by Tibor R. Machan

Profit: the Right Standard for Business

ALTHOUGH NOT OFTEN NOTED IN business-ethics discussions, business is a profession. Unfortunately, commerce doesn't share the honored reputation of other professions, such as medicine, even though it is ubiquitous in human community life.

In many social philosophies and religions, it is deemed objectionable to seek to prosper, certainly in any systematic fashion. It was a crime in the old Union of Soviet Socialistic Republics to be a profiteer. Communist ideology treated profit makers as pacifists would treat a citizen who aspired to be a soldier.

Some schools of ethics and certain religions consider the objective of earning a profit to be morally suspect. They believe that trade is a zero-sum exchange: For someone to profit, someone else must lose, and so profit is evidence that someone is being hurt. The idea of injury is amplified by the ugly history of gaining wealth through looting, pilfering and conquest.

Modern economics has defended the idea that trade is, in fact, a win-win exchange. Both parties in a trade must understand themselves as benefiting from the exchange (or at least benefiting more than from alternative courses of action).

Over the past several decades, the field of business ethics, though not seen in exactly the same light by all those who have done work in it, has become very popular in colleges and universities, including most business schools, around the world.

One focus of the study of business ethics has been on the theory of corporate social responsibility, also known as the stakeholder theory of corporate ownership and management. This view holds it nearly self-evident that businesses, especially corporations, should benefit society first, and not primarily those who own and invest in the business.

Most economists find this hard to accept, practically and even morally. Back in 1970, the late Milton Friedman insisted that the sole moral responsibility of corporate managers is to strive to make the company profitable. This, he said, is what managers promise to do for the shareholders.

Until Friedman made this declaration, it was mostly taken for granted that corporate managers would, in fact, promote the firm's economic well-being. This follows from the general assumption in economics that in the marketplace everyone embarks upon the maximization of utilities, which is pretty much the same thing as trying to make a profit. But Friedman changed the account somewhat by claiming that this is not only what corporate managers do, but also what they are morally obliged to do.

In response to Friedman, a great many people from the field of philosophical ethics began to write extensively about business ethics. Many insisted that corporate managers should help all those who can benefit from what the company is doing, all those who have a stake in the company's fortunes.

This became the corporate social responsibility movement. Today, journals, magazines, conferences and many books advance the idea that corporate managers have a moral responsibility to benefit society, and not primarily the owners—shareholders, investors, stockholders—of the company.

This line of thinking is an unsubtle attack on capitalist economics. In a capitalist system, those who buy shares and invest in them own companies, whose managers' professional commitment and purpose is to make them succeed in the marketplace. Such success is measured, naturally, by how profitable they are, how good a return they bring in from their owners' investment.

The details depend on the kind of firm in question, obviously, but this is the general understanding of capitalist business. Just as physicians owe their service first to patients, managers owe it to their company's owners.

Never mind that no one could reap profits without also advancing what one's trading partner deems to be his or her economic interests. Never mind that once one makes a good return on one's investment, a separate moral question arises about what to do with the wealth.

Rejecting the capitalist model is not only a rejection of gaining wealth but also a rejection of the private allocation of wealth. Advocates of corporate social responsibility, in other words, don't want private individuals to be in charge of spending the profits made in business. They would like society or the public—which for practical purposes translates into government—to decide what happens to the wealth.

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This used to be called socialism, but by now that grand experiment as a political economic system has had innumerable setbacks across the globe, so the term has been dropped, except by its opponents.

Instead we have corporate social responsibility or stakeholder theory. If such an idea gains power and wide acceptance, it will have the same impact that socialism does, undermining the rights of individuals to allocate their own wealth, and placing this power in the hands of politicians and bureaucrats.

Business does have a moral responsibility—to make profits. Serving society is a natural result of that prime directive.

Corporate social responsibility aims to achieve all of this without having to admit to favoring socialism.

What needs to be upheld in the field of business ethics is the principle that ownership confers the rightful authority to allocate resources and wealth. There should be no question-begging presumption that companies must serve society.

After all, if they do their business well, corporate managers do serve all the members of society with whom they do business, dealing with customers and suppliers through mutually beneficial exchanges of money, goods and services. This is the natural outcome of seeking to make profits.

The decision on how profits should be used should be left to those who earned them. ■

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