While both public and scholarly interest in business ethics have increased significantly over the last decade, the subject itself is not new; in fact business ethics is an integral part of the Western ethical tradition. The public has been concerned with the ethics of business ever since a market economy began in the West more than 750 years ago.

Unfortunately, most contemporary writing on business ethics is ahistorical. Aside from the obligatory references to Kant and Mill, one rarely finds any serious discussion of concepts or ideas that date back more than a few decades. The relevant writings of Aristotle and of the Catholic and Protestant theologians who thought long and hard about the ethics of business are rarely cited. One also finds remarkably few references in the contemporary business-ethics literature to the works of scholars such as Max Weber, Albert Hirschman, and Michael Walzer—all of whom have written extensively about the historical roots of capitalism as an ethical system.

While there is a rich secondary literature on business ethics, it is significant that it includes few historical works. Nor do any of
the widely used business-ethics texts extensively discuss the history of the use of ethical concepts to evaluate business behavior during the last few centuries. The last decade was certainly not the first in which the ethics of American business was widely criticized: the moral shortcomings of financiers, bankers, and investors have been noted recurrently in American history. Yet to date no one has understood the contemporary resurgence of ethical criticism of business historically, by examining the interactions of business with government and society in earlier times.

In many important respects, the ethical standards to which we hold business have remained remarkably constant over a long period of time—though obviously many of the specific aspects of business conduct that trouble us today are new. Moreover, many of our contemporary debates about the nature of business ethics are centuries old. By drawing upon this rich intellectual history, we will be better able to appreciate the nature and significance of many current concerns.

The Protestant ethic

The emergence of capitalism in sixteenth-century Europe was closely associated with the Protestant Reformation. In an important sense, Protestantism made business ethics possible. To the extent that medieval Catholic theology held that moneymaking was morally suspect, it could not establish moral standards for its pursuit. As St. Augustine put it, “[T]he businessman ... may conduct himself without sin, but cannot be pleasing to God.” And St. Thomas Aquinas believed that most forms of trade conducted for profit were inherently immoral, holding that “he who in trading sells a thing for more than he paid for it must have paid less than it was worth or be selling it for more.”

Catholic theologians did distinguish among types of economic activity. They regarded producing a good for sale as less ethically suspect than either trading in goods or extending loans, for example. But for the most part, business activity was regarded as beyond the moral pale: the only ethical advice given by Christ to the merchants and tradesmen that he encountered was to abandon their work and follow him. A moral businessman was thus a contradiction in terms. In a way, a Catholic could no more have been an ethical moneylender six centuries ago than he could be a socially responsible drug dealer today.
If an activity is regarded as inherently immoral, the only moral course of action is to disengage from it entirely. The contemporary moral case against such business activities as investing in South Africa, manufacturing and marketing cigarettes, or producing strategic weapons represents an echo of the more sweeping medieval case against finance in particular and the pursuit of profit in general. During the intervening centuries the specific sources of profit regarded as inherently unethical have changed, but the moral standard for evaluating the ethics of business activities has remained remarkably stable.

Not surprisingly, many medieval merchants did in fact act like contemporary drug dealers. After all, if their activity was thought to be immoral to begin with, why should they have tried to perform it ethically? As the sociologist Paul Blumberg notes, pre-Reformation capitalism was rooted in a "rampant individualism which knew few scruples.... The capitalist mentality of the medieval business classes rested on the dictum: 'A profit is a profit, however it is acquired.'" For example, merchants in Italian city-states thought nothing of putting the bodies of diseased animals into the shops of their competitors in order to make them, their employees, and their customers ill.

It was by morally sanctifying the pursuit of profit that Protestantism made business ethics possible. While traditional Catholic theology viewed work at worst as a curse and at best as a distraction, Protestantism held that a businessman's work could be pleasing to God. Not only could one serve God by working, but the correct use of wealth was precisely to increase it for the glory of God. Consequently, the pursuits of profit and of heaven became not only compatible but mutually reinforcing. A diligent worker, for instance, was less likely to be tempted by the devil. And being rewarded with financial success was now understood as a sign of God's favor. In short, the Reformation made it possible for a successful businessman to be an ethical individual as well.

John Calvin's radical doctrine of predestination was never widely shared, even among Protestants. But a more secular version of Protestant business ethics did become important in Western popular culture. It is to this Protestant ethic that we owe our contemporary effort to understand the relationship between personal virtue and financial success, between corporate ethics and profitability.
Irving Kristol has described nineteenth-century America as "a society in which it was agreed that there was a strong correlation between certain personal virtues—frugality, industry, sobriety, reliability, piety—and the way in which power, privilege and property were distributed." Success was associated with the performance of duty—a point made repeatedly in the Benjamin Franklin homilies and Horatio Alger novels that were read by literally tens of thousands of schoolchildren then.

Kristol correctly notes that nineteenth-century Americans were extremely interested in the relationship between good moral character and success in business. But he appears to have exaggerated the extent to which they regarded the two as closely related. By the end of the century numerous successful industrialists were certainly repugnant to many Americans. In Gustavus Myers's 1909 work *History of the Great American Fortunes*, Jay Gould—an extremely successful financial operator—is described as a "freebooter, ... a pitiless human carnivore, glutting on the blood of his numerous victims, ... [and] a gambler destitute of the usual gambler's codes of fairness in abiding by the rules"—hardly the portrait of a man whose accumulation of wealth would have been pleasing to God.

A secularized ethic

Contemporary discussions of business ethics focus less on questions of individual character than was true a century ago. Indeed, we appear to have almost completely lost sight of the fact that the word "ethics" is derived from the Greek term *ethos*, meaning "character." Because much economic activity now takes place through organizations, today we are less interested in the character of individual businessmen than in the decision-making processes of business firms. Consequently we tend to use the terms corporate social responsibility and business ethics almost interchangeably.

In addition, contemporary discussions of business ethics are overwhelmingly cast in secular terms. The profound Judeo-Christian roots of the Western tradition of business ethics are rarely examined. Even those theologians who write about business ethics seldom refer to the concepts of sin, evil, or divine judgment. Nevertheless, we remain no less preoccupied with the relationship between morality and profits than Weber's Calvinist merchants or Kristol's nineteenth-century schoolchildren.
Indeed, one's assessment of the relationship between morality and profits is a virtual litmus test of one's overall appraisal of the ethics of American business. The harshest critics of American business ethics tend to assume that the relationship between ethics and profits is either random or negative; members of this camp include the large percentage of Americans who believe that companies often behave irresponsibly in order to increase their profits. Many certainly believe that financially successful firms are apt to be less ethical than those less favored by the invisible hand. Though their reasoning may differ, those who hold this view reach a conclusion akin to that of Augustine and Aquinas.

On the other hand, a secular variant of the Protestant ethic has now been revived by the mainstream business community. The reports on business ethics issued by such organizations as the Business Roundtable and Touche Ross argue that good ethics is good business. They claim that it is possible to be both virtuous and successful, and even that moral virtue is necessary for success. Thus former Securities and Exchange Commission chairman John Shad asserts that "ethics pays. It's smart to be ethical."

To hold this view is not to insist that socially responsible firms are always profitable. But then even the Protestant clergymen of seventeenth-century Europe and nineteenth-century America did not preach that good people invariably prospered or achieved salvation. The claim instead is that being "good" or "responsible" is a necessary though not sufficient condition for succeeding in the marketplace. In other words, not all virtuous firms and individuals will succeed, but all successful ones are likely to have been virtuous.

There is also an equally important implicit corollary, which is that those who behave badly will be punished. This punishment takes the form of customer and employee dissatisfaction, criticism in the media (all presumably resulting in reduced profits), and—in extreme cases—civil or criminal prosecution. For the Protestant clergy punishment was deferred to the afterlife, though its form was both more consequential and more enduring than that commonly meted out by secular authorities and the market.

Many scholars have attempted to measure the relationship between the social responsibility of a company and its financial performance. Important as this research is, in a way it is also beside the point: the appeal of Calvinism and Horatio Alger did not rest on the demonstrated validity of their causal models. It may
make more sense to regard the Business Roundtable's view as the contemporary, secular equivalent of a Protestant sermon. Like many of the statements on business ethics made by businessmen, its real purpose is to exhort the business community to improve its moral behavior. And just as the Protestant clergy promised salvation as a reward for virtue, so does the Roundtable promise improved profits as a reward for ethical business conduct.

In principle, the Roundtable's position may be more demonstrable than that of the Protestant clergy; but in the final analysis, both rest on faith. Equally important is that both predictions are meant to be self-fulfilling. Thus if large numbers of executives are persuaded that good ethics is good business, the two in fact are likely to turn out to be positively correlated. Alternatively, if many executives believe in a trade-off between them, the ethics of business is less likely to improve.

In sum, people have been interested in the relationship between ethics and profits for a long time. The debate over the nature of their relationship remains central to our appraisal of the moral legitimacy of business. Just as the Protestant ethic played an important role in legitimating capitalism, so are the efforts of today's business community to correlate ethics with profits important as an attempt to firm up the moral legitimacy of our contemporary business system. Alternatively, those who argue that a good person cannot succeed in business, or that a socially responsible company is handicapped in the marketplace, are challenging the ethical foundations of our market economy; in effect they are arguing, as did many medieval Catholic theologians, that business ethics is an oxymoron.

The emergence of ethical or socially responsible investment funds and programs can also be understood in this context. Like Calvin's sermons and Alger's novels, these funds appeal to the desire of the public to be both virtuous and prosperous. The funds are based on the assumption that not only is there no trade-off between virtue and prosperity, but that in many cases they are mutually reinforcing. For all the progressive political rhetoric that surrounds these funds, their core assumptions are actually quite similar to those of the Business Roundtable. And their depiction of the relationship between ethics and profits, like the Roundtable's, is also meant to be self-fulfilling: presumably if many investors act on the belief that a responsible firm will likely be more profitable, then the price of its shares will rise accordingly. The popularity of
these funds suggests that the moral issues that troubled Aquinas and Calvin remain: evidently many people are still searching for a way to accumulate capital without sin.

**The capitalist legitimation of economic success**

The notion that successful businessmen could be good human beings constituted an important dimension of the original moral case for capitalism. A second dimension involved a new understanding of the relationship between economic success and the public good.

In pre-market economics, the acquisition of wealth was primarily a zero-sum game. One became wealthy primarily by fighting or taxing others, so as to take their resources. What made capitalism unique was its claim to have developed a mechanism through which it was possible for an individual to acquire wealth that not only did not harm others, but actually benefited them. This mechanism was, of course, the market. In principle, the only way to acquire wealth in a market economy is to satisfy the material needs of others; profits reward businessmen for successfully fulfilling the legitimate expectations of their employees, customers, and investors.

Wealth accumulated through the market does not lessen the total volume of available goods and services: the consumer is no worse off for having exchanged his money for a commodity than is the merchant who now has fewer goods and more money. Thanks to the market, both are better off than they would otherwise have been, though not necessarily in the same proportion.

Prior to capitalism, virtually all profit tended to be regarded as profiteering; it appeared to be rooted in extortion rather than fair exchange. Accordingly, it was morally suspect. What capitalism did was to provide an ethical justification for moneymaking; capitalism’s claim to be the world’s first fair economic system was predicated on the understanding that the merchant, unlike the Roman warrior or the feudal lord, actually deserved his material wealth. In short, capitalism purported to be the first social system in which the wealthy could claim that they simply received a just reward for performing a socially useful function.

Centuries after the birth of capitalism, we continue to judge the acquisition of wealth by this standard. For many free-market economists, the moral case against government intervention in the economy is that government divorces acquiring wealth from serv-
ing the needs of society as expressed through the market. Protective tariffs, subsidies, tax breaks, legally sanctioned cartels, and monopolies—all can be viewed as relics of mercantilism, the system of business-government relations whose abuses and inequities were denounced by Adam Smith in *The Wealth of Nations*. Government intervention does create wealth, of course; that is precisely why there are so many lobbyists in Washington. But the moral claim of its critics is that much of the wealth created by government intervention is extorted rather than earned; it reflects political influence rather than social contribution.

Many contemporary economists and political economists tend to regard government as the primary if not the exclusive source of illegitimate wealth in capitalist societies. Even though this perspective tends to overlook the numerous regulations and public expenditures that clearly benefit society, it is not unreasonable. Newspapers are replete with examples of bankers or developers who have used their political influence to acquire large sums of money—in each case clearly harming significant numbers of their fellow citizens. Adam Smith would surely not have been surprised by the savings-and-loan debacle or the recent scandals at HUD; he would likely have regarded them as the inevitable outgrowth of a system of political economy that rewards political privilege rather than economic performance.

**The continuing critique of market profits**

For much of the American public, however, government is not the only source of illegitimate wealth. Many citizens deny that wealth accumulated through the market is inherently moral. Instead they subject market profits to the same ethical standards that Smith employed in criticizing mercantilist profits.

Consider, for example, the response of the American public to the increased earnings of the major integrated oil companies following the oil-price rise of 1973. Were these profits deserved? The vast majority of gasoline consumers did not think so. Responding to pressures from the electorate, the federal government immediately established controls on energy prices in an effort to limit oil-company profits. And when energy prices were subsequently deregulated, the government imposed a "windfall" or "excess" profits tax on the integrated oil firms in order to prevent them from benefiting from the removal of price controls.
Now from the point of view of neoclassical economics, the notion of an “excess” or “windfall” profit is meaningless. (One is reminded of the New Yorker cartoon in which an elderly executive reading the paper at his club turns to his friend and exclaims: “In all my many years in business, I have yet to see an excess profit!”) In fact, the terms reflect not an economic analysis but a moral critique.

Why did so many Americans regard the oil companies’ earnings as an example of “profiteering”? In other words, why did they consider them to be “undeserved”? Two reasons seem particularly significant. First, the profits did not reflect any additional effort on the part of the oil companies, which had not discovered new oil reserves or improved their operating efficiency in 1974. Instead their increased earnings were largely inventory profits: substantial wealth was being transferred to them for no other reason than that a group of Arab oil ministers had suddenly discovered how to form a successful cartel. The companies’ profits were due less to their economic contribution than to the fact that they happened to be in the right place at the right time; in short, they made a fortune only because they had been fortunate.

Secondly, the good fortune of the oil producers had important distributive consequences: it was accompanied by substantial suffering on the part of American consumers. Indeed, the fortune and the suffering appeared to be almost physically linked: it was as if the increased price of gasoline at the pump represented a direct transfer of wealth from consumers to shareholders and executives. The proposed deregulation of energy prices promised to raise gasoline prices still further: many regarded it as unfair for a small group of executives and stockholders to benefit from the sacrifices of millions of ordinary Americans.

Not surprisingly, the maintenance of price controls on energy in the recent past evokes the medieval concept of the “just price.” This term, too, has no economic meaning. Rather it derives from the notion, widely shared in medieval Europe, that those who controlled access to certain critical commodities, particularly when their control was due to an “act of God” rather than their own initiative, were not entitled to all the profits that the “normal” workings of the market allowed.

Critics have also raised questions about social contribution and fairness in connection with the profits received by investment bankers in return for their efforts to restructure the American
economy. Robert Reich has described some members of the American financial community as "paper entrepreneurs"—yet another term of moral opprobrium rather than economic analysis. Reich's criticism of financiers who have made large fortunes by buying and selling, or by putting together and breaking up existing companies, is remarkably similar to the medieval Church's strictures against usurers.

The Church, although it frowned upon all forms of money-making, was particularly critical of banking or money lending. It argued that it was wrong for people to be paid back more money than they had lent, since they had not improved their commodity in any way. Gold and silver were essentially "sterile": they represented a convenient way to measure wealth, but they themselves were incapable of adding to the resources available to sustain life. Accordingly, while farmers or craftsmen were entitled to charge for their labors, bankers were not.

This, of course, is precisely why Reich is so critical of the profits earned by Wall Street firms from restructuring the American economy. Reich regards producers of goods and services as the exclusive source of "real" wealth: their profits are legitimate because they derive from their efforts to deploy human and material resources to meet various private and public needs. Those who make their living from buying and selling these companies, however, are in a different moral category: paper entrepreneurs are predators, not creators of value.

**Fairness at issue**

As in the case of the oil-company profits of the 1970s, the extraordinary profits earned by many lawyers, investment bankers, managers, and stockholders during the 1980s also raise the issue of fairness. If restructuring is essentially a zero-sum game, as its critics allege, then the wealth accumulated by its beneficiaries must be counterbalanced by a reduction in wealth on the part of various other constituencies. The latter include not only the holders of various financial assets, but—more importantly from the point of view of the public—large numbers of employees. Paper entrepreneurship appears unfair to many Americans because it has allegedly benefited some by harming others—precisely the pre-capitalist definition of profiteering.

More generally, people's appraisal of the ethics of restructuring has to do with their perception of its contribution to economic effi-
ciency and productivity. If, on balance, the dramatic changes in the governance of the American economy that took place during the 1980s made business less productive and efficient, then the profits earned from this activity are clearly not deserved; after all, the moral case for profits rests on the claim that they reward only those activities that increase society's overall material abundance. Alternatively, if paper entrepreneurship has, on balance, strengthened the long-term performance of the American economy, then its critics are as short-sighted as the medieval Church was in prohibiting the payment of interest on the grounds that "time belongs to God."

It is in this context that the legitimacy of the substantial fortune accumulated by Michael Milken should be viewed. Milken's defenders have pointed out that he raised a huge amount of money for companies through the sale of junk bonds, so that his compensation—though larger in 1988 than the profits of all but a handful of corporations—was not excessive. On the other hand, the amount of Milken's personal wealth was specifically referred to in the opening pages of the U.S. Attorney's indictment of him for violating the securities laws. Both the defense and the indictment miss the point, however; at issue is not the amount of money that Milken raised for others (or received himself), but the results produced by his labors.

If junk-bond financing helped many American corporations in accumulating funds needed for growth and expansion, then Milken's compensation was not unreasonable. But if junk-bond financing instead is little more than asset reshuffling at best (and asset stripping at worst), then Milken's compensation was not deserved—regardless of its amount. In this context, it is striking that the unethical corporate raider played by Michael Douglas in the movie Wall Street explicitly justifies his financial machinations in zero-sum terms. As he puts it, "Somebody wins and somebody loses. Money isn't gained, it's transferred. I create nothing. I own." It would be hard for anyone to come up with a clearer ethical indictment of restructuring.

Milken's violations of the law obviously deserved punishment. But the size of his gain per se is irrelevant to his guilt or innocence; in a capitalist system, making a lot of money is not a crime. It is true that if the sums made by Milken or the oil industry were insignificant, hardly anyone would care whether they were deserved. But many athletes, entertainers, and "real"
entrepreneurs make substantial sums of money without their ethics being questioned by the public. And certainly during the 1980s many high-tech firms reported increases in profits comparable to those enjoyed by the oil industry during the previous decade—yet no one ever suggested subjecting them to a “windfall” profits tax.

In this context, it is also worth noting that many home owners in New York, California, and Washington, D.C., recently experienced dramatic increases in wealth due to their good fortune in having bought a home in the right place at the right time. Their profits were clearly no more—or less—deserved than those of the oil industry. And yet no one wanted to impose a “windfall home-profits tax” on them, although Henry George—who wrote before home ownership became widespread—advocated a tax on land for precisely this reason. And while housing is as critical a commodity as energy, no one outside of Berkeley, California, has seriously proposed establishing price controls on the sale of private homes. In assessing the ethics of business, the public evidently is not immune to calculations of its own material interests.

The distinction between the wealth accumulated by Bill Cosby and Apple Computer on the one hand, and Michael Milken and Exxon on the other, has no basis whatsoever in economic theory. Rather it demonstrates the hold that medieval economic thought continues to exercise on our collective moral imagination. Many people continue to believe that not all profits are created equal; some profits, they think, are more deserved than others.

**Intentions and results**

Adam Smith wrote in *The Wealth of Nations*:

> 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 self-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.

These often-quoted lines capture the moral contradiction that lies at the heart of capitalism, in which morally dubious intentions combine to produce morally beneficial results. On the one hand, we do get the food that we need to survive—certainly no mean accomplishment in a world in which hunger was once commonplace. But on the other hand, the way we achieve this happy outcome is by paradoxically assuming that the providers of food are indifferent as to whether or not we are actually fed.
If one judges the ethics of capitalism by its results, then the system deserves our unequivocal moral approbation. By any conceivable criterion, appealing to the self-interest of humanity "works": market economies have produced more wealth and greater economic security for more individuals than even their most ardent eighteenth- and nineteenth-century defenders thought possible. Capitalism’s improvement in the quality of life is equally impressive. And no other economic system has proven even remotely so compatible with liberty and democracy.

However, the issue of motives constitutes the moral Achilles heel of capitalism. This is because of the appeal to self-interest that is at the core of a market economy. Notwithstanding capitalism’s impressive results, many remain uncomfortable with a system in which economic action is motivated by selfishness.

Numerous scholars have tried to address this moral issue, without much success. In *The Passions and the Interests*, Albert Hirschman presents the ideas of a number of eighteenth- and nineteenth-century thinkers who argued for the ethical superiority of capitalist motives. They favorably contrasted a society in which people sought to maximize their interests with one in which people were ruled by their passions. As Montesquieu wrote in praising market economies, "[I]t is fortunate for men to be in a situation in which, though their passions may prompt them to be wicked, they have nevertheless an interest in not being so."

Now it may well be the case, to cite Samuel Johnson’s famous epigram, that "there are few ways in which a man can be more innocently employed than in getting money." Certainly, when one compares the profit motive to the homicidal and genocidal passions that have motivated so much human behavior, the moral case for the profit motive is clear. John Maynard Keynes’s judgment is surely correct: "It is better that a man should tyrannize over his bank balance than over his fellow citizens."

The last few centuries, however, have also demonstrated that far from calming men’s passions, the pursuit of money can just as easily inflame them. Writing in *The Predator’s Ball*, Connie Bruck portrays Michael Milken as a man driven less by the rational pursuit of self-interest than by megalomania; he is hardly the kind of individual that Montesquieu had in mind, one presumes.

Moreover, while the pursuit of material self-interest may be preferable to some motives, it is hardly superior to all of them. Much of the ethical appeal of socialism in the West has derived
precisely from the moral superiority of the motives that it would substitute for the pursuit of material self-interest. It remains far more uplifting to exhort people to "love one another" than to "maximize utility," even though the latter may in fact be more socially beneficial.

Perhaps the most audacious effort to reconcile the motives of capitalists with the results of capitalism can be found in George Gilder's *Wealth and Poverty*. Gilder argues that capitalism begins not with material self-interest, but with "giving." Because the investor has no guarantee of return on his investment, his investment effectively constitutes a gift to the community. And like the gifts of the South Sea Islanders, it is given in the hope that it will be reciprocated. This argument has persuaded no one: as one of his numerous critics put it, Gilder's attempt to equate giving and investing is as likely to give philanthropy a bad name as capitalism a good one.

Yet at the same time, his analysis—perhaps unwittingly—also helps make sense of both the pervasiveness and widespread public appeal of corporate philanthropy. In fact, corporate philanthropy fits Gilder's model far better than does business investment. Philanthropy clearly involves giving, with no guarantee of return. Yet at the same time, the gifts given by corporations are commonly understood to be motivated not simply by altruism, but by the firms' long-term interests. They thus represent a kind of happy medium between a genuine gift, whose primary purpose is to improve the welfare of the recipient, and an investment, whose only purpose is to maximize the wealth of the investor.

Not surprisingly, corporate philanthropy has been criticized from both the left and the right. One set of critics has attacked it for failing to serve the objectives of the firm's stockholders: they argue that too much corporate philanthropy goes to organizations and institutions that are hostile to business. Another group of critics attacks it for precisely the opposite reason: they claim that its real purpose is to improve the image of the company, so that it is misleading to describe it as philanthropic. The paradox of corporate philanthropy is that the more the public perceives it as altruistic, the more effectively it serves the self-interest of the company that provides it.

Michael Novak's *The Spirit of Democratic Capitalism* represents another contemporary effort to improve the moral status of capitalism by redefining the motives that underlie it. Novak notes
that "like prudence in Aristotelian thought, self-interest in democratic capitalist thought has an inferior reputation among moralists." He argues, however, that it is misleading to equate "self-interest" with greed or acquisitiveness. Rather, self-interest also encompasses "religious and moral interests, artistic and scientific interests, and interests in peace and justice," as well as concern for the well-being of one's family, friends, and country.

But while it is certainly true that much behavior in capitalist societies is self-interested in Novak's broader sense, this is decidedly not true of economic behavior proper. The predictive power of neoclassical economics rests precisely on the fact that consumers, investors, and employers do define their self-interest primarily—if not exclusively—in pecuniary terms. It is possible to deplore the extent to which our economic system rests on economic self-interest; it is not, however, appropriate to deny it.

**Corporate social responsibility**

The doctrine of corporate social responsibility can also be understood as part of the ongoing effort to reconcile the intentions and results of capitalism. It does this in part by fudging the issue: no small part of the nearly universal appeal of corporate social responsibility rests on the doctrine's ambiguity. Proponents of corporate social responsibility do not deny the legitimacy of the profit motive; instead they redefine the profit motive to encompass other, more public-spirited purposes. The notion of the "corporate conscience" represents an attempt to humanize the firm, to endow its managers with a range of motivations that transcend the selfish pursuit of wealth. Likewise, speaking of "enlightened" self-interest is clearly meant to soften self-interest, which itself is employed as a euphemism for selfishness.

But the term "enlightened self-interest" begs a critical issue. What happens when a manager's concern for the welfare of society conflicts with the material interests of his company's shareholders? Supporters of the free market believe that society is best served when executives try to maximize the interests of their shareholders. Thus an important conservative criticism of corporate social responsibility is precisely that it gives businessmen "credit" for serving society only when they are engaged in activities that are not primarily motivated by shareholder interests—thus undermining a central moral *raison d'être* of a market economy.
The response of the advocates of corporate responsibility is to deny that there is a tension between intentions and results: common to virtually every exposition of the doctrine of corporate social responsibility is the belief that in the long run the interests of "society" and of business converge, so that those firms that intend to do good also wind up doing well, and vice versa.

This is also the position of the movement for socially responsible investment: much of the popularity of "socially responsible" investment vehicles rests on their claim to resolve the tension between "bad" intentions and "good" results that characterizes a market economy, by enabling investors to hold on to their good intentions without sacrificing their rate of return. Much of the claim for the need to instruct businessmen in ethics rests on a similar social vision.

Appealing as this position evidently is, unfortunately it is not terribly persuasive. If corporate social responsibility amounts to nothing more than enlightened self-interest, why would anyone need to devote special effort to understand it or to urge others to pursue it? For that matter, what would be the point of teaching ethics to present or future managers? Why not simply teach them how to become more intelligent or sophisticated profit maximizers? Likewise, if socially responsible funds offer their investors a market rate of returns, then why is it praiseworthy to invest in them?

The fact that so much effort is devoted to preaching to both executives and investors about their social and moral responsibilities suggests that we are still uncomfortable with an economic system that relies so heavily on the motive of selfishness to achieve its goals—however laudable they may be. The moral paradox that Adam Smith so insightfully described more than two centuries ago remains with us; we are no closer than he to resolving it.