and saw it as increasingly driven by the exasperated "efforts of owners to exert tighter control upon corporate management".

Table 6.1 highlights these two major shifts: the disappearance of the owner and the notion of income on the one hand, and the emergence of the managers and their controlling powers on the other. These are certainly no small shifts as they seem to point to the passage from classic economy (family businesses embedded in local culture and social life) to managed and organized businesses devoted to the creation of the careers of a new class. Concerning the former shift, it was Drucker (1946, 1956) who first argued that the corporation (as the organization was called in the 1940s and 1950s) was the product of managerial practices of decentralization rather than centraliza-

Table 6.1 The transition from ownership to management

Feature of the organization	Until 1940	From the 1940s onwards
Source of leadership	Owner	Manager
Relationships between ownership and business activity	Owner controls the means of production and is the decision maker	Owners lose control over the means of production, and managers become the decision makers
Goals of the business activity	Wealth creation for the (family) business	Compact executive salaries and spread of owner's wealth
		Wealth versus career

tion of the means of production.[3] This seems to confirm Burnham's understanding of control as a double-edged sword. First, the managers are not interested in maintaining capitalist property and wealth within the firm,[4] and thus they view the means of production as means of redistribution of property for the sake of their career; second, decision making concerning the means of production no longer rests with the owners (Burnham 1966, 94).

In subsequent studies, emergent managers' power has been described as managerialism—a term by which some authors have pointed to the collision of the managers' interests with best business practices (Chandler 1984; Parker 2002). Such collision could be implicated in economic losses caused by managers since the 1960s or even earlier. It is said that managerialism has not only caused a dispersion of ownership in the multinational organization; its effects seem to be more devastating in terms of economic returns. Reflecting on the role of managers within American businesses, Deetz (1992a, 218, 247) observed that their "lack of productivity" has caused a dangerous loss of competitiveness for American companies. He linked the problem of productivity to a general managerial inability to meet market demands, pointing to an increasing number of studies about "the costs of managerialism" and their negative effects on the "competitiveness for US products and services". These studies portray management and managers as the guardians of capitalist ownership, but they also reveal the ever-increasing strength, also in numerical terms, of the white collar group vis-à-vis the declining productivity of managers. Deetz further suggested that this trend seems to confirm the shift from "profit-centered owners to career-centered managers" (1992a, 210). As recently as 2000, Alvesson and Deetz (2000,

[3] Worth remembering here that the decentralization of General Motors started at exactly that time (Vinten 2003, 39).

[4] This is reminiscent of Schumpeter's analysis of big business and the role of the executives within corporations discussed in Chap. 1.

7, 8, 16) described managers as a "most heterogeneous group—as a category with a legitimate interest in management knowledge". However, these authors also acknowledged that there were "other interests and groups of people" involved in knowledge management and therefore it is still difficult to clearly delineate who the managers are. At a certain point in their text, Alvesson and Deetz even described managers as "elite".

The question that arises at this point is whether the vested interests of the new class/group/elite were enough to cause the damage and problems that the case studies of HIH and Enron have highlighted. There might have been other elements that nourished a deviation from "normal organizational functioning" (Alvesson and Spicer 2012, 1199). It seems difficult to resist the possibility that there might have been a kind of disorder or mess (Abrahamson 2002, 144), invisible to external observers but capable of internally destabilizing the two companies. Abrahamson defined messes as "a deviation from hierarchical order". He assumed that hierarchies guarantee a sort of productive order in which new inputs or changes can be easily managed. In this respect, Deetz (1992a, 239, 240) spoke of the suggestive power of the formal organization represented by the organizational chart, whereby the chart only symbolizes a form of over-hierarchy, whereas in reality "there are many potential hierarchies in the work environment". But while Deetz saw this as a problem, studies in cybernetics reveal hierarchies as being not only a necessity, but also an advantage. "Very large systems, whether natural or mass produced, are usually hierarchic in structure and are hence decomposable" (Rudall 2000, 595). Abrahamson, too, was convinced that hierarchies are easier to govern than are organizations where the actors work according to horizontal or flat structures. "Hierarchy also prevails because it facilitates the storing and retrieval of information necessary to develop and reproduce large complex systems" (Abrahamson 2002, 147). This means that "agents create a mess by either failing to follow their organizing routines (sloppy disorder), or by following an organizing schema that deviates from the hierarchical model (structural disorder)" (p. 159). In other words, disorder becomes a sort of failed order (p. 151). Abrahamson also suggests that disorder can even occur when two organizations, with different organizational structures, are merged. This might have happened when HIH and Winterthur merged in 1994. The two companies found themselves in conflicting situations because of their different managerial structures. Consequently, discord between the directors and board members erupted within 6 months of the merger (Westfield 2003).

The problem is whether it is possible to separate organizational structure into two sharply delineated structures. Very often organizations present elements of both, with some parts vertically hierarchical (the CEO and the senior management officers) and others more flat (generally human resources departments, teams and groups, research and development units, IT units, and the entrepreneurs within an organization). When these two structures come together they give rise to a hybrid organization. The term hybrid here is related to a philosophical rather than technical perspective. It is used to describe a kind of disunity in the identity of a community including multinational organizations. It describes the difficulty of controlling and managing a complex system constituted of opposing vertical and horizontal divisions of labor. The idea of hybridism is used in cybernetics and in systems and control theories to describe computing strategies used to circumvent technical problems (Fong and Hui 2003; Morse et al. 1999; Tarakanov and Adamatzky 2002), especially to provide a productive balance between, for example, centralized and distributive powers (Fong and Hui 2003, 1302–1306).

From the above theoretical considerations it is possible to gain new insights into some of the managerial structures that were in place within HIH and Enron. There appears to have been a thick net of operations, interests, market strategies, accounting machinations, unit and sub-unit interests, managerial designs, and plans that caused a crystallization of personal hegemonies based on hierarchy on the one hand, and areas of decentralized power hostile to hierarchy on the other. The two were in a perennial open and subtle confrontation revealing, a hybrid type of internal managerial structure. It seems that accounting has played a central role in the HIH and Enron crises. To understand how this became possible, it is necessary to reflect on what accounting has become. While in the past accounting was considered to be an instrument for calculation and representation of profits and losses, recently it has become the center of business activity by aligning itself more closely to management. Such a move has turned accounting management into a formidable device within the organization. Power and Laughlin (1992) have classified accounting in terms of a new language capable of taking over the control of an entire organization. Others have also presented revised perspectives about accounting. For example, by pointing to the possibility that "human purposes are fulfilled through organizations rather than societies", Llewelyn (2003, 675, 685) has observed that accounting is rooted in a social context and that, for that very reason, it cannot be classified solely as a technical abstraction. Rather, in her view, accounting should be seen as "a practice embedded in its organizational setting" which would allow its being theorized as a "social practice". Here Llewellyn has drawn on Hopwood (1983) who was the first to acknowledge the centrality of accounting for the modern business organization. He argued that it is through accounting that an organization becomes aware of its own existence, especially through the creation of new internal budget sheets capable of influencing its major functions.

Such analyses seem to support studies underlining the highly political character of accounting, especially in international contexts as highlighted by Daley and Mueller (1989, 315): "International political processes provide the impetus for setting international accounting standards." At the same time, however, Lorensen and Haas (1989, 317) have drawn attention to the strange situation that, within governmental operations, accounting principles become optional. If this is true, accounting would reveal a strategic elasticity capable of subjecting itself to interpretation. Although powerful, this perspective about accounting is not generally shared, and Alvesson and Willmott (1992, 117) take great pains to show that the "traditional image" of accounting as a calculation instrument has "proved remarkably durable". One of the reasons why accounting continues to be perceived as a traditional instrument of calculation, despite its strategic repositioning as a management instrument, might derive from the fact that accounting as a profession has managed to create a very solid image about itself based on a strongly organized body that has the power to regulate its own professional standards and principles. The US government has tried on various occasions to break the power of the profession by legislating against it. The Sarbanes-Oxley Act could be seen as one of the most recent attempts. It was passed into law on 30 July 2002, 9 days after the collapse of WorldCom, and was aimed at putting an end to the extraordinary status of the accounting profession especially through Sections I, II, and XI. But the global financial and banking crisis of 2006–2010, and the collapse of Lehman Brothers with its wider effects, revealed this legislation to be ineffective.

It seems that the demise of both HIH and Enron was caused by some concomitant, and yet different, factors that included unresolved tensions between paternalistic and modern managerial practices at HIH and the predominance of a sort of managerial class/elite within Enron. Another point of difference between the two organizations was marked by the type of people working in them. HIH was managed by doers who, like its CEO Williams, started working in the field when they were very young (Williams himself was only 13). Despite HIH becoming a big business, Williams acted as if he were the owner of a small traditional family firm. HIH managers built their business empire on theories embedded in personal experience and ad hoc decisions. In contrast, Enron managers were trained in the best American academic establishments and, accordingly, were prone to revolutionize business practices in general. These managers succeeded in inventing new accounting devices, business practices, and methods that many tried to emulate. Their entrepreneurial acumen was often pushed to the extreme, to the extent that risk-taking within Enron was sometimes described by market observers as reckless. The separation between managers and employees within Enron was strong, which evokes the notion of a managerial class with vested interests. What also emerges from this study is that the two management cultures were characterized by excessive control within HIH and total absence of internal control at the senior level within Enron, yet the two organizations shared internal organizational instability coupled with dubious accounting practices. In other words, both modes of management practice failed because they fomented what Abrahamson (2002, 144) calls disorder/mess or a deviation from order.

There were other differences. HIH managers indiscriminately acted in the interest of themselves and their friends without any thought of bringing prosperity to either the community at large or the business community, for example through improvements to the system of private insurance/liability. Their actions were not driven by a desire to create new business opportunities or to cultivate a new generation of managers. Here Alvesson and Willmott's (1992, 5) statement that "companies and top managers selectively promote or even block innovation" resonates forcefully. Some aspects of the HIH case seem to indicate a voracious managerial group led by a paternalistic figure who was indifferent not only to the legal requirements that multinational organizations should comply with, but also to their people and the community at large. The Enron managerial elite, in contrast, appears to have been more aware of the way they created an empire by including young well-educated people, exposing them to different challenges, and paving the way to their success. But their actions were also driven by an exaggerated need to continually increase their personal advantage in spite of the market uncertainties that surrounded them, thus showing a profound disregard for ownership and the wealth of the organization. In terms of internal managerial functioning, Enron did exhibit some degree of cooperation between its central management figures, notwithstanding their strong individualism. However, as soon as these styles were translated into actions the organization's exercise of responsibility toward its people and the community at large dissolved. The teams were said to have been the result of private interests rather than efficient working groups with planning abilities. In the end, the hybrid system of its managerial structure did not survive.

Notoriously, HIH's Williams gave expensive presents to his employees, paid for holidays for them and their spouses, and organized their private lives. He did these things meticulously, for example annually signing thousands of personalized Christmas/thank-you cards for his employees. But what might appear to be prima facie a caring style turns out, upon closer examination, to have been an extravagance. As a close associate once stated, “Writing thank you notes to 50 employees is okay. But when it gets to 1800 it is not okay. And that is where Ray [Williams] didn’t differentiate. It is symptomatic that he didn’t have the right systems and procedures in place for the size of the business. It just got too big for him and then it just spun out of control” (Ryan 2003, 22). Williams has also been criticized for the large donations he made with the company’s money. The HIH Royal Commission condemned these practices for dissipating the company’s wealth. Interestingly, Williams considered this practice to be a form of philanthropy (Ryan 2003, 22), revealing a strange inability to distinguish between personal and organizational ownership.

Throughout this analysis, new insights have been gained into the dynamics of success and failure within HIH and Enron. The impression is that some mistakes could have been made out of unchecked creativity rather than pure malevolence. It is difficult to resist a sense of admiration for the entrepreneurial brilliance of some of Enron’s people and creations. Even the banality of some of HIH’s corrupt actions elicits a sense of pity. Could more control have saved the two organizations? As Alvesson and Deetz (2000, 11) have argued, “there are structural limits to control. The cost of integration of control systems often exceeds the value added by management within the corporation.” Perhaps this was one of the reasons why more investment in control within Enron might have been neglected. But to say this, it would presuppose that the managers within Enron did see that control was necessary. And this was not the case as the senior managers in the firm did not seem to have understood this to be an organizational requirement. Lipson (2010) has argued that, in spite of the complexity of the Enron case, regulatory complacency was the main reason for the collapse of the business giant. But this might be too generous a scenario and perhaps underestimate the role of corporate governance. Also pointing to Enron, Cheffins (2010) argued that current arrangements within our understanding of corporate governance do not seem to be “fit for the purpose”. The question is what Enron could have become if its entrepreneurial activities and organizational functions had been tied together in a more effective way. Had the organization created a new type of manager/management activity, capable of overseeing all their business activities, they would certainly have contributed to the modernization of management practices. But as it happened, that kind of thinking did not exist there. Perhaps it was also lack of wisdom originating from inexperience considering that many of the people involved in Enron were quite young or too academic in orientation. One could say that Enron's people were entrepreneurial in business activity but not in its control.

Looking dispassionately into the collapse of HIH and Enron, one gains the sense that it was the lack of well-grounded and responsible management that contributed to some of their most serious problems. HIH had a prestigious history going back to the nineteenth century with the creation of car insurance and motor insurance in general. But those who took over the business after several mergers did not match the high entrepreneurial activities of the founders. On a more practical level, they failed to keep up-to-date with modern management practices and legal requirements. In contrast, Enron's senior managers were aware of the legal requirements of modern management and yet no one seemed to take notice of them, probably because everyone thought that somebody else would do so. In this latter case it is as if organizational disorganization and individual recklessness had merged into a kind of cognitive indifference toward the basic rules of modern business that prescribe a constant economic, legal, and now also ethical, justification for the costs incurred and the revenues accumulated by the business organization.

Lehman Brothers

An analysis of the Lehman Brothers case is more difficult than the preceding two because the involvement of the whole American banking and financial sector in the Great Recession of 2006–2010 makes it difficult to focus on just one player. Undeniably, Lehman Brothers was ruthless in its pursuit of financial gain and wealth, and many have questioned the moral standards of its reclusive CEO Richard Fuld. According to Friedman and Weiser Friedman (2010, 33–34), Fuld earned half a billion dollars between 1993 and 2007. As these two authors wrote, "that's quite a bit of money to destroy a solid, 158-year-old firm". Former Lehman insiders McDonald (2009) and Tibman (2009) also did not hesitate in arguing that Fuld was responsible for the bank's fall. They both point to the CEO's arrogance and refusal to listen to the most senior and competent traders within Lehman Brothers who warned him about the risks and dubious practices of the investment department. Against best practice, Fuld even made the investment department report directly to him rather than to the senior managers. Although he has written a well-documented history of Lehman Brothers and its final demise, Chapman (2010) remains cautious in his analysis of the role played by Fuld, presenting him at times as somebody who perceived only the success of the actions of his investment traders but never the problems.

Chapman has described Fuld as a philanthropist who sponsored art through private galleries but also through the New York Museum of Modern Art. Chapman has even questioned whether there were two personalities in the man who led one of the most powerful American banks and its controversial money-making machines and engaged with intellectuals and culture: "Yet was this quite Dick, or rather, Richard S. Fuld?" (Chapman 2010, 258). We see here a pattern emerge that is common to many successful people in business: Fuld, cultivated a public persona devoted to his family, art, and selected cultural activities. We do not find such a behavioral pattern in the Enron people, but the reason could be that because of their business success and because of their academic background, they were already more organically involved within exclusive intellectual and art circles than was the outsider Fuld. Undoubtedly, managerial practices played a central role in the three stories recounted here. Schwarcz (2010, 420) has pointed to the fatal conflicts of interest between a "firm and its secondary managers", a conflict that "centers on compensation". According to him, secondary managers have the power to "structure, sell or invest in market securities on behalf of the firm, such as analysts responsible for making decisions about the firm's investments". This is a very interesting insight that also explains the role of some secondary managers in the fall of HIH and Enron.

In the final chapter of his account of the rise and end of Lehman Brothers, Chapman (2010, 240–274) reconstructed the last dramatic events of a proud institution that fell victim to its own success. Speaking of the swaps holders, Chapman wrote that "many buyers of credit default swaps were like vultures and hyenas on the outlook for rotting carcasses" and some of these people were the same bank institutions that contracted mortgages and then sold them as collateralized credit obligations. In March 2003, Lehman Brothers announced a profit increase of 61 %. In June 2003 a Californian jury found the bank guilty of mortgage fraud. In 2004 its profit from subprime mortgages doubled and it doubled again in 2005. In that year the value of CDO (collateralized debts obligation) investments within Lehman Brothers originating from subprime mortgages was about US$800 billion. But already in 2006 dangerous signs of a defaulting mortgages market were emerging and powerful investors began deserting Lehman Brothers, leaving the bank sitting on billions of mortgage-backed CDOs. Still, in January 2008 Lehman's share price was rated at US$65. Eight months later it collapsed to $4. Lehman Brothers might have become a victim of its own invention, as some might have bet on its failure to pay back the loans contracted and collateralized through CDO securitizations and swaps. Lehman Brothers itself might have been part of the swaps system that once brought it billions of dollars.

This case study could be analyzed from several perspectives. It seems that many people within the business system had been carried away by their own creations and detached themselves from the repercussions of their actions. One question that arises is whether there was a single element that could stand out as the primary cause of the whole demise. Some commentators have pointed to the low interest rates that could not satisfy those who wanted to make money; others pointed to the subprime mortgage contracts; and still others pointed to the easy credit bonanza of the early 2000s and the irresponsible decisions of the rating agencies. Issues of governance and lack of governmental scrutiny have also been identified as reasons for the anarchic state of the economy after the monetary policies of the 1990s and the permission for merchant banks to operate as investment banks. Inevitably, all these factors played a role. But perhaps there is an additional element that needs to be looked at more closely, and this is the lowering of the moral power of leverage as an instrument that in the past had created inhibitions within financial and credit institutions, the government, and private people. According to Bragues (2010), in the period immediately preceding the GFC there was a general lack of "recognition of leverage as a morally legitimate tool of economic life". As soon as leverage became a negotiable item between government and financial institutions and banks, "individuals and firms could … take on higher debt-equity ratios without moral qualms" (2010, 4–5). One powerful conclusion that can be drawn from these three case studies is that the ideas of virtue and frugality that characterized modern liberal economy and its notion of governmentality (namely good and effective government) were abandoned in the second half of the twentieth century.

These three case studies have highlighted the risks related to corporate entrepreneurial activities oriented toward the maximization of profit detached from any analysis of its repercussions and effects. Entrepreneurialism in finance is currently based on models and programs that elude the evaluation of human beings, and the risk is that financial decision making becomes a crude exercise in numbers and financial engineering. Bieri (2010, 331) described financial stability as a "public good" inasmuch as the benefits that it brings to some customers are not threatened by the consumption of its services by others. It is uncontestable that the financial sector has become the most important part of the capitalist economy (Fleming and Spicer 2014) and that this shift needs to be included in the discourse about how to govern in the twenty-first century. The Great Recession of 2006–2010 (and perhaps also the European debts crisis of 2010–2015) only too well proves that it is impossible to control the market. Now that the market has become global, the need for regulation becomes even more compelling. One of the most urgent issues of the new century is how to conceptualize the new role of government so that it does not impede economic freedom and, at the same time, guarantees effectiveness and prosperity to many. Although regulation was not always enforced during the financial crisis, no-one can honestly argue that no regulations were in place. Many of the commentators referred to in this chapter have observed that there were in fact monetary policies, governmental legislation, and internal governance rules playing as strong a role as did the incentives that reduced inhibitions. There was a clash of cultures between traditional values and emerging radical ones that needed to be refined and embedded in more ethically acceptable behaviors.

This discussion has revealed an important feature of the emerging civilization of the twenty-first century where new technologies, computer programs, well-educated individuals, science and education, and communities and individuals have become more sophisticated than the regulatory structures that we have in place. It seems difficult to deny the sense of transition currently pervading our societies and culture. Furthermore, the sense of suspension that the crossing of a new cultural threshold can cause in traditional institutions and practices might be as devastating as it can be elevating. Undoubtedly, there were some anarchic conditions in the economic and financial practices that preceded the GFC and that intensified during its unfolding. But how can we be sure that errors are not repeated considering that many of the mistakes that led to the 1929 downturn and subsequent Great Depression somehow caught up with the economy some 80 years later? An important question is whether a more sustained reflection about ethics in economy, business, and society can help to identify effective ways of keeping the link between economic and personal responsibility alive. Another important ethical question is whether wealth can be seen as both a catalyst for progress and individual independence and as a guarantee of business and economic prosperity. Ethics can help clarify this question, but what is first required is governance grounded in organizational stability. It seems that in order to achieve organizational stability, the power of managerialism must be curbed and organizational wealth for the sake of the firm must be reinstated. More governance and less management might be one solution to business instability.

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Part III
Ethical Practices

Part III comprises Chaps. 7, 8, and 9. The idea advanced in Chap. 7 is that people have an original ethical capital through their human ethical dispositions. The analysis commences with a discussion of Foucault's work about the formation of ethical subjectivity. Ethical subjectivity is interesting for two reasons. First, it helps us to appreciate that ethics is related to behaviors and practices that people display and shape with an intention to live ethically. Second, the notion of ethical subjectivity helps to develop an understanding for ethics being a way of acting through which it is possible for people, or some people, to respond to the subjectivity forced upon them by the conventions, or power, of a culture. Ethical subjectivity allows for self-affirmation against what is imposed on us. In this case, it becomes possible to express resistance through ethics. It is not resistance and nothing else. Resistance is produced through a reinforcement of ethical attitudes and practices. Foucault's notion about the formation of ethical subjectivity is used to elaborate on the possibility that people can expand their ethical dispositions through ethical practices and build on ethical capital. And ethical capital supports ethical capabilities. Ethical capital cannot be protected by keeping it either hidden or stable. The best protection that we can give to our ethical capital is to increase it incessantly. The accumulation of ethical capital is not an extraordinary activity, in fact it can be part of our ordinary activities. This means that in their ordinary life, people accumulate not only ethical capital, if they choose to do so, but also knowledge and the ability to care. Just as we are not always projected toward increasing knowledge in what we do, or taking care of the things that are important to us, so, too, we are not always intent on increasing our ethical wealth.

Chapter 8 is concerned with ethics and entrepreneurship. Three intersections between entrepreneurship and ethics have been emphasized. The first intersection refers to classic economic entrepreneurship and Schumpeter's idea that entrepreneurs have the appropriate mentality to engage in entrepreneurship. The ethical question triggered by entrepreneurial mentality is whether entrepreneurs can also use their mentality to bring about social advantage for all. Schumpeter also declared entrepreneurs to be neither capitalists nor financiers, which suggests that they might have a role that is antagonistic to the capital holders. This state of affairs could have implications for ethics, and an urgent question putting itself forward here is whether entrepreneurship could be seen as an alternative form to capitalism. From here, the discussion moves to the second intersection by focusing on activities carried out by individuals who are intent on changing their social status by freeing themselves from the conditions under which they live. These conditions might be caused by controls exercised by others or lack of opportunities. Their change processes are comparable to entrepreneurial processes. The main difference discussed in the chapter, however, is that entrepreneurship mingles with the personal to create social change rather than financial wealth. Finally, the third intersection between ethics and entrepreneurship is highlighted through a discussion about self-entrepreneurship. This entrepreneurship originates from activities initiated by individuals to achieve self-renewal, where individuals are mainly concern with life as a form of enterprise that can be improved. In this chapter, entrepreneurship has acquired a more nuanced meaning by having being brought in relation to new types of disruptions and changes. Far from being an exclusive economic category, entrepreneurship is open for application to a variety of fields. Of particular importance for this chapter is how entrepreneurship has extended the field of ethics. It has even helped to modernize ethics.

Chapter 9 takes us back to the origin of ethics. In this chapter, attention is given to the theoretical framework developed by Aristotle in his *Nichomachean Ethics*. Aristotle is discussed in the penultimate chapter of the book, before the conclusion, not by chance. The intention here is to reaffirm the relevance of his work for today's analyses of ethics. I pay attention to some of the concepts developed by him to justify his notion of ethical behavior. These are virtues, skills/means, the mean (ideal mid-point), and self-sufficiency. Aristotle's concepts are elaborated upon particularly in relation to business ethics. Through a discussion of the personal accounts of a former banker and a former trader of Lehman Brothers, his ethics is tested in terms of whether it can help explain the behaviors of people working in today's corporations. Aristotle has been criticized for having too cozy an idea of the world and the ethical agent in it. But others have defended his legacy and shown that Aristotle was well aware of the difficulties people were facing in his time when forced to acknowledge their own impotence vis-à-vis the events happening in the world. It seems that Aristotle genuinely believed that a good person would always try to find a balance between extremes, and that that person would do so in a way that was balanced. To extend ethics beyond the traditional theoretical comfort zone has been the topic of Part III. Here possibilities for ethical behaviors and choices that do not figure prominently in traditional ethical scholarship have been discussed. They open up new forms of enquiry for ethics.

Chapter 7
Ethical Capital

Abstract In this chapter, the formation of ethical capital is discussed. I begin by using Michel Foucault's work on the formation of ethical subjectivity. I do so to elaborate on his idea that people can resist power through ethics, particularly through the care-knowledge nexus that sustains ethical living. I then propose to consider the ethical subject as someone who has built up ethical capital through which it becomes possible to attain independence from the power of others. Ethical capital is presented as a form of accumulation of ethical capabilities that might have started early in life. Accordingly, I suggest that birth represents the start-up of a personal enterprise from which ethical capabilities can be expanded. Ethical capabilities, although influenced by human ethical dispositions, cannot survive on their own. Hence, I further argue that ethical capabilities are the product of upbringing, education, and socialization. To make this latter point I use Carol Gilligan's work on care. Ethical capabilities are continually improved to attain an ethical status. By being the result of human activity, ethical capital is exposed to risks and can be lost. Attempts to keep ethical capital unchanged might inadvertently lead to a decrease in a person's overall ethical wealth. Ultimately, personal ethical capital can be protected by incessantly growing it.

Introduction

How people act and choose has been a preoccupation for ethical theory for a long time. This preoccupation has produced distinctions, some reasonable, others less so. It is reassuring to know, for example, that not every human activity is driven by ethical considerations (Frankfurt 1988) and it is difficult to accept that the will is always determined by anything else but itself (Kant 1785/1998). There is a third possibility. This possibility has to do with the idea that some people cultivate their ethical capabilities on a continuous

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basis[1] as a form of incessant voluntary investment in their ethical capital. Their actions originate from their will, which, however, is not conceptualised as a universal category (as the moral will that Kant thought to be common to all rational beings). The will operating in this third possibility is an individual will, and by this I mean the will expressed by a person when making choices—choices that can simply be determined by material interests. To elaborate on this third possibility, I have singled out some of Foucault's works on ethics. Foucault spent the last period of his life writing about ethical practices. He did so after concerning himself for decades with discipline and power. He became fascinated with the idea that people might be able to change themselves for the better through the continuous application of rules of conduct directed toward personal improvement. Such rules, he further thought, were rules grounded in ethics as opposed to the rules of discipline imposed by power. He specifically wrote about ethics and how people could practice ethics in order to achieve personal goals. Such goals could also include the goal to become somebody else, which in Foucault's terms also meant better than one was. To become somebody else in his view meant to resist the subjectivity imposed by others. In other words, people could decide to subject themselves to ethical rules and by doing so counterbalance, or even annihilate, the subjectivity shaped by the rules of a culture, its power and behavioral sciences. Thus, the later Foucault suggested that one possible way people had to oppose the rules of a culture was to become ethical subjects. Ethics became in Foucault a synonym for resistance.

Foucault did not believe that political action could free people from the clutches of power at body and soul. He rather thought that political engagement always ended up reinforcing power. Foucault's idea of change projected toward the creation of a different, a better self than the one devised for us by the mentality of power, can however not be mistaken for one-off action. In his view, the practices that should help create ethical subjectivity required a continuous activity of renewal. Foucault was primarily moved by the hope that human beings could escape the subjectivity imposed on them by power relations by voluntarily subjecting themselves to a personal discipline. To subject oneself to a personal discipline, it was necessary to devise and follow individual rules of conduct. Personal discipline would guarantee a way out of the disciplining power of others. Personal discipline was in his

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[1] By this I do not mean that all people's activities are continuously checked in terms of their ethical content. In fact, reading a publicly available newspaper or book, for example, implies no ethical consideration. Similarly, people do no continue to check the level of their knowledge.

view a form of reframing of people's lives through ethical practices. Through this reframing, people could set their own subjectivity without resorting to political means because, in his view, political practices and activities ultimately led to an expansion of power and politics rather than their weakening. Ethics, however, he considered to be the method by which people could free themselves from the burden of powerful control. Through ethics Foucault shifted the focus from other-control and institutional discipline to freedom and self-discipline. He thought that ethical subjectivity was influenced by practices oriented toward self-care and grounded in self-knowledge. Institutional disciplines he once described as the result of a power-knowledge apparatus of control and subjugation. This apparatus of the early Foucault turned into what I would call the more productive care-knowledge nexus of his later works.

Two issues are explored in this chapter. First, I discuss how Foucault's idea of subjectivity can be seen as a new way of thinking about the role of ethics. Second, I expand on the possible consequences of such thinking. Particularly related to the second goal, an interesting question seems to be whether the continuous ethical commitment brought about by individuals, which sustains their ethical subjectivity, could be seen as an investment in ethics for the sake of increasing personal ethical capital. Working for a better self could be seen as working for ethical wealth. Ethical wealth could make people more independent from political control. Thus, Foucault's notion of self-care could be interpreted as work projected toward ethical capital building. The notion of ethical capital suggests that some people would be able to reinvest their ethical capital, attained through ethical activity, and so expand their ethical wealth. Here ethical capital building improves personal power through ethical practices. In some ways, Foucault's notion of the formation of ethical individuals could be seen as a phenomenological project particularly because of his emphasis on everyday experiences. Foucault's work on the formation of ethical subjects has added a new perspective to the theory of ethics particularly because power and self-discipline have reconfigured the thrust of classic notions such as freedom and control.

Building Ethical Wealth

Foucault wrote about the formation of ethical subjectivity after a long career focused on epistemic structures, discipline and power, and security and government. The turning of the later Foucault to ethics is revealing. Some have suggested that there is a disjunction between the early structural work and the later analyses, particularly those centered on the formation of ethical subjects. Foucault never accepted this suggestion. He regarded his turning to ethics as an obvious passage that naturally extended his genealogical work on subjectivity. In his earlier works[2] Foucault represented subjectivity as the product of disciplinary mechanisms. Physical and emotional discipline aiming to create "docile bodies" was, in his view, made possible by modern human sciences that help created modern society. People were subjected to something, either to authority such as the law or to power such as social norms. Docile bodies reflected the ability to shape people's subjectivity according to the new modern mentality that required total conformity in order to govern the many. In his later works,[3] Foucault took a phenomenological approach to subjectivity by seeing it as a process of change resulting from people's everyday practices, which implied a certain degree of self-discipline. Despite his phenomenological attention to everydayness, however, Foucault remained close enough to moral philosophy to understand people's actions as originating from an individual will determined by an existential, almost material, interest to subject oneself freely to rules of conduct. This submission to self-rules, which is described as subjectification, he understood to be a response to subjectification mechanisms used by power to influence people's responsiveness to the norms of a culture. In his writings about everyday ethical practices, Foucault developed a theory of care and self-care through which he further elaborated on how people could take care of their personal interests in order to establish themselves as ethical subjects. In this focus of enquiry, Foucault moved the notion of care into the domain of ethical practices by linking it to the idea of freedom (the freedom to be whatever one wanted) and responsibility (for one's own subjectivity).

He particularly emphasized how life and living could take the form of a project drafted by individuals with the purpose of establishing a course of action projected toward the attainment of an ethical status. Within the scope of this idea, he took the view that such a project could become a correlate of "intentional and voluntary actions by which men not only set themselves rules of conduct, but also seek to transform themselves, to change themselves in their singular being" (Foucault 1997a, 42–43). Foucault particularly insisted on understanding the setting of rules and the individual

[2] Particularly *Madness and Civilization* ([1961] 2006), *The Birth of the Clinic* ([1963] 1973), *The Order of Things* ([1966] 1970), and *Discipline and Punish* (1977).

[3] Particularly in the *History of Sexuality* Volume 1 (1979), Volume 2 (1986), and Volume 3 (1990).

submission to those rules to be the result of an act of free will. He called it "voluntary subordination" (Foucault 1997a, 47). The assumption here is that individuals must be able to govern themselves according to what is important for them. To do so, he further argued, individuals would have to develop a way of dealing productively with the issues that they have identified as important. That way of dealing with important issues he described as a form of discipline imposed by the self on the self. The human being of the early works, whom Foucault described as subjected to disciplinary apparatuses nourished by normative discourses of inclusion and exclusion, is nowhere to be found in his work on ethics. The ethical subject re-emerged as a more optimistic, and, more importantly, as a freer, individual.

Foucault cherished the idea that human beings can have a relation to themselves that is one of joy. He spoke of life practices cultivated by individuals with the intention to improve their sense of being. This sense of being Foucault also linked to people's attempts to bring quality into their lives and enjoy a more intensive way of being a human being. He called this "the experience of a pleasure that one takes in oneself" (Foucault 1990, 66). He believed that, by taking care of themselves, people learn how to know themselves, to know how to conduct proper private and public lives. Foucault clearly understood ethical life to be a creative project. To live, in his view, was never a finished act. People could change, improve, add experiences that would positively increase their sense of being, not as the product of power but the result of voluntary actions. He also believed that, although ethical practices represented personal acts that were performed privately, their effects were not confined to the self alone. Foucault's idea here is that those who choose to live ethically do so in a way for others to experience their doing so. To illustrate this point, it is possible to imagine how somebody's decision to live sustainably, by reducing individual carbon footprint for example, will affect others simply through the fact of people living together and sharing the world. For Foucault, living ethically is a task related to choosing an "ethics that enabled one to constitute oneself as an ethical subject with respect to these social, civic, and political activities, in the different forms they might take and at whatever distance one remained from them" (1990, 94). Foucault suggested that the creation of an ethical self can imply an interdependent collaboration between soul and body (1990, 55–56). It is a project that he viewed as free of grand theories. Rather, individuals develop knowledge about their world and their place in it through ethical practices. He understood people to be guided by the desire to care for themselves and to know who they are in order to conduct a better life for self and others. And only those who can govern themselves will be able to govern others. “One will not be able to rule if one is not oneself ruled” (1990, 89).

The idea underpinning self-care is that one needs to care for oneself in order to accomplish the tasks that one has identified as important. This, however, is no easy task. Frankfurt (1988) for example, argued that even when people identify what is important they might lack the will to carry out their plans. As he explains, the intention to give up smoking is not enough to stop smoking (p. 87). Foucault must have had a sense of the danger posed by the gap dividing intention/wish and practical execution, and his linking self-care with education might be seen as an attempt to close that gap. He thought that people have first to learn how to achieve the outcomes of their deliberations, and in this process “educating oneself and taking care of oneself are interconnected activities” (Foucault 1990, 55). Education he also understood to be a technique. At times he spoke of a technology of the self to emphasize the fact that ethical life implies the presence of structured behaviors, of structured ways of applying regularly what one has learned over the years. Foucault seemed to take this view about education when he stated that “no technique, no professional skill can be acquired without exercise … without an askesis that must be understood as a training of the self by the self” (Foucault 1997b, 235). To him, education and its techniques represent the “formative elements of ethical subjectivity” (Foucault 1988, 67).

Foucault argued, however, that technique needed intentionality to be effective inasmuch as the formative elements of ethical subjectivity are ultimately grounded in a “progressive consideration of self, or mastery over oneself” (Foucault 1988, 35). The notion of progression suggests a double effect: first, the formative process is cumulative, and, second, choices have to be made in order to sustain the formative process. Choices are not determined by static conditions. In fact, a change of situation, unexpected events, are always reasons for people to choose to do something over something else. Particularly in relation to this possibility, Foucault (1988, 35) observed that the technology of the self can shape the “process of becoming more subjective” by helping individuals to gradually develop the ethical abilities they aspire to, but he also sensed that in order to do so some conditions were necessary. More precisely, he thought that people can create life patterns according to an ethics of the self for which caring for oneself and knowing oneself would free the conditions for a more targeted technology of the self. It seems that in Foucault’s work, care and knowledge build a constitutive nexus in the process of building ethical subjectivity. The care-knowledge nexus, however, presupposes both awareness of personal needs and self-awareness in terms of what we must know about ourselves. Although Foucault did not elaborate on the care-knowledge nexus separately, he captured its defining importance when he intuitively sensed that there might be decisions that are motivated by an existential interest. He linked that existential interest to the wish to change oneself—to change not merely what one does but also what one is. Here lies perhaps the main tension between the phenomenological Foucault and the metaphysical Foucault (Betta 2015, 14–17). The phenomenologist in him is interested in what people do while coping with what people encounter within the social world of shared practices. The metaphysical Foucault accepts the will as the determining source of people's ethical behaviors. This tension never came to a resolution and is best embodied in one of his most beautiful statements: "The main interest in life and work is to become someone else that you were not in the beginning" (see Martin 1988, 9). Foucault was suggesting here that people can, or even must, take care of their existential interest, and that this taking care presupposes individual agency. It also presupposes free agency, and the freedom of this agency is in accordance with moral principles such as responsibility toward oneself and others, the imperative to be good, to do the right things. Foucault clearly made a point here that through the aspiration to become better, the individual is at least intuitively aware of these moral principles from which self-knowledge originates. The care-knowledge nexus sustains people's actions aiming to increase personal ethical capability and, with it, their personal ethical capital and, through it, their independence from power and politics.

A New Understanding of Ethics

The notion of ethical capital building recasts our understanding of ethics. As no one is born an ethical subject, becoming and remaining an ethical subject implies a continuous investment in ethical capabilities with the purpose of increasing ethical wealth. Whereas during childhood and adolescence that investment is strongly influenced by adults, in subsequent years it becomes a matter of personal choice. This is not to say that children and adolescents do not have the ability to discern ethical importance or to make independent ethical decisions based on what they know and have experienced. However, to grow their ethical ability children need a safe environment in which they can further develop their ethical capital. Children and adolescents subjected to bad adults (who intentionally expose children to the wrong) will have far fewer opportunities to build up their ethical capital, although this does not mean that they have no ethical capital at all, or that they cannot keep building their ethical capital despite the brutal conditions in which they live. In his novel *Oliver Twist*, Charles Dickens, that knower of street morality, beautifully described several boys and girls exposed to the extreme behaviors of criminals such as Fagin and Sikes. Dickens makes us admire them for their resilience to maintain a strong degree of ethical independence. An example here is Nancy the girl who ultimately sacrifices her life to save Oliver. She represents the ultimate example of young morality despite brutality. Dickens, however, does not dwell on the origin of Nancy's good nature. He left the issue open by remaining ambiguous toward Oliver Twists' good character. In fact, Dickens seems to intimate that it was Oliver's aristocratic pedigree that strengthened his resistance to crime. This was a way for Dickens to suggest that good nature is innate, and that it can be innate in various ways. But he also showed that without the safe environment of social institutions good nature cannot survive. Oliver will survive by being adopted by Mr Brownlow. The notion of an innate good nature is interesting, particularly because it could give rise to the idea that education or upbringing might not be needed when something is innate.

As if addressing the implications of this idea, Bernard Williams (1985) spoke of the importance of human ethical dispositions for every human being. He argued that the formation of ethical dispositions occurs as a natural process. But the natural process, he emphasized, is "not at all spontaneous" but rather the "product of education or upbringing" (1985, 47). Accordingly, he argued that "while the capacity to learn a language is itself innate … no child will learn any language unless exposed to a particular language, which is itself, of course, a cultural product" (p. 47). Williams added that social convention is also part of the natural process, and that by convention it becomes possible to share ethical conceptions with children. This process, he argued, is good for adults and for children. And this is why, in his view, "we have much reason for, and little reason against, bringing up children within the ethical world we inhabit, and if we succeed they themselves will see the world from the same perspective" (p. 48). Williams also made the observation that adhering to social conventions and belonging to institutions that have ethical goals is necessary for well-being and happiness. "Even if we know that there are some people who are happier, by the minimal criteria, outside those institutions, we also know that they rarely become so by being educated as outlaws" (p. 48). It seems to me that the notion of the ethical disposition does not contradict the statement I made at the beginning of this section that no one is born an ethical subject. Further drawing on the work of Williams, it is possible to argue that human dispositions originate from self-concern and other-concern, and that both support the building of ethical value. This support, Williams further declares, has a practical and metaphysical implication because “the preservation of ethical value lies in the reproduction of ethical dispositions” (1985, 50–51). Williams makes the comment that “you must make errors, and recognize them, if you are going to extend such knowledge as you have” (1985, 58). Errors are possible because we live in society. But he also observed that we live in society not because we must, but because we need to live in it, “and this is certainly an inner need, not just a technological necessity” (1985, 45). Consequences follow from social life because through living in society “some ethical considerations or other must be embodied in the lives of quite a lot of people” (p. 45). Williams seems positively prejudiced toward social institutions and socialization, and yet he is aware of their limits. He is particularly skeptical about the assumption (made by traditional doctrine) that “everything pursued is pursued as something being good” (1985, 58). Here we might find a productive link between Foucault’s skepticism toward the power of social institutions and Williams’ skepticism toward the idea that all goals are good merely because they are pursued. If in Foucault ethics becomes a form of resistance against the power of others, in Williams it becomes a prejudice in favor of humanity. (I will return to this in Chap. 10.)

It is possible that how adults choose is a consequence of how they were raised, although some of the effects of upbringing can be reversed. How such a change occurs and through what might depend on various factors. But it seems possible to argue that new experiences at work, in social life, and with private friends might lead to some adjustment of early values. Ethical thought can also influence a revision of previous learning. This process of adjustment is part of the personal investment individuals can make for the sake of maintaining and enhancing their ethical capital. For example, new experiences might teach people to appreciate others more thoroughly, and so they might acquire the ability to adjust previous attitudes toward inclusion and exclusion, and become either more open or less discriminatory. New values might add to the ethical capital that one has accumulated over the years and expand it. Negative experiences might put ethical capital at risk, but not automatically reduce it. An encounter with false friends might have consequences spanning from sheer disappointment to physical suffering. Despite the consequences of such encounters, people’s ethical capital might not diminish. From a personal viewpoint, we acquire an ethical status, we accumulate ethical wealth. Ethical capital can be kept unchanged, it can decrease, and it can increase. Of these three possibilities, attempts to keep ethical capital unchanged might in the long run become difficult. Cultural and social values might change around people and any lack of adaptation might ultimately detract from ethical wealth. Ethical capital can stay unchanged when no new values or insights are added, when risk-averse attitudes become too strong. The wish to keep personal ethical capital unchanged is like keeping money under the mattress. Considering, however, how much the ethical ground has shifted in the past 20 years, a person's wish to keep ethical capital unaltered could actually be tantamount to a loss of ethical capabilities. Conversely, ethical capital decreases when once-good values are wasted. It increases when people work toward an incremental development of ethical subjectivity. The assumption I am making here is that people appreciate their ethical capital, that it is not a burden to them.

Thus, there seems to be an important difference to be made between accumulation and maintenance of ethical capital. Birth represents the start-up of a personal enterprise, and with that person's ethical capital.[4] Somebody, however, might have enjoyed an upbringing that favored the building of ethical capital. The ethical capital accumulated from age zero builds the ethical wealth of a person. Similarly to material capital, ethical capital can be squandered and people might end up in ethical poverty. Hence, whereas ethical accumulation might take place over the years (often unnoticed by the young), maintaining that wealth might prove difficult once responsibility for that ethical capital becomes a matter for the adult individual. When the maintenance of acquired ethical positions is successful, new accumulation of ethical capital becomes possible, and with it an expansion of ethical wealth. Building ethical capital is independent of the material wealth of people. Some persons might belong to a materially wealthy family and yet receive little ethical guidance and thus accumulate little ethical capital. On the other hand, one might come from a modest household and yet possess a wealth of ethics. In her most successful novel *Pride and Prejudice*, Jane Austen described how the wealthy Mr Darcy was given a lesson in ethical behavior by Elizabeth Bennet whose conditions in life were less fortunate than his. Reflecting about his upbringing, Darcy acknowledges that although

[4] Birth marks the beginning of a person, a juridical subject protected by the law. And although that person is not independent from the authority of parents or guardians until the age of 18, even as a half-person a young child and an adolescent are equipped with independent rights that no one can remove. The human being who exists from the moment of conception has not the same rights.

his upbringing had been based on good principles, it had not taught him how to practice ethics. “I was given good principles, but left to follow them in pride and conceit”. Through his acquaintance with Elizabeth Benet, Darcy learns how to practice good behavior and not only exhibit good manners.

Some have suggested that the ability to respond in an ethical fashion to whatever situations one encounters might derive from specific qualities. Carol Gilligan (1993), for example, found that girls and women tend to favor solutions to ethical dilemmas grounded in practical care and caring rather than abstract notions of right and wrong, things that are legal and illegal. Gilligan particularly questioned research findings from within the field of psychology[5] that were concerned with the ability to form moral judgments. She also more generally criticized assumptions recurring in classic texts of psychology in which women’s “sense of justice” was continually described as lacking in objectivity. She particularly resented the tendency of past psychology studies to present girls and women’s ability to judge as fundamentally flawed, as incorrigibly “compromised” because of the perceived lack of “blind impartiality” that girls and women were said to display (1993, 18). Gilligan noted that past empirical research tended to give too much credit to values of justice and control. She argued that these values were particularly invoked to justify theories of human growth and definitions of morality exclusively based on ideas of autonomy/independence. In her view, such justification would propagate an individualistic understanding of human agency, grounded in hierarchical and/or contractual relationships and determined by the opposing notions of “constraint and cooperation” (Gilligan et al. 1988, 8). Her own research, however, unveiled different ways of approaching ethical dilemmas, particularly through the tendency in girls and women to favor values of care and connection. Gilligan declared these values to be well ingrained in “women’s thinking”. She was, however, not suggesting that they were innate values. There is a sense here that Gilligan was pointing to socialization, in other words of being socialized into a role because of social norms, gender, and social expectations. Gilligan’s work is interesting for several reasons. By speaking of socialization she clearly moves away from ideals of natural moral superiority. Socialization, like education, can contribute to the building of ethical capital in men and women alike. Where socialization has inculcated questionable values, individuals can learn through new experiences how to adjust or remove them totally from their social interactions and daily practices.

[5] She particularly singled out the work of Lawrence Kohlberg (1963, 1969, 1981).

Ethical Practices

Through the notion of ethical practices used in this chapter, it is now possible to extend the theory of ethics to include the practical consequences of ethical principles, the outcomes of intentions and choices. In other words, not only intentions and choices are important, but also the material outcomes of those intentions and choices, and the way in which outcomes have been achieved. In the present discussion, the outcome has to do with the creation of ethical subjectivity. If we accept that ethics can be practiced to attain a certain status it becomes possible to conceptualize human agency in a new fashion. The question that drives this theorizing is not so much whether the material execution of decisions and plans is totally under our control; and it is not so much whether I am advancing a personalized idea of the moral will by suggesting that in our everyday interactions we might even be influenced by mundane issues. The important question in this chapter is how to make sense of ethics in relation to activities and actions that are profoundly personal and projected toward the creation of ethical subjectivity. Ethical subjectivity can be explained as the manifest identity of an ethical person.

What traditional ethics cannot help determine is how individuals come to think in ethical terms or why they should think in ethical terms. Unless there is an interest to do so, it seems difficult to see where people should gather the motivation to stay ethical, or increase their ethical stand, or resist the influences that would reduce ethical capability. Where is such interest to be found, and how is it formed are certainly important questions here. I have stated earlier that birth sets up ethical capital, and that subsequent upbringing and education expand ethical capital. In young life, the main interest lies with others. Parents and educators want to equip children with ethical capabilities. This want manifests differently according to people's experiences. Their wish might originate from their own ethical subjectivity. The larger the parents' ethical capital the stronger might be their wish to share it with their children, and so multiply it. Adults, however, have to find their own motivation to remain ethical or increase their ethical stand. The reasons for their choices might vary and be influenced by innumerable ideas around perceptions of how to act and how to be. Thus no matter how important these reasons might be, it might not be an easy task to identify them. Hence, it might be more interesting to reflect about the changed nature not so much of ethics, but of the perception of ethics. If ethics could be seen as a mode of being rather than an instrument through which people can attain ethical stature, then it would be possible to integrate ethical thinking into everyday practices. When ethics is part of everyday practices it takes the form of a mentality. Thus the term mentality can be understood to be reflective of a way of practicing ethics. When people practice ethics they use it to cope with whatever is encountered in everyday life. Ethics as a mentality would be applied similarly to how knowledge is applied to tasks, and care to what matters. When dealing with others and things, people do not question the nature of their knowledge or care. They simply use or apply it. It might be argued, then, that similarly to how knowledge or care infuse people's daily interaction repertoires, so is ethics infusing their everyday practices. People can accumulate ethical wealth as they accumulate knowledge or experience. It is people's interests that will determine the types of activity that are needed to accomplish their tasks. Where there is a wish to accumulate ethical capabilities, ethical learning becomes the method. Some people will be more inclined to increase their knowledge capital, others their ability to care, and some others their ethical capital. As not every human activity is, for example, projected toward the accumulation of knowledge/experience, equally not every human activity is projected toward an accumulation of ethics. Hence, there is a sense that "ethical life is not a unitary given thing, and there are many different possibilities within it for education, social decision, even perhaps personal regeneration" (Williams 1985, 48). The decision about how to live always remains with the people and their interests.

Conclusions

In this chapter, I have discussed the idea that people's choices to be ethical and to live ethically represent an ethical investment. This investment helps increase the ethical wealth of a person. I have used Foucault's notion of the formation of ethical subjectivity to elaborate on the establishment of ethical wealth. Foucault developed the idea that ethics can be practiced physically and in everyday life through an attitude that requires continual discipline. He described it as self-discipline and he opposed it to discipline imposed by social and institutional normativity that people cannot control. Foucault used ethics to resist power. Through ethics, individuals can learn how to devise the self-discipline needed to frame their resistance to control and power. He linked self-discipline to self-care and self-knowledge. I have argued that the care-knowledge nexus becomes a way of establishing ethical subjectivity. The nexus is influenced by upbringing, education, and socialization. I have used Gilligan's work to make this latter point. When individuals become independent of others, that is when they are no longer subjected to parents, education, and socialization rules set by others, their actions become the product of their decisions. Here individuals wanting to live in an ethical way decide to subject themselves to self-established rules of conduct. People continually expand the care-knowledge nexus through new experiences, and they continually test it through new decisions and actions. When ethics is practiced to improve people's lives, or so that people can change themselves, ethics becomes part of everyday thinking. It becomes a mentality that can sustain personal projects and activities related to an ethical idea of personal power. Here ethics becomes something that does things by helping people to create ethical wealth. Ethical capital is what helps people attain an ethical status. To protect this status, ethical wealth must be kept growing.

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Chapter 8
Entrepreneurial Ethics

Abstract This chapter is concerned with three intersections between ethics and entrepreneurship. The first intersection is related to entrepreneurs' specific responsibility which is increasingly influencing writings about entrepreneurship. This intersection is about ethical value creation and the values of the entrepreneurs. Important in this intersection is also the role of the entrepreneur vis-à-vis the capitalist. The distinction between the two acquires an ethical importance particularly with regard to how entrepreneurship could be seen as an activity that is perceived as being distinct from capitalist activity. The second and third intersections refer to the application of entrepreneurship to practices that aim to create innovation and social change at the personal level. The importance of these intersections lies in the type of change that the entrepreneurial process brings about consisting either in personal innovation or personal emancipation, which are processes of change captured in the notion of self-entrepreneurship. Entrepreneurship has become a critical field for ethics. Through entrepreneurship it is now possible to have ethics focus on what people concretely do, and thus operate as a mentality rather than a distant theory.

Introduction

Entrepreneurship is originally an economic term used to describe wealth creation. Lately, it has also been used to explain human activity focused on change creation. The reason for such flexible application is that entrepreneurship is not a theoretically well-defined field. Thus, what Suddaby (2014) laments as a limit, the lack of a distinct entrepreneurship theory, I am inclined to appreciate as a potential for new theorizing around entrepreneurship. Entrepreneurship has remained open for a variety of analyses in disciplines such as ethics and society (Harris et al. 2011). Thus, considering the broader application that entrepreneurship is experiencing, it seems important to identify more precisely how realistically and productively ethics can intersect with entrepreneurship. Questions are therefore asked, for example,

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about whether the founders of the Internet or Google should be made responsible for how their platforms are used. Issues of this kind cast a new light on entrepreneurship. They reposition entrepreneurship by making it the target of new ethical enquiries. These enquiries also originate from a sustained involvement of ethics with new types of human activities. Of late, this involvement has made it possible for ethical thinking to infuse entrepreneurship. The way entrepreneurship has been eagerly linked to ethics reveals a need in scholarship to expand the ethical domain beyond its established themes. It also reveals a mentality for ethics, or an ethicmentality, that seems to originate from a general wish to have ethics play a more concrete role in everyday life. For today's ethics, to play a more concrete role could take the form of identifying the type of importance people assign to the things they care about in social and cultural systems, and how that importance translates into action. What seems to be particularly important in the quest for more ethics coming from various disciplines and social quarters is not a distant theory of ethics but rather a way of thinking about ethics that could help design some new principles and virtues to help people guide themselves. Such thinking about the role of today's ethics expresses a mentality for ethics as opposed to a theory about ethics.

The Value and Values of Entrepreneurship

The new ethical enquiries cohere around issues of responsibility. But expectations of responsibility must be realistic. Etzioni (1987), for example, warned that "the full integration of new [entrepreneurial] patterns into society is not the role of the entrepreneurs" (1987, 179). He might unintentionally have downplayed the level of responsibility of entrepreneurs, but even so, the question remains whether entrepreneurs could bear that responsibility even if they wanted to. In the 1980s when Etzioni was writing, this issue was not pursued further, but it was revived two decades later by Hannafey (2003) who more decisively recast it in ethical terms: "While entrepreneurs are praised for successful innovation, should they be expected to foresee the ethical problems that may result from them?" (p. 106). The issue remained open. But the fact that it was raised reveals the importance of entrepreneurship for scholars interested in addressing this question from outside the field of business. Hannafey observed that "careful theory development is now needed" in order to elaborate on the "*specific kinds* of entrepreneurial moral dilemmas" (2003, 106–107, emphasis added). To identify those specific dilemmas, Hannafey mapped the domain of entrepreneurship in relation to ethics. By drawing on the work of Baumol (1986), Hannafey discussed the necessity to identify more exactly the types of activities that characterize entrepreneurship (2003, 101). For his part, Baumol had differentiated initiating entrepreneurship from imitative entrepreneurship, arguing that the former is "relatively rare". Similarly, Powell (1990) spoke of high-order and low-order entrepreneurship, limiting the second to the satisfaction of basic needs. The idea here is that not every entrepreneurial action becomes interesting from an ethical perspective. For example, opening a laundromat could be seen as an entrepreneurial action with no particular ethical implications. On the other hand, modernizing human relations through new forms of direct and global communications such as Facebook and Twitter can be seen as initiating high order entrepreneurship with ethical implications, as some issues surrounding social media have already proven. Trying to understand the ethical dilemmas germane to these entrepreneurial activities is the duty of theorists and researchers. Precise analysis becomes even more important because there are temporal limits to the personal responsibility of entrepreneurs. Schumpeter, for example, argued that as soon as entrepreneurs are successful "they acquire capitalist positions" ([1949] 2004, 268) and cease being entrepreneurs. Their innovations might also become part of the assets of listed corporations, and control over them might be removed from the original entrepreneur.

In light of the above, some theorists have attempted to identify where entrepreneurs' ethical responsibility can reasonably be expected to lie. Of importance here are the works of scholars who have focused on entrepreneurial motives and questioned the recurring reference of creative destruction with regard to the ethical implications of such destruction, particularly when it risks undermining legal activities (Brenkert 2009). Entrepreneurship has also been questioned from the perspective of rational decision making that underpins entrepreneurs' intentions (Dunham 2010). Other theorists have focused on specific entrepreneurial behaviors and contrasted them with universal values to identify correspondence and opposition (Clarke and Ram 1997). Still others have highlighted the importance of the entrepreneur's engaged reflective judgment. Such judgment, they argue, turns entrepreneurship into an ethical practice (Clarke and Holt 2010). Given the specific form of outcomes produced by entrepreneurs, some theorists have distinguished entrepreneurship from traditional capitalist ventures by conceiving of entrepreneurship as an independent force that can resist market blackmailing (Miles et al. 2002) and lead to economic outcomes with ethical implications (Miles et al. 2004). Other authors have discussed entrepreneurship as a resource for the entrepreneur interested in maneuvering ethics and business toward a common goal (Pompe 2013). More recently, authors interested in good corporate governance have argued that entrepreneurship has become important from the perspective of how to make organizations work for the social good (Cressy et al. 2010) and ethical corporate profit making (Vranceanus 2014), continuing a tradition that became relevant in connection with entrepreneurship and fair trade (Wempe 2005). Theorists have also focused on the specific characteristics of entrepreneurs and their ethical choices and dilemma in an increasingly technologized world (Harris et al. 2011). From the contents of these contributions it appears that theorists and researchers have paid attention to intentions, practices, and outcomes of the entrepreneurial activity to better locate entrepreneurship on the map of ethics. The new way of thinking about entrepreneurship via ethics is expressed through a general expectation that entrepreneurship adds ethical value to society even when the entrepreneurial goals are primarily economic in nature. Ethical value, however, has a different source than economic value. Ethical value needs ethical values to form.

It might not be easy to establish the values of entrepreneurs objectively, although Naughton and Cornwall (2006) seem to believe that those involved in entrepreneurial developments have virtues no one else has. Their assumption is grounded in their understanding that entrepreneurship is “one of those ‘new things’, one of those important institutions” (pp. 70–71) that more than any other business activity has the power to create change not merely in the public interest, but for personal happiness as well. To produce such an impact, they suggest, one needs more than material resources. And, in their view, entrepreneurs seem to need courage. Naughton and Cornwall define courage as the ability to “overcome major obstacles and endure pain and difficulty” (2006, 73). They understand courage to be an eminent Aristotelian virtue that requires the evaluation of a situation based on the golden rule of the middle that enables an agent to achieve a goal by doing the right things by the right skills/means. Naughton and Cornwall regard virtues as representing conditions for personal and spiritual development that can be found only in the self, inasmuch as by being malleable individual life allows for personal development. These authors do not see economic systems as being capable of providing a “meaningful human life or to create the moral and spiritual conditions necessary for people to develop” (2006, 88). Notwithstanding this comment, they do not question the importance of economic systems tout-court, but they clearly favor entrepreneurship to other business activities. They argue that “entrepreneurial ventures, when properly conceived, offer a more realistic vehicle for people to live out their work as a vocation than do publicly traded companies”. Thus, they do acknowledge that economic interest might be necessary to allow for personal development. This means that, in their view, even when a person’s action is instigated by a material interest, to come to fruition that interest will need that person's commitment. The main question here is how that commitment forms. There are two possible ways of addressing this question. One is related to the economic origin of entrepreneurship and the mentality underpinning it. The other is related to new theorizing in entrepreneurship that emphasizes commitment to personal innovation and change. Consideration of these two possibilities highlights two new intersections between ethics and entrepreneurship. The first is about entrepreneurial mentality, and the second about personal innovation.

Entrepreneurial Mentality

Entrepreneurship has been an enduring topic that has acquired increasing importance. This is certainly the case since Schumpeter (1934) first declared that what differentiates capitalism from other forms of economic organization is its inherent ability to renew itself through the entrepreneurial function. This entrepreneurial function manifests itself in the "creative destruction" that entrepreneurs initiate through the introduction of new ways of doing things. This new mode of engaging in capitalist activity Schumpeter also called innovation. Schumpeter's theorizing is experiencing an extraordinary revival, particularly his idea that creative destruction through entrepreneurship rejuvenates capitalism cyclically. Schumpeter's work has been rediscovered, not only in terms of his notions of entrepreneurship and innovation but also in terms of application to new ideas, with Christensen (1997) speaking of disruptive innovation, Chesbrough (2003) of open innovation, and Nightingale (2015) of creative accumulation. These theorists highlight the way that the economic system responds to activities that aim to alter a given situation through newly accessed resources and new technologies. Entrepreneurial activity leading to innovation is central to these works. Particularly, importance is given here to how entrepreneurship and the entrepreneur are perceived and defined. There seems to be a general understanding that the entrepreneur is an opportunity spotter who possesses extraordinary skills that enable the discovery or creation of entrepreneurial opportunities (Suddaby et al. 2015). The opportunity approach is, however, not without dilemmas and therefore it articulates two interesting ethical issues. First, from what we know about entrepreneurship via Schumpeter, it seems that it is not easy to innovate. In speaking of entrepreneurs, Schumpeter made reference to a "small group of people and their psyche" (2002, 412) who are "tempted by the act" and for whom the decisive moment is "energy and not only insight" (2002, 414). From this small group of people, he singled out "even a smaller minority" (2002, 413) of innovators. He did so not out of elitism, however. Rather, he wanted to underscore that there are not many changes that are innovative and therefore capable of causing (economic) development. According to him, "it is clear that if all people reacted in the same way and at the same time to the presence of new possibilities no entrepreneurial gain would ensue" ([1949] 2004, 260). It seems that economic entrepreneurship is a selective field, open to just a few people. An interesting question for ethics is related to the motives of the entrepreneurs and their commitment to success.

The second issue relates to the notion of opportunity. If only a few can see or access opportunities, the opportunity approach might give rise to some fantastic stories. The opportunity approach has created myths and legends, which made Penrose (1980, 36) criticize the "dramatic personage(s)" of the entrepreneurial literature and their fortune and foresight that, according to Anderson (2004, 651), seem to be "enshrined in legend". Anderson further observed that such legends, like myths and stereotypes, do not die easily, perhaps because they entail a "kernel of truth" (p. 653). Anyone familiar with the history of Apple is aware that Steve Jobs' myth has outlived that of his own company, a company that in fact added little to a market already well-supplied with technological sophistication and web applications (see Brynjolfsson and McAfee 2014). There is a sense that Schumpeter might have contributed to the emergence of a positive discourse by casting the entrepreneur as a sort of freelancer, independent of capital and risk. The main task of the entrepreneur was, in his view, neither to provide capital nor to bear risks—in spite of being a "money-maker" (Schumpeter [1949] 2004, 256). Schumpeter observed that "it is true that, however great the role of self-financing may be in the course of the development of an enterprise, the original nucleus of means has been rarely acquired by the entrepreneur's own saving activity—which in fact is one of the reasons, and a significant one, for distinguishing the entrepreneur as sharply as I think he should be distinguished from the capitalist" (p. 266). He further suggested that entrepreneurs form an independent class with the ability to impose their "mentality upon the social organism" (p. 270). Even when projected toward economic gains, the entrepreneur, by being freed from capitalist and investor constraints, seems to be naturally acting in proximity to both the economy and society. Notwithstanding myths and legends, there is a sense here that entrepreneurs and the entrepreneurial activity they embody is distinct from capitalist activity. Considering this distinction, it becomes important from an ethical perspective to understand the values of the entrepreneurs and to engage them in a different discourse about economic progress for many by committing them to the production of ethical value.

Entrepreneurship and Personal Innovation

The other way by which commitment can form is linked to new theorizing about entrepreneurship, particularly in relation to self-innovation. The link between entrepreneurship and the self is not new. It has been proposed by theorists interested in a particular meaning of entrepreneurship (Betta et al. 2010; Hannafey 2003; Naughton and Cornwall 2006). These theorists tap into ideas of self-renewal (Rothwell 1988) as an individual process of change. Rothwell, for example, linked Hamlet's dilemma to a process of "regeneration of the self" (1988, 83) that grew from within. Drawing on this idea, Betta et al. elaborated on personal transformations initiated by once social outsiders turned successful scientists. The main idea driving this type of understanding of entrepreneurship is that the effects of an entrepreneurial action might manifest through the establishment of a new self. The assumption that one can change what one is clearly introduces an existential perspective into the theory of personal innovation, where life is not conceptualized as an essential given outside people's control. Rather, life is perceived as a project, something that can be crafted, shaped, and modified concretely by individuals, something that requires personal commitment to materialize. In speaking about life as an enterprise of oneself, Gordon (1991) reinforced the importance of the existential perspective in analyses focused on the enterprising self. In this particular case, the existential perspective implied "that there is a sense in which one remains always continuously employed in (at least) that one enterprise, and that it is part of the continuous business of living to make adequate provision for the preservation, reproduction and reconstruction of one's own human capital" (1991, 144). In his view, men and women working on and expanding their human capital act as entrepreneurs. The profit of the person enterprise is a different self that emerges from a continuous entrepreneurial activity targeting the individual. Donzelot (2008) refined this idea by arguing that acting on oneself for reasons of self-improvement could be seen as a form of self-entrepreneurship. The idea of the self as an enterprise to which each of us is committed, and for which each of us works incessantly, is clearly a topic for ethics. How much we invest in this enterprise, how much of our lives we commit to it, how often, and when we stop doing so, are questions determined by the type of relationship entertained with ourselves and the ethical investment that we put into that relationship. The ethical investment calls upon the role of ethical capital in connection with the notion of self-entrepreneurship. Ethical capital is what gives people the resources to do the right things, to act properly when they look after their human capital. Self-entrepreneurship embodies an interesting intersection between entrepreneurship and ethics. Entrepreneurship is perceived as activity that can enact change for the sake of renewal, and, as discussed above, self-renewal. A personal enterprise founded on the wish to create personal ethical value is included in a "whole ethical enterprise" (Williams 1985, 49). Within this ethical enterprise Williams (1985) sees people who do not merely want outcomes but who want to act in a way that leads to those outcomes. "Knowing, therefore, that it will not come unless we act to produce it, when we want an outcome we usually also want to produce it" (p. 56), no matter whether it has to do with material renewal of things or self-renewal.

The notions of renewal and self-renewal have long fascinated theorists in the field of philosophy and ethics, not merely in relation to the ability to improve oneself but also to improve oneself for the sake of others. But ethical theory has offered very little guidance about how renewal and self-renewal occur and how we can make sense of an activity that changes things and people. In other words, ethics does not dwell on the evaluation of people's actions, preferring instead to elaborate on intentions.[1] Fundamentally, ethics is interested in moral reasoning, motivations, and choices. For ethics, the original intention might not even be moral or ethical. As Frankfurt (1988) observed, "it is no part of the nature of an action to have a prior causal history of any particular kind" (p. 69), which is why, in his view, "some events have no cause or causes at all or causal antecedents of any specific type" (p. 69). Frankfurt also noted that events following a decision or choice are not necessarily under the control of those involved in the decision-making process. This uncertainty, however, does not deprive the decision and the process of change of their ethical content. In fact, Frankfurt (1988) accepted that, despite the impossibility of controlling everything we do, there is a degree of control that some individuals, or most individuals, can retain. This control consists in their will not to undermine the process initiated by their decisions or choices (p. 87). Frankfurt's acknowledgment of people's will

[1] Utilitarianism, also known as consequentialism, offers no help here. Utilitarianism is an ethical outlook that refers to making rational choices based on ideas of general welfare. The speculative element inherent in utilitarianism concerns what changes result in greater welfare. It sets in motion preferences of wants without, however, paying attention to the way preferences are going to be satisfied within set states of affairs. Because of its material priorities, utilitarianism has little support. Bernard Williams (1985) once spoke of the "vulgarity of utilitarianism" (p. 8).

not to undermine their own actions is important, as is his general caution about the people's real control over their own decisions. But Frankfurt's caution cannot help explain the outcomes of people's choice. Ethics leaves us with little indication of how change and innovation are concretely enacted. It seems, therefore, that entrepreneurship could offer the opportunity to frame an ethical discourse around how actions occur and what their outcomes are. In this case it is entrepreneurship that enriches ethics.

For example, entrepreneurship has been used to explain wider social implications and outcomes. Of particular interest is the increasing importance of entrepreneurship for a type of research that deals with the social status of people (Calás et al. 2009, 552; Goss et al. 2011; Jones et al. 2008; Rindova et al. 2009). In this literature, entrepreneurship has been theorized from the perspective of social change by highlighting conditions of change creation rather than wealth creation. Particular attention has been given to how entrepreneurship could be used to make sense of the activities of people who aim to improve their existential conditions. By defining entrepreneurship as a "social change activity with a variety of possible outcomes" (2009, 553), Calás and her colleagues have advanced a powerful understanding of entrepreneurship as an activity that is not primarily focused on money making. Related to this approach, Rindova and colleagues (2009) have elaborated on people's struggles to free themselves from the powers that others exercise over them. These authors propose that the process involved in this struggle is eminently entrepreneurial because it represents a destruction of a given condition with the aim of creating change. For these latter authors, entrepreneurship represents a theoretical framework within which it has become possible to articulate emancipatory actions. "As such it makes the question of pursuit of freedom and autonomy relative to an existing status quo the focal point of inquiry" (p. 478). In all these theoretical approaches, entrepreneurship is seen as a process initiated through deliberation and as something that culminates in the creation of new possibilities for those involved. This is the reason why these authors favor the term entrepreneuring over entrepreneurship: "An emancipatory perspective suggests that understanding the constraints that entrepreneuring individuals seek to overcome may give us better insights into the process through which entrepreneurs *create*—first change and then opportunities" (Rindova et al. 2009, 482, emphasis in original). Subsequent research has expanded on this perspective in relation to the struggles for independence of women living in traditional ethnic communities in countries of migration such as the UK (Goss et al. 2011). Earlier, Kontos (2004) and Kupferberg (1998, 2003) had analyzed the struggles of migrants to establish a better life for themselves. These authors suggested that migration could be compared to an entrepreneurial process leading to personal change. Recent research in ethnic entrepreneurship has validated this understanding of entrepreneurship as a personal process projected toward change creation (Hougaz 2015).

The struggle of individuals intent on subverting oppressive social conditions or creating productive social conditions, takes the form of an entrepreneurial action. Its outcomes are freedom (from power) and independence (escape from lack of opportunity). This understanding of entrepreneurship reveals a critical intersection between ethics and entrepreneurship. The intersection is particularly interesting from the point of view of the ethical motives and intention that accompany the entrepreneurial struggle. It is the responsibility that goes with people's struggle that renders entrepreneurship an issue for ethics. Social change as discussed above implies a certain type of personal responsibility—no matter whether one opposes power relations or wants to overcome a lack of opportunities. Entrepreneurship here lends itself to becoming an analytical tool that can unveil a particular form of productivity and development capable of overcoming unproductive social conditions. Interesting here are also the opportunities that entrepreneurial activity can become available for people living in poverty. The rise of social entrepreneurship, for example, seems to originate from a sense that social entrepreneurs can change the world, and Bornstein's (2007) bestseller *How to Change the World*: *Social Entrepreneurs and the Power of Ideas* has promoted this notion that is reminiscent of Schumpeter's belief that entrepreneurs have the mentality to shape the social system. Entrepreneurship as social change has helped establish a domain of research in social entrepreneurship that has become quite popular (Fayolle and Matlay 2012) and that now also includes research in philanthropy, poverty, and new social ventures such as frugal innovation and innovation from below. There seems to be a powerful connection between ethics and entrepreneurship across the business and social areas. Thus, when people say that researchers in ethics are interested in entrepreneurship, they mean that there is an interest in understanding the opportunities opened up by entrepreneurship but also the impact that entrepreneurial actions can have on people's personal conditions.

Wants and Action

The discussion of entrepreneurship in conjunction with ethics has revealed an interesting link between what is wanted through human activity and the process that leads to the outcomes of that activity. Williams (1985) once made the observation that the expectations involved in purposive activities can be complex. "At the very least, what we want is that the outcome should come about because we wanted it, because we believed certain things, and because we acted as we did on the basis of those wants and beliefs" (p. 56). By this Williams meant that to want something is not an isolated state of mind, because wanting already presupposes the way in which wants can be achieved. In other words, people's purposive activity brings together the personal enterprise projected toward creation of wealth or change, and the ethical enterprise that originates from a wish to be let free to achieve outcomes. "Obviously enough, on those occasions we do not want to be frustrated, for instance by other people. … We have a general want, summarily put, for freedom" (p. 56). It is here that the link between entrepreneurship and ethics becomes even more evident. People want freedom not so much in the way they carry out their activities but rather in the choice of their wants. According to Williams, what we want as human beings engaged in activity is "an adequate range of wants" (p. 57). But then the question arises as to how people can choose their wants. What is accessible to people depends on features that are both internal (dispositions) and external (material possibilities) to them. These features influence people's purposive activities because for these activities to unfold, plans, deliberation, and choices become important. In other words, people must be rational because the "world has a certain practicable shape" that cannot be ignored. As Williams once observed "the fact that there are restrictions on what he can do is what requires him to be a rational agent, and it also makes it possible for him to be one" (p. 57). In relation to entrepreneurship, we could say that no matter how entrepreneurs engage in their activities, by being purposive their activity requires a certain degree of freedom, and with it a certain degree of rational behavior. Freedom and rational behavior add ethical value to the entrepreneurs' outcomes.

Conclusions

Considering the increasing importance of entrepreneurship not merely for the economy but for society and the individual as well, it is not surprising that ethics and entrepreneurship have been brought together within the specialized and practitioner literature to reflect more sensibly about the effects of entrepreneurial activity. There is a general expectation that entrepreneurship must add ethical value to social life through the business, economic, and social transformations it makes possible. In discussing this expectation, I have highlighted three intersections between ethics and entrepreneurship that can help us to better understand entrepreneurship as an activity open to a variety of applications involved not merely with wealth creation but also change creation. Through ethics, entrepreneurs can be engaged in terms of their responsibility, they can be committed to ethical values, and they can be questioned in relation to their role which is perceived to be quite distinct from the role of the capitalist. Entrepreneurship infused with ethics has been used to reflect about activities of self-renewal and social emancipation. Through ethics, entrepreneurship has acquired a different status in theory. But ethics, too, has been enriched through entrepreneurship. Traditionally concerned with people's intentions/choices, once infused with entrepreneurship ethics has become more like a mentality, no longer confined to the theory of what people should do but with what they actually do.

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Chapter 9
Aristotle and Business Ethics

Abstract In this chapter I discuss four concepts developed by Aristotle in the *Nichomachean Ethics*. These are virtues, skills/means, the mean (conceptual/ideal mid-point), and self-sufficiency. I am interested in evaluating their influence on today's life. In order to do this, I discuss Aristotle's virtue of courage in relation to the behavior of two former Lehman Brothers' employees. More broadly, I relate Aristotle's ethics to business ethics. Business ethics is the field of enquiry that focuses on ethical behavior within business, and increasingly within organizations. From this chapter it becomes evident that business ethics could be seen as a variant of Aristotle's ethics—as if he had sown the seeds long ago. Aristotle has been criticized by contemporary philosophers for his notion of the mean that sets an absolute preference for moderation. But from the study carried out in this chapter it appears that moderation is frequently good, and in certain situations even the only options left for a good life. Despite his limits, Aristotle is still in the ethics game.

Introduction

I am interested in reflecting about Aristotle particularly in regard to whether some of his thoughts could help people in today's workplace. I especially focus on four concepts developed in the *Nichomachean Ethics*. These are, virtues, skills/means, the mean (a conceptual/ideal mid-point), and self-sufficiency. Aristotle provided the foundation for an analysis about how people can conduct a meaningful life by following some basic rules related to making choices. To Aristotle, life is made of actions, and actions are driven by an intentionality that is not grounded in prefabricated, abstract deliberation. On more than one occasion, Aristotle argued that practical intelligence/wisdom (*phronesis*) can be attained by perception. Others after him have also written on ethics, Immanuel Kant, for example, and Martin Heidegger, but

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these two authors never really managed to engage their readers as Aristotle did. One major problem with them was the language and the level of complexity in their arguments that can put many readers off. According to Williams (1985), what makes Aristotle's work "still serve as a paradigm" is that it is less ambitious, and at the same time it is much richer on "psychological and social elaboration" (p. 34). This must be why Aristotle's *Nichomachean Ethics* has always inspired scholars interested in ethics, particularly those scholars who have been concerned with deliberation and choices from the perspective of human behavioral ethics. The question of interest here now is how far the past can reach into the present. In other words, to appreciate Aristotelian ethics beyond mere historical interest, we need to know that it can help us explain people's behaviors in today's world.

Aristotle's High Expectations

Aristotle thought that individuals can always decide how they place themselves in the world. By cultivating virtues, he argued, people would be able to evaluate situations based on what is appropriate to the situation, the means possessed by the agent, and the levels of risks involved in acting. For example, to be indiscriminately courageous could be a deficiency rather than a virtue. In Aristotle's terms, to be courageous requires an evaluation of the situation and the skills/means at one's disposal. He defines courage as "a mean [mid-point] with respect to things that inspire confidence or fear" (1116 a10–15). He thought that it is not easy to identify the courageous agent, also called by him brave, because there are many behaviors and actions that only seem to be courageous but in reality are not. Aristotle observed that the agent who fears disgrace "is good and modest, and he who does not is shameless" (1115 a5–15). Shamelessness is an extreme disposition that is often mistaken for courage, but when it comes to crucial situations, the shameless person has no courage to display, to the disappointment of those who had mistaken that person for a courageous person. He argues that the agent who fears disgrace "is good and modest, and he who does not is shameless" (1115 a5–15). To be able to fear disgrace reveals a kind of modesty. This modesty does not seem to guide the "rash man", and this is so because, in his view, the rash man is only a "pretender to courage" (1115 b20–30). Pretenders are "a mixture of rashness and cowardice" (1115 b 30–35), and their behavior displays confidence in situations of no risks, but they "do not hold their ground against what is really fearful". In other words, according to Aristotle "the coward, the rash man, and the brave man are concerned with the same objects but are differently disposed towards them; the first two exceed and fall short, while the third holds the middle, which is the right position" (1116 a5–10). For Aristotle, the courageous (brave) agent fears "the right things and from the right motive, in the right way and the right time"—in other words "according to the merits of the case and in whatever way the rule directs" (1115 b15–20). Aristotle's courageous agent faces "what is painful" because "courage involves pain" (1117 a30–35).

Aristotle also argued that "we deliberate about things that are in our power and can be done; and these are in fact what is left". In other words, "we deliberate not about ends but about means" (1112 a30–b5). The end, Aristotle argues, is what we wish for. "Again, wish relates rather to the end, choice to the means; for instance we wish to be healthy, but we choose the acts which will make us healthy" (1111 b26–27). Virtues manifest in action, so if people's actions are in accordance with their skills/means, and projected toward avoiding the extremes, then virtues are effectively what allow action to unfold. What allows virtues to be displayed, then, are the skills/means used to carry out any activity, or to enter into action. The main idea here is that skills are always more important than the goals. The goals might be excellent but before aiming at them, individuals should first take stock of their skills/means. However, and here is an important condition to consider, means do not create virtues. Virtues must already be in the agent. It seems then that it is virtues that allow the agent to choose the proper means. Aristotle thought that it would be impossible for agents, or at least not easy, "to do noble acts without the proper equipment" (Aristotle 1973, 1099 a30–b5). This is a warning to people not to be guided by wishes, because only skills/means, not the ends, can be the subject of deliberations (1112 b30–1113 a35) insofar as the ends are related to wishes, but to wish is not enough. Once the means are sorted, another question needs to be evaluated by the agent that concerns the risks involved in a situation, or possible action.

Self-sufficiency is another concept developed in his ethics. Aristotle kept warning us that it really is "not [an] easy task to be good" (1973, 1109 a20–25), which indicates that it is difficult to be ethical. As stated above, the wish for something is not that something. The major difficulty originates from a necessity to negotiate between choices because the aim of an ethical life is to always choose the superior good. We are reminded that when we are facing a choice between two equally important things, we always have "to honour truth above our friends" (1096 a15–20). Friendship is one of the most central categories in Aristotle's ethical theory because it has the power to influence people's choices and decisions, and so to contaminate their judgments. This is a contamination out of love for our friends. In Aristotle's view, the chief good is self-sufficient when it requires nothing to exist: "Self-sufficient we now define as that which when isolated makes life desirable and lacking in nothing" (1097 b10–15). Aristotle was interested in articulating a notion of the supreme good in human life that does not depend on external factors. "Human good turns out to be activity of soul in accordance with virtue, and if there are more than one virtue, in accordance with the best and most complete." But Aristotle adds "in a complete life" (1098 a15–20). Completeness is as important as self-sufficiency, and both form the essence of what Aristotle calls the "first principle" (1095 a30–1095 b5). The first principle sets the conditions for the chief good. For Aristotle, only goods that are self-sufficient, complete, prized, and perfect are to be understood as ethical goods. And only people who are self-sufficient have reached an ethical status, which could also mean that they are potentially good. Although it sounds attractive, self-sufficiency is not a plausible principle from the point of view of contemporary social life. One also wonders why create an entire theoretical framework about how to be virtuous and behave in the right way in private and public life if the chief good is to be so self-sufficient as to have no wishes and needs.

The mean is perhaps Aristotle's most contentious concept. It presupposes that people, through virtues, can always avoid extreme behaviors, such as excess and deficiency, and strike a mid-point. As mentioned above with the example of the courageous agent, the ideal middle to be maintained is courage. It is courage that allows agents to act and achieve a result. To be rash and act accordingly will not be helpful. To avoid reacting altogether in a situation where courage should be displayed is a sign of cowardice. The golden middle is certainly a complex idea because of the continuous effort that people have to make in order to avoid drifting to one extreme. It is a moral perspective that might not help people to identify possible responses that are perhaps more nuanced or less clear cut. Williams (1985) once described the mean as an "unhelpful analytical model … and a substantively depressing doctrine in favor of moderation" (p. 36). Williams might have been too hasty here. There are situations in which the extreme behaviors of some people impact on the lives of others. The behavior of drug addicted parents impact on the life of their children, criminal youth impact on the life of their parents, abusive people affect the life of their partners, oppressing, exploiting people affect the life of others. Thus, I am not inclined to follow blindly Williams' advice that "the doctrine of the Mean is better forgotten" (p. 36). The reasoning behind it might hold some advantage for people, particularly when they are confronted with extreme situations. In these situations, to hold the middle, to be moderate might bring about the right answer.

To sum up Aristotle's thought in relation to these four concepts: The ethical agent knows how to make the choice that is balanced and that will help the individual to avoid the vices that characterize the extremes. But this is not an easy task either because "to find the middle of a circle is not for everyone but for him who knows" (1109 a20–25). Accordingly, Aristotle warns that it is hard to find the middle: "to miss the mark is easy, to hit it difficult" (1106 b30–35). Also, to hit the mark it seems that we need to act "at the right times, with reference to the right objects, towards the right people, with the right motive, and in the right way" which is what "is intermediate and best and this is characteristic of virtue" (1106 b20–25). Interestingly, Aristotle is careful to add that he is speaking of the "intermediate not in the object but relatively to us" (1106 b5–10). Here Aristotle meant that what is intermediate, namely balanced, is always balanced in relation to what we are at the time of our choices and actions, and in relation to our skills and means. This is because people make the best deliberations out of the skills/means given to them (1101 a35–10). These two conditions, namely that the intermediate is relative to us and that we only deliberate according to the skills/means given to us, are fundamentally important in that they set ethics as a circumscribed domain and virtues as personal qualities that the agent must have acquired through discipline and work on oneself in order to exercise good judgment. Thus, it seems that because virtues are qualities in character they cannot be regulated by social policies or the law. Nor can virtues become the goals. Virtues are the things that help individuals to achieve their goals. In Aristotelian terms, speaking of virtues always implies speaking of their conditions. In other words, we do not choose a virtue and act in a certain way in order to achieve outcomes, but we live in a way that expresses that virtue. A question putting itself forward is about what it could mean for somebody to live like an Aristotelian agent in today's business world. Which virtues would be necessary to balance corporate needs and personal needs? Is courage a virtue needed in business? I address these questions in the next section.

Aristotle in Today's Workplace

In his account of the fall of Lehman Brothers, McDonald (2009) frequently referred to the 31st floor, where the CEO Richard Fuld resided, and the third floor where the traders worked. The floor numbers mark the level of power within Lehman Brothers—power that seems to have been evil. Fuld was considered the human cause behind "the biggest screw-ups in Lehman's long history" (p. 91). Many could not understand how a man of "no real brilliance" was allowed to climb so high. Fuld and his former mentor Glucksman were described as men marked by their "undisguised, naked greed that [they wore] like a misplaced badge of courage" (p. 94). The notion of courage acquires an interesting meaning in the years prior to the fall of Lehman Brothers. As McDonald evocatively wrote, "fear is the key… fear of being fired" (p. 57), fears that lead to the emergence of a whole art form of "corporate ducking and diving, staying out of the firing line, writing memorandums that somehow shifts the responsibility … subtly seeking the glory but always dodging the blame, carefully filing the memo that will ultimately exonerate" (p. 58). These observations were echoed by Tibman (2009), who wrote that those who were courageous enough to speak out against Lehman Brothers' 31st floor "woke up the next day in smaller, windowless offices" (p. 51). In a dramatic way, McDonald manages to convey the sense of conflict tearing Lehman Brothers' best people apart, quoting one of the most senior traders before leaving the bank: "I can't put up with this fucking bullshit for another minute" and "walking out of Landmark square like Hamlet" (p. 59) walked out of the place of dishonor. But for the many who left, there were many others who joined or stayed.

Was there a bit of Aristotle in what is described above? The idea of greed mistaken for courage reminds of the pretenders of courage, protected by their positions and equipped with the extremes powers to fire and punish. And those who left: Were they courageous from an Aristotelian viewpoint? Here the answer is more difficult. Aristotle has not given us more guidance in terms of how an agent would act beyond the condition of war, which in his theory represents a noble cause while "to die to escape from poverty or love or anything painful is not the mark of a brave man, but rather of a coward" (1116 b10–15).[1] Were those who stood up within Lehman Brothers courageous? And what about the majority who continued to work there until the very end? Who, in the end, held the middle in this situation? We are somehow grateful that McDonald and Tibman stood until the end, which allowed them to write about the most tragic events preceding the fall of the bank. But there are problems to be acknowledged. "If anything, I am now embarrassed that I not only fell hook, line and sinker for the steaming, odorless corporate bullshit, but that I confidently spouted the same sound bites as ultimate truths" (Tibman 2009, 52). If Tibman exercised self-blame, McDonald looked for culprits, and he found them. The "Harvard MBA

[1] This idea, however, must be understood within the context of Aristotle's time when not many people probably died from poverty or love. The fact that Aristotle understands these two situations as extreme situations proves that they might not have been very frequent.

types" with "perfect lives, blessed at birth" (2009, 87) who, however, ended up forming a "junta of platoon officers" (p. 89) in Wall Street and Lehman Brothers. He and other traders saw the problems and the tricks, the consequences mounting. From McDonald's account it clearly emerges that people were left to their own devices, with a CEO who worked completely isolated from the rest of the firm, embodying total independence from the others. "Down in the trading floor no one ever saw him, and that represented one hell of a lot of people, many of whom knew almost nothing about their leader" (2009, 97). One aspect that keeps recurring in Chapman (2010), McDonald, and Tibman is the power struggles that brought the CEO Fuld and his closest managers into their untouchable positions—an issue related to lack of merit, to not having the credentials to do the job. From McDonald and Tibman's books we get a clear sense of a war waging in the banking and financial sectors of that time, particularly between 2006 and 2009, a clear sense that people were all the time in a battlefield.

Trying to understand what happened within and to Lehman Brothers (described at length in Chap. 5) from an Aristotelian perspective might help reveal whether his theory is still influential. It seems possible to say that there were vices/deficiencies involved in what happened in 2008 when the Great Recession reached its peak within Lehman Brothers. What we know about the situation within the bank is based on reconstructions of former employees. There is no reason to believe that their accounts are inaccurate. McDonald and Tibman, for example, published their accounts in the same year, and they do not seem to have known each other. The common elements in their accounts prove that the events described really happened. What differs in their stories is the personal approach to the events that occurred during those tragic days in 2008. Tibman (2009) speaks about his lack of insight. He is disappointed. "I have championed capitalism … but it will ruin us all if unchecked and unregulated" (p. 53). McDonald is very angry but still unable to piece the events together, wondering what had happened "if only" this and that had been done, this and that had been avoided (pp. 2–3). "Even now I cannot understand what went wrong" (McDonald 2009, 338), the fall of Lehman "changed me". The crisis had the effect of turning him into a different man. "There's nothing quite like total calamity to focus the mind" (p. 339). Tibman and McDonald went through a war. They returned from it as changed men. No doubt, in their early career they might have contributed to the rise of the competition war in the banking and financial sector. "I cannot pretend," wrote Tibman the banker, "that every deal in which I was involved as an investment banker was driven by altruism", where the bank and himself profited others "lost jobs" (2009, 61). And McDonald, the trader, recalls his "careless glances at stock charts" (2009, 339).

Thinking in Aristotelian terms, these two men displayed the virtue of the mean (moderation) by remaining in the bank. As soon as the crisis started to emerge, they shifted to the middle, they kept their post, and they went down with their organization. To cite again one of Aristotle's most beautiful thoughts, it seems that McDonald and Tibman did "the right things and from the right motive, in the right way and the right time"—in other words "according to the merits of the case and in whatever way the rule directs" (1115 b15–20). Should they have displayed other virtues? Had they left we would not know how things really went, who did what, what could have been different. And we would be in the dark about many of the feelings and thoughts that others had during that time. Moderation expressed through the mean might appear to some as a depressing choice. Instead, it can be regarded as a demonstration of perspicacity. In the case of McDonald and Tibman, ethical virtues were displayed and consisted in courage, the courage to stand between extreme possibilities. Aristotle's main point is that an action is virtuous when it is carried out by a virtuous agent. Virtuous agents use only the skills/means they can control, and they act according to them. Today many wonder about the lack of authentic behaviors in the banking and financial system. These are, however, new virtues about which Aristotle could not have written, because his time was not their time. Williams (2006) made the interesting comment that virtues have their own historical and cultural place. Authenticity, or integrity, he declared "would not have evolved at all if Western history had not taken a certain course (p. 192). What seems to warrant our appreciation, though, is not the type of virtues people have, but the fact that they *have* virtues, and the fact that we can now think of behaviors driven by virtues. And this is certainly Aristotle's main achievement. His teaching here remains unmatched, and still influential.

Strengths and Weaknesses of the Nichomachen Ethics

The main objective of ethical theory, particularly for Aristotelian theory, is to help individuals to cultivate goodness in everyday life. Goodness is the supreme good that guides people, and therefore it must be protected. The question is how modern societies and economic systems can protect a good that is as intangible as it is unique. Aristotle has provided us with a framework, but this must be understood within its own limits. Aristotle considered only three types of lives: the life of enjoyment, the political life, and the contemplative life. For somebody who, like Aristotle, was particularly attentive to meaningful practical life it might appear strange not to have mentioned work life, (commercial activity)—what he called the "taking and giving of money" (1107 b5–10). But by closer examination, it seems that his overlooking commerce has occurred intentionally. Hence, we should not be too quick in concluding that he deplored commerce, as suggested by some business ethics scholars (Boatright 1995; Solomon 2004). It looks rather more plausible that Aristotle understood the virtues of commerce as necessitating a certain social and political context to flourish, a point also made by Bragues (2012) and Morrison (2015). Hence, the virtues of commerce might not be able to easily sustain his idea of self-sufficient agents. Thus, despite commerce building the material basis of the city-state in which he lived, and particularly of people's interests and living, commerce is not considered by Aristotle. We must then conclude that Aristotle avoided commerce because he could not resolve the tension between the activities of work/commerce and self-sufficiency, and not because he thought commerce would be irrelevant. Notwithstanding Aristotle's praise of the contemplative life, which in his view permits the formation of an ethical subject, the abstract ethical subject is not the real topic of Aristotle's ethics. Ethical subjects, who form themselves in the abstract domain, would not be able to cross the borders to other domains and share the experiences they have acquired through reflection and the formation of virtues if they did not understand how to live the practical life. In other words, abstract reasoning alone will not help individuals in their everyday life. To conduct a good life one must be able to address the question, "what should I do?" To address this question, people will have to use practical thinking. Hence, in Aristotle's view, it is practical thinking that allows individuals to find their place in the world. In responding to circumstances, people automatically apply shared practices and general reason and behaviors. The virtues would then be the moderating factor for each individual person acting in a life that is meaningful as well as shared with others. It is this ability to live in the world with others, but as individually good and just citizens, that the *Nichomachean Ethics* is concerned with. But this is not an easy task as it requires application and discipline. It has its advantages, though, and the one "who has been well brought up has or can easily get starting points" (1095 b5–10). To understand the activity exercised by the human being in society, we must recall the conditions that Aristotle set for goodness:

> Actions, then, are called just and temperate when they are such as the just or temperate man would do; but it is not the man who does these that is just and temperate; but the man who also does them *as* just and temperate men do them. (1973: 1105 b5–10; emphasis in original)

Aristotle was concerned with everyday life. In everyday life people respond to the situations they encounter without being able to devote too much attention to abstract reasoning. In fact, Aristotle is not concerned with people weighing up situations, addressing dilemmas based on abstract principles. Rather, he seems more concerned with equipping his agents with the right virtues, appropriate skills/means, and an understanding of the middle point between extremes. Virtues, skills/means, the mean, and self-sufficiency are central to Aristotle. As indicated above, self-sufficiency seems to be his weakest point. In fact, if self-sufficiency were taken seriously, then Aristotle's agents would have no friends and they would also have no opportunity to test their own virtues. Aristotle wrote extensively on friendship in the *Nichomachean Ethics*, but he must have realized that also in regard to friendship (not only commerce), self-sufficiency was difficult to maintain. Williams (1985) observed that for Aristotle the good man's friend is "another himself" (see also Aristotle 1166 a 31). This is a notion, Williams noted, that "expresses genuine tensions in his thought between friendship and self-sufficiency" (p. 208). As important as it is, the notion of self-sufficiency remains too difficult for theory, and particularly for business ethics. Self-sufficiency seems more appropriate for analyses focused on the Aristotelian self. But his virtues and the skills have commanded more attention within business ethics, and related to them the notion of the mean point, the golden middle. Hartman (2008), for example, argued that virtue ethics might help to achieve a reconciliation of the factual and the normative, insofar as virtues may be understood to be able to explain as well as justify actions. More focused on the business activity, Bragues (2012) notes that "the pursuit of wealth characteristic of business life is properly limited to what is necessary to materially support those virtues" (p. 3). To Aristotle, virtues are expressed in action (they are never goals), the means are the only things people can control (because goals are elusive until they have been achieved), and the golden middle is the ideal position to take. For example, over-zealous agents pursuing their interests would show vice rather than virtue. Similarly, the use of means that were acquired through bad/illegal practices could annihilate the positive value that the notion of virtues is meant to convey. To try to find a balanced position is therefore part of personal practical deliberations and behavior. It seems that the Aristotelian notion of the good life is embedded in a system that required the working of virtues, skills/means, and the mean simultaneously. There cannot be one without the other.

Aristotle's Influence on Today's Theory

From the above it seems Aristotle's ethics is embedded in a framework that has strict methodological limits. Ethics is the domain of practical reasoning through which people practice their virtues and cultivate goodness. A reflection about ethics is always based on the notion of goodness. In her work on Greek ethics, Martha Nussbaum (1986), particularly in reference to Aristotle, observed that goodness is fragile and requires cultivation and protection because it is formed by individual and personal deliberations which are never definitive. "Good human deliberations are delicate, and never concluded, if the agent is determined, as long as he or she lives, to keep all the recognized human values in play" (Nussbaum 1986, 372). This reflects the idea that ethics is an open system, full of possibilities. The moral philosopher Thomas Nagel (1979) captured this sense of ethical reasoning as being a never-concluded affair in the statement that "one should trust problems over solutions, intuition over argument, and pluralistic discord over systematic harmony" (p. x). Aristotelian ethics is a closed system driven by logic based on the notion of the self-managing individual who can harmoniously integrate private and public life. Thus, Williams (1985) noted that in Aristotle's work the idea prevails of ethical, cultural, and political life building an "harmonious culmination of human potentialities" (p. 52). Aristotle's agents are virtuous, just, and self-sufficient because they are fundamentally rational. But some have questioned whether to be rational is enough for a human being. Williams, for example, declared that "there is no way of being a rational agent and no more" (1985, 63). What he wants to highlight here is how "the agent's perspective is only one of many that are equally compatible with human nature, all open to various conflicts within themselves and with other cultural aims" (1985, 52). Through this perspective, Williams declares, "a potential gap opens" that might question Aristotle's idea of a direct link between agents and the outside world. The problem for Williams (1985, 192) is that

> at one extreme there is general deliberative incapacity. At the other extreme is the sincere and capable follower of another creed. Yet again there are people with various weaknesses or vices. … All these people can be part of our ethical world. No ethical world has ever been free of those with such vices … and any individual life is lined by one of them.

We would be too hasty, though, if we were to think that Aristotelian ethics does not offer a perspective on the world. MacIntyre (1984), for example, has applied Aristotle's ethics to a great variety of modern issues, including business. And on two occasions Nussbaum (1986) has revealed Aristotle's nuanced theory. Nussbaum writes that for Aristotle "our encounter with the world is … rather like what happens when we watch a puppet show performed by mechanical marionettes, with no visible human control" (p. 260). By this, she is indicating how Aristotle wanted to highlight the precariousness of life for each individual, the lack of power, and the understandable uncertainty that goes with it. Nussbaum also highlights how "Aristotelian philosophy … exists in a continual oscillation between too much order and disorder, ambition and abandonment, excess and deficiency, the super-human and the animal" (p. 262). She concludes by observing that for Aristotle the good philosopher "would be the one who *manages* humanly, guarding against these dangers, to improvise the mean" (p. 262, emphasis added).

One field of enquiry that seems to have adopted this criterion of guarding against the dangers of the extremes is business ethics. Business ethics scholarship has come a long way since business ethics as a field of enquiry was first established, and in various ways it certainly has tried to apply the principle of the mean to business activity. Particularly the early works in business ethics reveal an approach to business that is characterized by expectations of prudence, temperance, and courage. But also works grounded in behavioral ethics are variously influenced by Aristotle. Business ethics has widened the space of ethics. In the following section I identify some of the works published from within the business ethics field to highlight the type of research that has become possible through practical ethics. What business ethics as a field of enquiry has made possible is the emergence of a focus on ethics from within business. This focus has been characterized by practical reasoning. This can be seen as Aristotle's legacy. But his legacy would not have been so strong today if his ethics had not been universal in outlook and style (if not in structure), and open for application to a variety of fields. Through business ethics, thinkers such as Aristotle could escape the small confines of moral philosophy and become known to more people. Aristotle was certainly not alone. Immanuel Kant, too, became more famous through business ethics scholarship, although his work, as important as it is, has never been very popular, a fact lamented by Bowie (2013b). Kant and other moral philosophers have not been able to influence business ethics scholarship because of their language and intricate theory. In the case of Kant, his uncompromising assumptions made Williams once object to the "stuffiness of duty" (1985, 8). More recent philosophers became widely read and known to a non-philosophical audience through business ethics. Examples are Gilles Deleuze, Jacques Derrida, Michel Foucault, Emanuel Levinas, and Lucy Irigary. These authors have inspired a new generation of scholars in business ethics and helped shift content toward new theoretical frameworks, particularly influenced by poststructuralism. At present, however, it seems that business ethics allows for various approaches to exist in parallel. The poststructuralists I mentioned above, for example, were influenced by Aristotle throughout their academic life. They entered into an open dialogue with him in their works and quite often also in their public talks, interviews, and newspapers articles. It seems impossible to grasp meaningfully the importance of their contributions theoretically and practically without having an understanding of the type of influence that Aristotle had on them.

The Possibilities of Ethics

Business ethics is the domain of practical reason. Business ethics has a proud long history that goes back to the 1920s when Donham (1927) initiated a reflection about the social significance of business, setting the tone for the sustained and passionate discussions and debates that followed. But it is through the work of Bowen (1953) that business ethics became a discipline in its own right, and in the early 1960s Baumhart (1961) finally introduced the idea of individual responsibility vis-à-vis the possible social effects of business failures. As documented by Hoffman (1977), the first business ethics conference was organized in the USA in the mid-1970s. Its topic concerned the question whether business values were compatible with social values. From then on, ethics and society have been brought together and often forced to breach their own disciplinary boundaries in order to address issues of business malfunction and misbehavior, or, for those more positively inclined, to help business anticipate and avoid evil. Scholars from various disciplines stretching from philosophy and ethics to the social sciences and behavioral science engaged in designing and redesigning rules and codes, methods and methodologies for business ethics in an attempt to establish a field of enquiry that deals with ethics in business. In successive years, scholars questioned the nature of the corporation (French 1995) and wondered whether it could have a conscience (Goodpaster and Matthews 1982). Questions about the ethical responsibility of the corporation/organization have become more pressing over time, notwithstanding the fact that many of the ethical problems in businesses are caused by the people who run them.

Based on this hard fact, theorists have emphasized the need for business ethics to become a field of enquiry focused on identity and power within the workplace (Clegg et al. 2007; Crane et al. 2009; Cropanzano and Stein 2009; Gilbert and Rasche 2007; Jones 2003; Jones et al. 2005; Rhodes 2000; Scherer and Palazzo 2007; Wempe 2005; 2008). Others sought to use Aristotle more decisively to redefine the responsibility of the agents (Dobson

2008; Shao et al. 2008; Stansbury and Barry 2007). Behavioral ethics scholars devoted their research to issues concerned with intentionality and normativity to discuss the specific virtues of businesspeople (Weaver 2006), the virtuous organization (Treviño et al. 2006, 976), and more broadly good/fair agency in business (Bass et al. 1999; De Cremer et al. 2010; Weaver and Treviño 1999) and group intentionality (Kaptein 2011). Recent publications have focused on the organization as a place of work and as a concept (Mir et al. 2016a; Pullen and Rhodes 2015a, b). This shift is interesting and perhaps also consistent with the latter trends about the expansion of organization studies and the increasing importance of organization (Betta 2015). Still, for now business ethics remains the overarching concept (Bowie 2013a). However, it is possible that these now parallel approaches to ethics might result in a split between classic business ethics and organization philosophy in which classic business ethics is criticized for being skeptical or even dismissive of "philosophical enquiry" (Mir et al. 2016b, 2) and those adopting an organizational philosophy approach are challenged for being too unaccepting of classical business analyses (Bowie 2013c). Recent works on ethics in relation to business, particularly from an organizational perspective, reveal an understanding of ethics that is pluralistic, socially embedded, and capable of being influenced, and of influencing, social practices. There is a sense that ethics is perceived to be a way of thinking, a mentality involving life and the workplace. It is an ethicmentality that can be informed by the teaching of Aristotle, particularly by his idea of the virtues coming to light in action.

Conclusions

Aristotle's work about ethics has been discussed in detail in order to assess whether he can still influence analyses or theories related to ethical behavior. Notwithstanding the fact that Aristotle's theory follows a precise logic and is at times exclusive, it is still open enough to allow for a wider application to a variety of issues. A field of enquiry that has come very close to Aristotle's practical ethics is business ethics. The reason why business ethics is so close to Aristotelian ethics is because business ethics scholars predominantly favor a practical thinking approach. According to Williams (1985), "practical thought is radically first-personal. It must ask and answer the question 'what shall I do?'" (p. 21). Since its inception, business ethics scholarship has been driven by questions related to behavior and has developed a consistent line of reasoning devoted to answering that question. This indicates that "ethical reflection becomes part of the practice it considers, and inherently modifies it" (Williams 1985, 168). When thinking becomes part of the activity and practices it targets, it acquires a special characteristic, it becomes a mentality that extends to various people and activities. "A fully individual culture is at best a rare thing. Cultures, sub-cultures, fragments of cultures, constantly meet one another and exchange and modify practices and attitudes" (p. 158). When ethical thought becomes deeply involved in the shaping and changing of social life and, more broadly, society and its cultural practices, it takes the form of a mentality, an ethicmentality. Aristotle might have prepared the ground for the formation of this ethicmentality by sowing the seed of ethics back in antiquity.

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Chapter 10
Ethicmentality

Abstract In this final chapter I draw conclusions about the importance of ethics for everyday life. The difference between ethics and moral philosophy is discussed to better identify the role of ethics. It is possible to argue that ethics is broadly involved in social life, whereas morality remains a sub-system, particularly focused on narrow issues such as right and wrong. Ethics is focused on people's deliberations and their experience. How people respond to circumstances in everyday life manifests a mentality that involves social and psychological aspects in social, practical life. How people reason in social life or personal life, and how they deliberate, becomes an issue for ethics when ethical experience is involved. I argue that ethicmentality has blended these two dimensions of human life, namely personal reasoning and public/social acting, and facilitated the analysis of familiar issues through a different analytical lens. For that reason, ethicmentality is also a concept that introduces methodological innovation. This innovation has helped develop ideas around new topics such as ethical capital and entrepreneurial ethics.

The Partiality of Ethics

Throughout this book, I have made reference to a mentality for ethics. This mentality, I have argued, is part of social life in a dialectical sense insofar as it shapes social life and is shaped by social life. Ethics, on the other hand, is focused on what people do, their dealings, reasoning, and practical deliberations. It seems possible to say that for ethics theory to be able to provide guidance in regard to people's everyday dealings, it needs to be partial. The expression being partial is not to be understood in a pejorative sense. It is a preference that is made in order to appreciate as many dealings as possible insofar as there are many ways through which the good can be achieved. When a theory is focused on what people do, or what they are going to do,

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it is not determined by abstract principles. The theory that focuses on abstract principles is morality. Its outlook is universal inasmuch as the assumption made in moral theory is that once abstract principles are set they must be universally applicable to all situations encountered. A question following up from here is whether the claim to universality is a value we want to cherish. This is an issue that has particularly concerned Williams. He argued that the aim of theory is not simply, or even primarily, to understand a conflict, dilemma, or problem, but rather to "resolve it in the more radical sense that it should give some compelling reason to accept one intuition rather than another" (1985, 99). Williams spent much of his time refuting claims made by "traditional doctrine" (1985, 58), namely moral theory, that impartiality is fundamental to abstract reasoning. Impartiality, the dogma goes, would support the universal application of strict moral principles. Williams called this understanding of morality's impartiality, the "enough is enough" principle (1985, 115). Based on this principle, Williams declared, scholars of moral philosophy argue that if a certain consideration is truly sufficient reason for a certain action in one case, it is so in another. Claims to universalizability of principles always entail the risk of being self-defeating. In fact, once we claim that something is universal it becomes difficult to identify the particular nature of that something. Unavoidably, the question rises as to how a universal principle can provide meaningful guidance to people in their everyday life. Williams, for example, questioned: "how can an I that has taken on the perspective of impartiality be left with enough identity to live a life that reflects its own interests?" (1985, 69, emphasis in original). For ethics to be able to influence everyday practical deliberations there is a need to be partial, and it seems that through such partiality it becomes possible to better understand the material interests that drive people's actions. Ethics cannot modify those interests because they belong to people's free choices. But ethics can influence the way those interests can become important to people. Williams' understanding of how ethics works on people and on social life has provided an invaluable basis for the theme of this book. In the following two sections, I draw on his work to support the notion of ethicmentality theoretically. I am particularly interested in elaborating on ethics and the ethical values of today's society, and reflect upon what we might hope for. Here it is important to be reminded of Williams' warning that "we should not try to seal determinate values into future society" (1985, 173).

Ethical Life

One major question to emphasize from the point of view of ethicmentality concerns the origin of ethical theories. For example, are ethical theories generated by factors outside ethics, or do they build within ethics? In the first case it could appear that theories of ethics are the product of constructs made by philosophers. In the second case, theory generates theories. Williams found both possibilities unpersuasive. In his view, ethical theory can have only one origin, namely "ethical experience itself" (1985, 93). In taking this stand Williams set on a collision course with traditional doctrine. It is a stand that clearly links ethical reasoning and human action in a productive way. It is also clear from it that not every type of experience is important for our ethical life. Catching the bus to go to the movie might not involve any ethical deliberation. However, ethical experiences generate the ethical dispositions that serve to build people's sense of ethics. Williams observed that "the preservation of ethical value lies in the reproduction of ethical dispositions" (1985, 51). Another reason why it is good to emphasize experience lies in the fact that experience always evokes a personal, individual dimension that cannot be so easily universalized. Experience also implies an interpretation that is based on what we are. By understanding ethics as both partial toward people and their interests, and originating from the human dispositions that form through our ethical experience, it becomes possible to conceive of ethics as a behavior, or a way of being embedded in social life. The term social life describes what people do, their practices, what they share, what they want. All these many things that form social life are glued together by a mentality. Thus, it is possible to argue that mentality can express a common way of doing whereas ethics is focused on those involved in the doing. This combination creates a blend between mentality and ethics that is as spontaneous as it is cultural. The reference to culture serves to remind us that spontaneity needs a specific environment in order to develop into meaningful behavior, practice, and activity. The flexibility of ethics advantages it more decidedly against other more inflexible disciplines such as morality or theology. In reflecting about the extraordinary position that ethics has acquired in our time, Williams observed that "the demands of the modern world on ethical thought are unprecedented and the ideas of rationality embodied in most moral philosophy cannot meet them" (1985, Preface). Morality cannot effectively address today's issues while ethics is better equipped to do so because morality might be too abstract in the way it addresses the big issues of modern society.

It is interesting to note that Williams, for example, differentiated between ethics as the broader term, and moral/morality as the narrow system, as a special ethical system (1985, 6, 7, 14). By this he intended to present ethics as the open space where questions are addressed for a variety of possibilities and from a variety of perspectives. Philosophy, particularly moral philosophy has been influenced by the Socratic question, "How should we live?", but on closer examination this question might be too abstract for guidance in everyday life. Concerning this difficulty Williams argued that such a question might turn into another question, one that could be answered by a "positive ethical theory" (1985, 199). Positive ethics would be concerned with what people do, rather than what they should do. The notion of positive ethics implies an analytical approach capable of including the "psychological space" (1985, 172) where agents are able to make choices based on what they are. "One question we have to answer is how people, or enough people, can come to possess a practical confidence [originating] from strength" (1985, 171). This emphasis on people's strength is uttered by Williams in order to provide a strong argument for the centrality of individual deliberation in relation to their practical needs. "Practical thought," Williams argues, "is radically first-personal". It is a thought that must ask and answer the question "What am I to do?" or "What shall I do?" (1985, 18). Williams masterfully turned Socrates' philosophical question about how to live into the ethical question about what to do. This shift from abstract reasoning to practical reasoning is grounded in his idea that ethics is not a closed system of rules and blames. To speak of ethical thought means highlighting how ethics is a continual process of deliberation, consideration, and application concerning people's lives, interests, and expectations.

Ethical Thinking

To some of us it might appear difficult to conceive of ethical thought as a way of thinking and acting. But if ethical thought is the product of a positive ethical theory which, according to Williams, is never separate from human practices, then this thought can take the form of a mentality that involves the world. "The aim of ethical thought, however, is to help us to construct a world that will be our world, one in which we have a social, cultural, and personal life" (1985, 111). Williams' notion of ethical thought evokes the idea of a way of thinking that is exposed to the variations of everydayness.

The notion of ethical thought, or thinking, mediates a sense of emergent activity, of something that is always projected, never finished. This being projected has implications for individuals because activity outcomes cannot be predicted. Due to this unpredictability, people will have to learn how to stay open to whatever unfolds because it would be impossible to know in advance how things will turn out, how we will act when faced with other people's demands, needs, claims, and desires. The precariousness of living carries a positive value. "Not to know everything is, once more, a condition of having a life—some things are unknown, for instance, because they will form one's future" (1985, 57).

Projected activity, projected toward the future, that is, is part of social life. In terms of ethics, the future involves the development of an understanding of the way that people can develop and live a meaningful life. A meaningful life for people might require a "practical convergence of a shared way of life" (1985, 171). People share the way they live and by so doing they reproduce the ethical values that form that life. In the end, however, people share practices. Practices form and are formed by a mentality. It might be possible to say that the word practices refers to people's making and doing of things in a way that is meaningful to them. Through practices it is possible to identify common values, principles, and rules. What is shared is common, and what is common cannot be changed easily by individual action. A mentality influences how social life is organized. It prioritizes the values that form it. As the term suggests, a mentality is a way of thinking about things, and this way of thinking is connected to practices. "We may be able to show how a given practice hangs together with other practices in a way that makes social and psychological sense" (Williams 1985, 114). Where practices are concerned, ethical thinking is not an isolated condition determined by theory. Ethical life becomes practical life. And this fusing of the two, Williams argued, is continuous, it is the true business of living. "The only serious enterprise is living, and we have to live after the reflection; moreover (though the distinction of theory and practice encourages us to forget), we have to live during it as well" (Williams 1985, 117).

Ethicmentality

Ethical practices relate to ethics, but to a kind of ethics that derives from what Williams called positive ethical theory. This theory cannot ultimately avoid social attachment, particularly considering its connection with practice. Further drawing on the work of Williams, it is possible to argue that people's deliberations often occur from a practical angle, "from what I am" (1985, 200), and not from what I should be. The process of deliberation is a personal and social process marked by an open attitude. Because deliberation always involves an individual, it is also an ethical process. Interestingly, relating to this process, Williams once noted that philosophy can play a part in it, "but it cannot be a substitute for it". I argue that this process is diffuse and is embedded in social life, and by this I mean in a mentality. The notion of mentality is not a simple one. Mentality is a concept that has been used by scholars to counter ideas of mechanical functionality driving people's behaviors. In the early days of psychology, for example, William James (1890) declared that "the pursuance of future ends and the choice of means for their attainment are the mark and criterion of the presence of mentality in a phenomenon" (p. 8). By this James meant that there are situations where consciousness, or self-awareness, is not necessary for individuals to achieve their goals. Some behavior, although driven by self-interest (the wish to achieve this or that), does not require self-awareness. Behavior directed toward achievement is influenced by experience or acquired social skills. When the notion of mentality is used to explain human behavior, it is done so to underline the presence of ways of acting and thinking that are common to many. When we say that something is common to many, for example, recurring patterns of social behaviors, we also assume that what is common is known to many. In social life, people are most of the time aware of what is occurring to them and others. For example, we are all aware of the fact that every single person has interests and pursues them.

Frankfurt (1988) also took an interest in the notion of mentality. He agrees with James that we do not need a consciousness to function properly. Accordingly, he develops his theory that awareness is not necessary for people to behave in accordance with their interests. But what they need is a reflexivity, a "capacity to respond to the circumstances" (1988, 163). Where that capacity comes from, Frankfurt does not tell us. Dewey believed that it could come from habits forming social life. Dewey (1922) argued that "were it not for the continued operation of all habits in every act, no such thing as character could exist" (p. 38). By character, Dewey understood the skill to act and react according to what is given through circumstances. Circumstances could be unexpected events or situations encountered by people that solicit their coping based on what they know. It would be possible to conceive of what people know as (shared/common) practices. In commenting on the work of Hubert Dreyfus and his notion of the background orienting practices and gestalts, Mark Wrathall (2014, 12) observed that "we don't encounter a meaningless world, but rather a meaningful setting of affordances and solicitations". This world is made up of important things "that guide our everyday activity (navigating the home and workplace, preparing food and eating, and so on)" (p. 13). As those practices are shared by people, by simply being common to them, they form the mentality of a culture. Specifically referring to social practices, Williams once (1985) observed that social and cultural practices hang together in a way that can help make the social and psychological life of people evidently meaningful.

> My third optimistic belief is in the continuing possibility of a meaningful individual life, one that does not reject society, and indeed shares its perceptions with other people to a considerable depth, but is enough unlike others, in its opacities and disorder as well as in its reasoned intentions, to make it *somebody's* (p. 202).

It was among Williams' main concerns to show how ethics is deeply involved in social and psychological life, which is why he also spoke of positive ethics. He understood positive ethics to be practical ethics, namely ethics that informs practices. "A practice may be so directly related to our experience that the reason it provides will simply count as stronger than any reason that might be advanced for it" (1985, 114). Williams and the other scholars mentioned in this book never really dwell on the material contexts of ethics. Theirs is an outlook always projected toward possibilities.

In this book, however, I have discussed concrete topics where mentality has played and plays a role in defining individuals and social conditions, political structures, and practices. One striking element resulting from the study carried out in this book is that ethics is part of everyday life through people's behaviors and deliberations. Another striking element is that ethics is generated and continually reproduced in society through people's ethical experiences. This renders ethics something that is less confined to a theory and closer to a mentality. But what is a mentality is more difficult to state. Whether mentality is a way of thinking expressed through practices, an assemblage of skills to cope with circumstances, or a practical way of living, is probably too complex and too pervasive to be captured in our language. Hubert Dreyfus (2014a) called the skills and practices that form social life a "background orienting" (p. 89) that makes directed activity possible. Drawing on the work of Heidegger, particularly his *Being and Time*, Dreyfus suggested that this background could also be seen as a sort of "implicit ontology" (Dreyfus 2014b, 134) concerned with being in relation to practice rather than theory. What is certain is that mentality is to be found in the doing that characterizes life in general and human life in particular.

The notion of ethicmentality is concerned with the dealings of human beings. Such dealings can take many forms as they might be influenced by such things as economic interests, social changes, or a wish to live ethically. If we were to regulate these dealings strictly we would end up creating a system of control that might run against principles of autonomy and freedom. By taking an ethical approach to human life, we accept that people, or most people, are able to identify the things important to them, and act accordingly. To do so they show practical skills that are part of social life and that are used to satisfy their needs. It is undeniable that at times there might be causality in all of this, but practical causality need not be a problem. Some might think that causal thinking favors a utilitarian attitude to life. If this attitude can orient people in life, and if it can help them to live well, and to be good, there is no problem with causality. As Williams (1985) once stated, "causality can often enable agents, and certainly animals, to see very well where they are going" (p. 65). We should always try to be in a position to think that what drives most people is a wish to improve, no matter the form such a wish takes, and the goals that it implies. The freedom to choose how to improve must rest with individuals. This is a not a plea for laissez faire but an expression of general confidence. The notion of confidence is interesting particularly for how people live and act in social life. Referring specifically to the role of confidence in action, Williams (1985, 170) argued in favor of a difference between consciousness and confidence. He declared confidence to be a basic "social phenomenon" related to the institutions, upbringing, and public discourse that nourished confidence. Questions about ethical confidence, he further argued, must then be questions of social explanation. At the same time, however, confidence is also part of a rational argument such as theorizing and reflection, where consciousness is involved.

> The truth is that the basic question is how to live and what to do; ethical considerations are relevant to this; and the amount of time and human energy to be spent in reflecting on these considerations must itself depend on what, from the perspective of the ethical life we actually have, we count as a life worth living and on what is likely to produce people who find life worth living. (Williams 1985, 171)

In the above, three important aspects are mentioned, namely practical doing, ethical considerations, and human reflection. They are the substance of ethics. Williams wrote consistently about the difference between ethical enquiry and philosophical enquiry. Moore (2006, xii) described it as a difference between soft enterprise (ethics) and hard enterprise (philosophy/morality) and observed that Williams' differentiation had to do with his refusal to take anything for granted in philosophy and morality, particularly when it comes about to judge people's decisions and choices. It is undeniable that for Williams ethical thought was more successful than was philosophical thought. One problem with philosophy is its being perceived as self-contained and technical, unable to establish "connections with other ways of understanding ourselves" (Williams 2006b, 198). The causes might lie with the hard enterprise itself: "if we find it systematically hard to know what to say, the problem lies probably not in our words but in our world" (2006a, 64). Where philosophy fails, ethics might succeed. It could be the aspiration of ethical people to convince the skeptical that an ethical life is always more rewarding. This idea cannot be forced on people through ethics, however. Enforcement is for the law. Ethics works through persuasion, by reinforcing the importance of what people do for themselves and for others. By supporting people's strengths, ethics can support people's future. It would be a mistake, however, to believe that this will be easy. Often people choose to do something wrong. Some might even like what goes against ethics. Thus, it is not easy to advance an ethical discourse when the alternatives might appear easier, more profitable, or more glamorous. These are great challenges for ethics.

The notion of ethicmentality developed within this book merges ethical thinking and social life. The aim is to capture the interdependence of ethical life and social life in novel ways. Thus, I claim that through ethicmentality a new analytical approach is advanced that suspends the traditional split between theory and practices. Interdependence becomes evident in the various fields of human activity that are concerned with practical behavior in today's economy, business, and society. Within this book, familiar issues have been revisited through the two notions of mentality and ethics. Capitalist economy has been analyzed in terms of a mentality embedded in society, culture, and politics. Government is revealed as mentality about how to govern economically through market freedom rather than human rights. The rise of the financial economy is described as challenging the traditional capitalist mentality of equal opportunities. In respect to Part II of the book, for example, it has been possible to elaborate on a new money mentality around debt and owing now antagonizing credit and owning. Within business, the rise of corporation managers and the destruction of the old mentality of ownership are identified as the major causes behind the businesses crises of the past 20 years. In analyzing traditional fields of human activity through ethicmentality, different types of analytical concerns have emerged from economic, business, and societal perspectives. The possibility for a reinterpretation of familiar contents is another consequence of the methodological innovation introduced by ethicmentality. This concept breaches traditional limits within ethics theory by developing the idea of ethical capital and entrepreneurial ethics. Particularly in relation to this latter idea, ethics is described as entrepreneurial not merely because it deals with entrepreneurship. Ethics is also entrepreneurial because it has become an instrument of social and personal innovation. Ethicmenatlity introduces a different way of thinking ethics altogether. Given the pervasive nature of mentality and ethics' focus on individual deliberation, ethicmentality represents a new blend for ethical and social analysis.

What We Can Hope For

It is not clear how things will develop in the long term. And this might be anyway a development that is outside our reach. There are big issues forming on the horizon from a new economic global market to global governance. What form that market and that governance might take depends on developments that involve people and processes, policies and resources. Power will also play a role. It seems that old foes have returned to stir up problems—ideology, intolerance, and fear. It is a big task for ethics to counter these forces. "It matters a great deal to ethical thought, in what way past legitimations are seen as discredited" (Williams 1985, 166). Ethics' strength is its stand for humanity. The clear prejudice in favor of humanity is the trademark of ethics—not humanity to be used for political or ideological purposes, but humanity that must be simply respected. "The most urgent requirements of humanity are, as they always have been, that we should assemble as many resources as we can to help us to respect it" (1985, 119).

In this book, ethics is treated as neither a system nor a programmatic ideal. In some chapters, ethical thought emerges through the concerns of the authors I have discussed. These authors do not draw simple pictures of the problems we are facing. From their writings it appears that to solve problems we first need to understand their origin, and perhaps even question the populist solutions that might be advanced by some quick fixers in academia, the media, and politics. Economic, social, business, and political life are complex domains of human actions. We have compelling reasons to regulate them, but regulation must be balanced. It cannot cut too deeply into people's freedoms. We can only propose solutions that address people's hopes. In concluding this book it seems possible to say that ethics is the dimension that can most perfectly balance the requirements of personal life and of public life. It does so not through rules or dogmas but through an understanding of practical issues. Ethics has no programs to carry out. It is not the aim of ethics to rule over social life. But it is the hope of ethics to shape social life by influencing people's deliberations and actions. It seems that such hope can succeed and stay alive only if ethics is conceived of as a mentality.

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