Identifying Conflicts between Economic Rationality and Ethical Demands

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0. Introduction

There is a big variety of ways in which economic rationality and ethical demands seem to be in conflict: economic growth and the preservation of the environment, efficiency and equity, globalization and fair trade, profit maximization and human rights, financial success and solidarity with the poor, competition and the creation of public goods, automation and decent jobs for all, "the fourth technological revolution" [1] and taking personal responsibility, the single minded pursuit of self-interest and the recovery of social cohesion. Indeed, conflicts between economic rationality and ethical demands appear in all these challenges and in many more.

If these conflicts really exist, we are trapped in a "two-world" approach that separates the ethical from the economic, and confronted with a tough choice: either economic rationality or ethical demands. But does this antinomy really hold? Is "business and economic ethics" indeed an "oxymoron"?

At first glance, we often get the impression that we live in two opposing worlds, unable to reconcile economic rationality and ethical demands. Yet, on closer inspection, many conflicts turn out to be "seeming conflicts" because our understanding of economic rationality is unclear or flawed or our notion of ethical demands is inaccurate or misguided. If we can clarify and deepen our views of economic rationality and ethical demands, the conflicts between them can be reduced or potentially even disappear. The two views, which first seemed to be in conflict, turn out to be compatible or even reinforce each other. What is ethically demanded becomes also economically rational; and what is economically rational becomes also ethically demanded.

Nevertheless, even after closer inspection, we cannot deny that some conflicts continue to exist. We have to face them and take them seriously. We should not downplay or repress them, neither by depreciating economic rationality nor belittling ethical demands. So is it still possible to address these conflicts without falling into the trap of a "two-world" approach that separates the ethical from the economic? I suggest seeking guidance from Arthur Rich's fundamental principle that mediates both dimensions:

> That which is not economically rational cannot really be humanly just, and that which conflicts with human justice cannot really be economically rational (Rich 2006: 74-75). [2]

This principle is directed against two extremes: against the utopian disregard of the rational in economic questions and against the elimination of human justice as a social-ethical postulate from the economic sphere, in the name of the frequently invoked "autonomy" of the economy. By relating and distinguishing economic rationality and ethical demands (characterized as "humanly just"), one excludes ethical dogmatism and ethical skepticism on the one side and an autonomous and value-free understanding of economic life on the other side.

To express this relationship and distinctiveness of both dimensions, I suggest using the image of the compass and the map. The compass represents ethical demands and indicates the general direction (say, south or west). The map represents economic rationality and depicts the territory with its relevant characteristics (say, streets, buildings and landscape). Both compass and map are necessary to find the right ways through the uncharted land of business and economic ethics understood as an interdisciplinary approach with its normative-ethical and descriptive-explicative dimensions – an approach for theory and practice that, so to speak, "walks on two legs." [3]

This paper aims to identify and discuss a number of conflicts between economic rationality and ethical demands. First, I clarify both concepts because each can take multiple meanings and thus can define the conflicts in many different ways. Second, I investigate several conflicting anthropological and methodological assumptions, which underlie numerous conflicts at various levels of decision-making and acting in business and the economy. Third, I focus on conflicting purposes of the economic system (i.e., at the macro-level), which affect also business and other economic organizations (i.e., at the meso-level) and individual actors such as entrepreneurs, managers, employees, consumers, and investors (i.e., at the micro-level). Fourth, I examine two conflicting business models, the shareholder primacy model and the model implied in the UN Guiding Principles on Business and Human Rights. Fifth, I highlight a particularly tough conflict of individual actors who struggle with whistleblowing. The paper concludes with a brief summary and refers to the subsequent presentations on conflicts in data gathering and technological innovation in finance, regulation versus personal ethics, and individualistic versus common good ethics.

1. Clarifying the concepts of economic rationality and ethical demands

1.1 How to define economic rationality?

Although the term of economic rationality does not have its own entry in *The New Palgrave: A Dictionary of Economics* (Eatwell et al. 1987), it appears in multiple entries of this work and has a variety of related terms (e.g., bounded rationality, economic laws, economic man, economic theory and the hypothesis of rationality, principal and agent, rational behavior, rational choice theory, social choice, and others). In order to broadly classify these terms and understand their meanings, it is helpful to use Amartya Sen's distinction of two approaches to economics in the history of economic doctrines: the "engineering" approach and the "ethics-related" approach (Sen 1987, 2-7). Strongly influenced by Lionel Robin in the 1930s, the engineering approach primarily focuses on logistical issues: what means one should choose in order to achieve as efficiently as possible, under very simple behavioral assumptions, goals that are given from elsewhere. The ethics-related approach, going back to Aristotle, involves a broader understanding of economics and other business disciplines. It also comprehends human motivation and the judgment of social achievements that cannot be disconnected from the ethical questions as to how one should live one's life and how we should foster a good society.

These two approaches involve very different understandings of rationality in business and economics. In the engineering approach rationality qualifies the logistics and efficiency of the system, which are often conceived as "economic laws" (similar to natural laws; see Zamagni 1987), as "mechanisms" or, more recently, as evolutionary principles (for instance, in evolutionary economics). No free space is left for decision making outside the demands of the tightly determined system. With this limited understanding of freedom and rationality, human action understood in a broader sense cannot be accounted for by the engineering approach. By the same token, there is no ethical responsibility beyond the system's defined role of responsibilities. (See the extensive discussion of rationality and freedom in Sen 2002.)

1.1.1 Internal consistency

An example of this limited concept of rationality is the prominent interpretation in mainstream economic theory, which equates rationality with internal consistency of choice. Choice is compared only with choice, interpreted, for example, as so-called “revealed preferences” in consumption behavior (Paul Samuelson) and not related to any non-choice variable such as objectives, values and preferences. This value-free approach focuses only on the act of choice without any external reference to anything about the motivation of the chooser – what the person is trying to do, or achieve. Therefore, internal consistency of the chooser cannot be decided and can form neither a plausibly sufficient nor a plausibly necessary condition of rationality (see Sen 2002, 19-22; 2017, 301-336).

Two other prominent interpretations of rationality in mainstream economic theory are self-interest maximization and maximization in general (see Sen 2002, 22-42; 2017, 301-306). They can be attributed to the ethics-related approach in a narrow sense insofar as self-interest maximization employs an external reference to the act of choice – the value of promoting the person’s own interest – , and maximization in general uses the maximand (i.e., a quantity to be maximized, for example, profit, utility or national interest) that also serves a purpose external to the act of choice.

1.1.2 Self-interest maximization

Self-interest maximization as the intelligent pursuit of self-interest – attributed to the so-called *homo oeconomicus* or “economic man” (Hargreaves-Heap & Hollis 1987, Mansbridge 1990, Kirchgässner 2008) – is quite a narrow view of rationality and has been effectively dominant in contemporary economics. It has strongly influenced the theory of rational choice and economic behavior, and many of the central theorems of modern economics significantly depend on it (e.g., the Arrow-Debreu theorems on the existence and efficiency of general equilibrium in a competitive economy without externality and without increasing returns). It also has had an enormous practical impact on business and economic life. Moreover, it is widely used – beyond economics – in “rational choice” models in politics and the investigations on “law and economics” and shapes a great number of institutional designs. This self-interest view is often related to and justified by the writing of Adam Smith, "the father of modern economics" who supposedly understood each human being as tirelessly promoting his own particular interest (and nothing else). However, this Smith interpretation is hardly accurate and does not stand the test of historical scrutiny (Sen 1987, 22-28).

In the ideal-type case of neoclassical economics self-interest maximization means that the agent has complete, fully ordered preferences over the full range of consequences of his feasible actions. He has perfect information and can calculate exactly all possible outcomes of his preferences. Having done his calculation, he chooses the action which satisfies (i.e., maximizes) his preferences better (or at least no worse) than any other action. A more sophisticated model looks at the risks of several possible consequences of each action and the (subjective) probability distribution for the consequences. The agent assesses the expected utility by discounting each consequence and chooses the action with the highest expected utility. Similarly, rational choice theory defines rational maximizing behavior according to Gary Becker as follows: "All human behavior can be viewed as involving participants who (1) maximize their utility (2) from a stable set of preferences and (3) accumulate an optimal amount of information and other inputs in a variety of markets" (Becker 1976, 14; quoted in Sen 2002, 27).

In his critique of self-interest maximization Sen points to theoretical, conceptual and empirical problems. Self-interest maximization is more than internal consistency and belongs to the ethics-related approach because it includes an external reference, that is the value of self-interest, to which all decisions have to be oriented. They are rational only insofar as they serve directly or indirectly the self-interest of the person. The person may value anything including the actions and states of other persons, but he includes them in his rational choice – out of "sympathy" or "antipathy" (Sen) – only to the extent that they affect his own well-being and advantage. However, this narrow view of rationality is highly questionable because it refuses to recognize any value other than self-interest that might guide human behavior. Modelling economic and rational behavior in this way is a radical simplification that qualifies all human behavior – if not motivated by self-interest – as irrational, hence dissociating individual behavior from values and ethics (other than the value of self-interest).

Sen rightly criticizes also the concept of utility-maximizing behavior because in a large part of modern economics (inspired by the theory of "revealed preferences") the distinction is not made between utility as maximand and utility as the person's self-interest or well-being (i.e., for what the maximand is to be maximized). Therefore, as Sen critically notes, "[A] pair of distinct delineations is used, typically implicitly (by calling both ideas 'utility'), to get an empirical rabbit out of a definitional hat" (Sen 2002, 27).

In addition to these theoretical and conceptual problems, the narrow rational view of self-interest maximization leads to serious descriptive and predictive problems in economics because human behavior is often shaped by other values as well. Behavioral economics has showed that motivations such as fairness and commitment (beyond self-interest) do exist and can be strong drivers for human behavior. If they are not taken into account, the predictions of human behavior can be seriously flawed.

1.1.3 Maximization in general

Maximization in general is the third approach to rationality. It keeps the notion that "behavior is regular enough to allow it to be seen as maximizing behavior with an identifiable maximand" (Sen 2002, 30); but it drops the assumption that the purpose of maximization is interpreted as the self-interest of the person. In this approach a person can accommodate different types of objectives and values within the maximizing framework, for example, commitment of the employees to the success of their company, maximizing shareholder value, selfless engagement for nation building, striving for environmental justice, etc.

However, maximization as choosing the best means to the chooser's end can be only a necessary, but not a sufficient condition of rationality because it is just an instrumental requirement for the pursuit of some given – and unscrutinized – set of objectives and values, which sometimes can be patently foolish. Therefore, a broader view of rationality is required: the discipline of subjecting one's choices – of actions as well as of objectives, values and priorities – to reasoned scrutiny (Sen 2002, 4).

With this broader view of rationality as systematic and reasoned scrutiny, we obtain a full-fledged ethics-related approach to economics that goes beyond internal consistency, self-maximization and maximization in general and explicitly accounts for human motivations and judgments of social achievements. Human motivations include not only self-regarding, but also genuinely other-regarding motivations. Social achievements can be judged with regard to objectives, processes and outcomes. Many achievements such as economic growth and social policies involve distributional issues, which can be evaluated only if there is an appropriate informational basis for interpersonal comparisons. However, utilities (i.e., mental entities of individuals) and individual preferences – used in utilitarian welfare economics – are not an appropriate informational basis for interpersonal comparisons. As a consequence, one has to renounce such comparisons (as many mainstream economic theories do) or one must find another informational basis that provides a solid basis for comparing and judging social achievements. Fortunately, to solve this problem, Sen developed the concept of human capabilities, which can serve as a robust informational basis for interpersonal comparisons. [4]

1.2 How to define ethical demands?

Demand is understood here not in the economic sense but in a more general sense as an insistent and peremptory request, made as if by right; hence an ethical demand is such a request made by an ethical (or moral) claim and based in normative ethics. More specifically, the ethical demands in this paper are based on the principles and guidelines of Catholic Social Teaching (CST). In what ways can they serve as an "ethical compass" and provide ethical criteria for decision-making and acting in business and the economy?

1.2.1 The principle of human dignity

As the Pastoral Constitution of the Second Vatican Council *Gaudium et Spes* (GS #16) states, the ethical responsibility of humans (Christians and non-Christians alike) is founded in their freedom to obey their conscience by which all humans can hear the voice of God. This constitutes their human dignity, which, theologically speaking, is grounded in the belief that humans are created in the image of God. Human dignity in itself is inviolable as not only Christians but also other believers and non-believers recognize, and it is the source from which all invulnerable and inalienable human rights are derived (including civil and political as well as economic, social and cultural rights). Based on this understanding, the principle of human dignity requires to respecting dignity and human rights of all human beings in the present and in the future (GS #26).

1.2.2 The principle of the common good

The common good is intrinsically related to human dignity and human rights, grounded in the understanding of the person as a relational being. It expresses the fundamental relationship of the human person to society. *Gaudium et Spes* defines the common good as

> … the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment … [T]oday [it] takes on an increasingly universal complexion and consequently involves rights and duties with respect to the whole human race. Every social group must take account of the needs and legitimate aspirations of other groups, and even of the general welfare of the entire human family. (GS #26)

According to this definition, the common good pertains to the *conditions of social (or societal) life*, not to the substantive goal of all people in society. Therefore, the common good is an instrumental value (in German "Dienstwert"), not an intrinsic value („Selbstwert") (see Brieskorn 2010, 157). These conditions are necessary for both social groups and their individual members in order to achieve their respective life plans (i.e., their own fulfillment). The common good encompasses the totality of those social conditions and concerns all human beings. In substantive terms, these social conditions consist of all human rights as promulgated in the Universal Declaration of Human Rights in 1948 and specified in the International Covenants and Conventions of the United Nations. They were embraced in the Encyclical *Pacem in Terris* (1963) by Pope John XXIII and confirmed by the Second Vatican Council.

A second definition, also prominent in the Catholic tradition, understands the common good as *a goal or purpose of intrinsic value* because of which individuals join together to form a whole and for which the social body exists (for example, the family or the nation). As Oswald von Nell-Breuning (1985, 40-52), a famous leader in Catholic Social Teaching, wrote, both concepts are inseparably related to each other; who thinks of one concept cannot but implicitly think of the other concept. The common good in its full sense is *the* central concept of Catholic Social Teaching; it is the unifying band of each social body and the only binding reason that justifies the body's rules. Applying this full sense of the common good to the economic system, we will explore later on how its common good can be conceived as the creation of wealth in a comprehensive sense.

1.2.3 The principle of solidarity

To understand the principle of solidarity, we may use the image of a group of persons being all in the same boat and having their fates inextricably linked together. So solidarity involves two sides: the empirical fact of being inextricably interconnected and the normative-ethical demand that each person ought to work for the common good, for example safe survival. The Encyclical *Sollicitudo Rei Socialis* of Pope John Paul II (1987) explains the two-sidedness of solidarity as follows: "In a world divided and beset by every type of conflict, the conviction is growing of a radical interdependence and consequently of the need for a solidarity which will take up interdependence and transfer it to the moral plane" (SRS #26). "When interdependence becomes recognized in this way, the correlative response as a moral and social attitude, as a 'virtue,' is solidarity. This then is not a feeling of vague compassion or shallow distress at the misfortunes of so many people, both near and far. On the contrary, it is a firm and persevering determination to commit oneself to the common good" (SRS #38), defined in the double sense as necessary conditions (i.e., securing human rights) for human fulfillment and as the common purposes of human beings.

Because interdependence not only exists within each society but also extend to international relations, solidarity applies by analogy to the international realms as well.

> Interdependence must be transformed into solidarity, based upon the principle that the goods of creation are meant for all. That which human industry produces through the processing of raw materials, with the contribution of work, must serve equally for the good of all … Solidarity helps us to see the 'other' – whether a person, people or nation – not just as some kind of instrument, with a work capacity and physical strength to be exploited at low cost and then discarded when no longer useful, but as our 'neighbor,' a 'helper' (cf. Genesis 2:18-20), to be made a sharer, on a par with ourselves, in the banquet of life to which all are equally invited by God. (SRS #39)

The principles of human dignity, the common good and solidarity are closely related to each other. While the first principle focuses on each person as an individual and social being, endowed with dignity and human rights, the second principle emphasizes the common conditions and common purposes the persons should be able to start from and to aim for, and the third principle highlights the attitude and determination necessary to respect the dignity of all persons and to pursue the common good.

1.2.4 The principle of subsidiarity

The principle of subsidiarity was introduced to Catholic Social Teaching in the Encyclical *Quadragesimo Anno* (1931), drawing on Catholic and non-Catholic traditions of thought. In the political realm, the principle of subsidiarity regarding the different roles of government activities and private initiatives was already stated by Abraham Lincoln in 1854 (cited in von Nell-Breuning 1985, 42): "The legitimate object of government is to do for a community of people whatever they need to have done but cannot do at all, or cannot so well do for themselves in their separate and individual capacities. In all that the people can individually do as well for themselves, government ought not to interfere."

Subsidiarity has to be understood in the context of the 1930s: the Great Depression in capitalistic countries and the rise of totalitarian regimes not only in the Soviet Union but also in Germany and Italy. The principle consists of two parts: (1) to give as much freedom as possible to smaller organizations and (2) to recognize the indispensable role of the state and large associations to secure aid (in Latin *subsidium*) when necessary.

The Encyclical emphasizes the importance of the first part, which gives as much freedom as possible to smaller organizations:

> Just as it is gravely wrong to take from individuals what they can accomplish by their own initiative and industry and give it to the community, so also it is an injustice and at the same time a grave evil and disturbance of right order to assign to a greater and higher association what lesser and subordinate organizations can do. For every social activity ought of its very nature to furnish help to the members of the body social, and never destroy and absorb them. (QA 79)

At the same time, the second part is upheld that recognizes the roles of the state and larger associations – but only to the extent that they are necessary: "As history abundantly proves, it is true that on account of changed conditions many things which were done by small associations in former times cannot be done now save by large associations." (QA 79) And: "The supreme authority of the State ought, therefore, to let subordinate groups handle matters and concerns of lesser importance, which would otherwise dissipate its efforts greatly. Thereby the State will more freely, powerfully, and effectively do all those things that belong to it alone because it alone can do them: directing, watching, urging, restraining, as occasion requires and necessity demands." (QA 80)

Today, the scope of the principle of subsidiarity is extended beyond the nation states (for example in the Maastrich Treaty of the European Union) and applies to a wide range of challenges of international and global importance (for an interdisciplinary discussion of subsidiarity, see Riklin & Batliner 1994).

1.2.5 The guideline of the preferential option for the poor

Originally an urgent concern of the Catholic Church in Latin America, the preferential option for the poor has been embraced in statements of Pope John Paul II for the whole Catholic Church and has strongly influenced the pastoral letter *Economic Justice for All* by the United States Conference of Catholic Bishops in 1986 (Groody 2007, 2014). *Sollicitudo Rei Socialis* recalls "the immense multitudes of the hungry, the needy, the homeless, those without medical care and, above all, those without hope of a better future" (SRS #42) throughout the world. "To ignore [this reality] would mean becoming like the 'rich man' who pretended not to know the beggar Lazarus lying at his gate (cf. Luke 16:19-31)."

> The option or love of preference for the poor … is a special form of primacy in the exercise of Christian charity, to which the whole tradition of the Church bears witness. It affects the life of each Christian inasmuch as he or she seeks to imitate the life of Christ, but it applies equally to our social responsibilities and hence to our manner of living, and to the logical decisions to be made concerning the ownership and use of goods. (SRS #42)

The guideline of the preferential option for the poor draws the attention to those people on the planet earth who particularly suffer from the violations of the principles of human dignity, the common good and solidarity.

1.2.6 The guideline of integral ecology and sustainable development

In the last fifty years the ecological question – "the preservation of creation" – has moved to the forefront of the challenges for humankind for three basic reasons (Gabriel & Steinmair-Pösel 2013, Gabriel et al. 2017): (1) In today's historically unprecedented situation humankind has gained the enormous power to threaten and impair nature (which never happened in human history before) and to destroy its own conditions of survival and life. (2) The challenge of *inter*generational justice – the justice for future generations – has also become a challenge of *intra*generational justice because worldwide the socially weak suffer and will suffer more than the socially strong from the degradation of nature and climate change. (3) Humankind remains intimately connected to nature and cannot dissolve its vital dependence on nature.

In his Encyclical letter *Laudato Si' – On Care for Our Common Home* (2015), Pope Francis addresses the ecological question squarely. He acknowledges the appeal, immensity and urgency of the challenge we face with the ecological crisis and the sufferings of the excluded (LS #13). He briefly reviews several aspects of the present ecological crisis, based on the best scientific research available today: pollution and climate change; issue of water; loss of biodiversity; decline of the quality of human life and the breakdown of society; global inequality; weak responses by government and business; conflicting opinions (LS #17-61).

Pope Francis reaffirms the principles of human dignity, the common good, solidarity and subsidiarity and the guideline of the option for the poor and puts them in the broad context of integral ecology with its environmental, economic, social and cultural dimensions – inseparable from the notion of the common good:

> In the present condition of global society, where injustices abound and growing numbers of people are deprived of basic human rights and considered expendable, the principle of the common good immediately becomes, logically and inevitably, a summons to solidarity and a preferential option for the poorest of our brothers and sisters. This option … demands before all else an appreciation of the immense dignity of the poor in the light of our deepest convictions as believers. We need only look around us to see that, today, this option is in fact an ethical imperative essential for effectively attaining the common good. (LS #158)

Calling for a renewed sense of intragenerational solidarity, he also extends the notion of the common good to future generations:

> The global economic crises have made painfully obvious the detrimental effects of disregarding our common destiny, which cannot exclude those who come after us. We can no longer speak of sustainable development apart from intergenerational solidarity. (LS #159)

It is noteworthy that, by extending the notion of the common good in such a way, Pope Francis actually adopts – without mentioning – the definition of sustainable development proposed by the World Commission on Environment and Development in 1987, namely sustainable development means “to meet the needs of the present without compromising the ability of future generations to meet their own needs” (WCED 1987, 8).

2. Conflicting anthropological and methodological assumptions

Having outlined different notions of economic rationality and the basic features of Catholic Social Teaching as ethical demands, we now undertake to identify conflicting views. By the same token, we may also discover compatible and mutually supporting views. To begin with, let us consider different anthropological and methodological assumptions.

The engineering approach to economics is a value-free approach that uses only instrumental rationality (i.e., what are the most efficient means to achieve goals given from outside economics) and does not allow any space of freedom for the decision-makers in business and the economy beyond their determined role within instrumental rationality. An example is the internal consistency approach (see Section 1.1.1). In contrast, Catholic Social Teaching states that each human being is endowed with dignity, which means he or she has the freedom to obey his or her conscience in which he or she can hear the voice of God. If economic rationality is defined in exclusively instrumental terms, it clearly conflicts with CST. It is noteworthy that this conflict exists if the engineering approach claims to be the only rational approach to economics. However, if it has a serving function embedded in an ethics-related approach, we can avoid this conflict.

Although self-interest maximization goes beyond the engineering approach by orienting all choices to the (external) value of self-interest, it does not recognize the intrinsic values and interests of other persons on their own merits. At best, it may acknowledge them as long as they do not conflict with it, and may use them for their own interest. In contrast, CST rejects this exclusive focus on self-interest and grants the interests of other persons’ equal importance, in accordance with the most important commandment in the Judeo-Christian tradition “to love God with all your heart, with all your soul, and with all your mind and to love your neighbor as yourself” (Matthew 22, 34-40). Obviously, to love your neighbor as yourself does not mean to hate yourself, but to recognize your own human rights and well-being as legitimate.

Maximization in general can be compatible with CST, depending on what the maximand is and for what objective it is maximized. A good example may be the motto of the Society of

Jesus (i.e., the Jesuit order) “Omnia ad majorem dei gloriam” [All things for the greater glory of God]. A confusing, if not poor example is “utility maximization”, if it does not specify the utility of whom (who can be all people affected by a choice, as the theory of utilitarianism requires) or if it simply means the utility of the chooser. In any case, maximization in general can be only a necessary, but not a sufficient condition of rationality. Moreover, striving always for the better might be “the enemy of the good”, that is neglecting or damaging the good.

The methodological individualism in mainstream economic theories asserts that all economic behavior can be traced back to individual decision-makers and actors. Collective decision-makers and actors do not exist and, as a consequence, they cannot be held responsible and accountable in an ethical (or moral) sense. For example, multinational corporations as corporate actors cannot be held ethically responsible for the violation of human rights. In contrast, CST conceives each human being as a person, that is a relational being with an individual and a social dimension. Groups and bigger associations of persons can have their own identity, culture and conduct and form a whole body. It is distinct but not separate from the identity and conduct of the persons who constitute the whole body. This relational view of the person has far-reaching implications for the understanding of economics and business in theory and practice and for the theoretical and practical conception of ethical demands.

Economic rationality in the instrumental sense has often been used for the domination not only of human beings and peoples but also of nature, living beings and ecosystems. In contrast, CST, based on a thorough interpretation of the creation story in the Judeo-Christian Bible (Genesis 1-2), demands stewardship for the creation in attitude and behavior, that is “caring for our common home”: “Business is a noble vocation, directed to producing wealth and improving our world. It can be a fruitful source of prosperity for the areas in which it operates, especially if it sees the creation of jobs as an essential part of its service to the common good.” (LS #129)

3. Conflicting purposes of the economic system

When asking about the purpose of the economic system, we can find a large variety of answers: to produce, distribute and consume goods and services for the living of people; to create jobs; to accumulate wealth; to overcome poverty; to maximize profit; to create shared value; to promote growth; to serve the well-being of nations, etc.

Obviously, these purposes point to very different directions and can hardly be reconciled. But they can have far-reaching consequences as to how the economy is organized; how it shapes policies; how it helps and hurts people; how it impacts the environment.

To evaluate at least some of these purposes, I propose a benchmark against which conflicting purposes can be assessed. It consists of a comprehensive notion of wealth, briefly presented here and extensively explained elsewhere. [5] The purpose of the economic system is *the creation of wealth as the total amount of economically relevant private and public assets including natural, economic, human, and social capital*. The formal distinction between private and public is based on the economic definitions of private and public goods, the latter characterized by non-rivalry and non-exclusivity. The substantive types of capital include natural capital (i.e., natural resources minus environmental burdens), economic capital (i.e., real and financial capital), human capital (i.e., human beings' health and education) and social capital (i.e., trust relations between humans according to Robert Putnam [2002]). These four types of capital are also central in the OECD definition of enabling sustainable human well-being over time (OECD 2013). The process of creation means making new and better things, involving interrelated productive and distributive dimensions and material and spiritual aspects, measured in terms of capabilities (i.e., expanding real freedoms that people value to enjoy [Sen]; see Note 4) and being sustainable over generations as defined by the World Commission on Environment and Development (WCED 1987).

While this definition of purpose can include an immense variety of objectives, it also sets clear and measurable boundaries and signals conflicts with purposes, which lie outside these boundaries:

(1) A large part of the wealth of a society consists of public wealth (for example, a relatively stable financial system, a fair and effective rule of law, or climate change as a public "bad"). According to the theory of public goods (Samuelson 1954, Musgrave 1958), markets cannot create public wealth; rather, it needs collective actors (such as government). Moreover, the creation of public wealth fails, if it is motivated by self-interest; rather, it requires other-regarding motivations (such as commitment to the common good, solidarity and the preferential option for the poor). Therefore, the purpose of public wealth conflicts with an extreme market ideology and extreme reliance on self-interest.

(2) The purpose of creating four (not one or two) types of capital requires to take seriously the positive and negative impact of business and the economy on the environment and to account for their positive and negative impact on health and education of people and their trust relationships. Therefore, to ignore or reduce any of the four types of capital conflicts with the purpose of wealth creation in a comprehensive sense.

(3) Because the productive and the distributive dimensions of wealth creation are deeply related to each other, the purpose of the economic system must include both dimensions. Therefore, to focus exclusively on either production or distribution (embraced by ideologies from the right and the left, respectively) conflicts with the comprehensive purpose of wealth creation.

(4) Involving both material and spiritual aspects of wealth creation, the purpose of wealth creation conflicts with materialism (e.g., only striving for an abundance of money, property, and other material goods) and with spiritualism that neglects the material conditions of human existence.

(5) The purpose of wealth creation includes human beings (their health, education and trust relations with others) as well as physical and environmental conditions, which matter to human beings (economic and natural capital), accounting for and expressing the bodiliness of human beings. Therefore, it conflicts with the purpose of concentrating on physical and environmental conditions alone as well as with the purpose of focusing on human beings alone (who are "the real wealth of nations" according to the UN Human Development Report 2010).

(6) Based on the classical definition of sustainability (WCED 1987, OECD 2013), the purpose of wealth creation adopts a long-term and intergenerational perspective. Therefore, it conflicts with all forms of "short-termism."

These conflicts matter not only for defining the purpose of the economic system but also for conceptualizing and measuring its conditions, processes and outcomes (Enderle 2018). Moreover, given their relevance at the systemic (or macro-) level of the economic sphere of life, they also deeply shape the conditions and actions of organizations at the meso-level and of individuals at the micro-level. To illustrate, we explore a few conflicts at the meso- and micro-levels.

4. Two conflicting business models

4.1 A foiled hostile takeover

We begin with a conflict between two business models that showed its dramatic face recently. In February 2017, Kraft Heinz controlled by Warren Buffet's Berkshire Hathaway investment group and Brazilian investor-led 3G Capital (private equity group) attempted a hostile takeover of Unilever, the Anglo-Dutch consumer products group with revenues of about €50 billion a year that reaches 2.5 billion people a day. The approach became public on Friday morning, February 17, and by Sunday evening, February 19, the bid was dead. As Paul Polman, CEO of Unilever, explained, the bid "was clearly a clash between a long-term, sustainable business model for multiple stakeholders and a model that is entirely focused on shareholder primacy" (Daneshkhu & Barber 2017, 22).

What are these two business models? Unilever faced the prospect to be transformed into a business entirely focused on shareholder primacy. In contrast, Polman defines his own corporation as a long-term sustainable business for multiple stakeholders. This characterization is akin to the business model implied in the UN Guiding Principles of Business and Human Rights; they emerged from the UN Global Compact, of which Polman is the new Chairman of the Foundation for the Global Compact.

4.2 The shareholder primacy model

The shareholder primacy model – drawing on the agency-based model and further developed by Michael Jensen and William Meckling in the article "Theory of the Firm" (1976) – is characterized by the following features (Bower & Paine 2017, 52):

- Shareholders own the corporation and are "principals" with original authority to manage the corporation's business and affairs.
- Managers are delegated decision-making authority by the corporation's shareholders and are thus "agents" of the shareholders.
- As agents of shareholders, managers are obliged to conduct the corporation's business in accordance with the shareholders' desires.
- Shareholders want business to be conducted in a way that maximizes their own economic interest. (The assumption that shareholders are unanimous in this objective is implicit throughout the article.)

This model belongs to the type of self-interest maximization insofar as it assumes the economic interests of the shareholders as the only intrinsic value to maximize, whereas the interests of other stakeholders (i.e., employees, consumers, suppliers, etc.) and society at large can only play at best an instrumental role. Managers are supposed to maximize shareholder returns by aligning their interests (of "agents") with those of shareholders (their "principals"). Based on these ideas, a related theory of organization requires that managers in turn properly delegate "decision rights" and create appropriate incentives in order to maximize shareholder value throughout a company. Moreover, the board of directors has the responsibility to control the "agency costs" for shareholders and thus design executive compensation to align management's interest with those of shareholders.

Here is not the place to discuss and criticize in detail this model of shareholder primacy (for a powerful discussion, see Bower & Paine 2017). We focus on the question of economic rationality involved in this model and emphasize several critical points. As a type of self-interest maximization, the model assumes that shareholders' interests are unanimous; however, institutional investors tend to be interested in long-term performance while many speculators chiefly are short-term oriented, want to make quick profit and do not care about the long-term health of the company, let alone about sustainable business in the sense of intergenerational justice. A second criticism concerns the primary focus on shareholders by neglecting and instrumentalizing the interests of other stakeholders (such as employees, consumers and suppliers); as discussed in Section 1.1.3, the reduction to one single value (i.e., shareholder value) reveals a very narrow understanding of economic rationality and is often flawed in explaining and predicting economic performance. Moreover, the model assumes that shareholders own the company; but, according to corporate law, shareholders do not have the right of "owners" of the corporation and managers are not shareholders' "agents." In addition, the model implies that the purpose of the company is profit maximization; however, this notion conflicts with the purpose of the economic system defined as wealth creation in a comprehensive sense. Finally, based on methodological individualism, the model does not account for companies as corporate actors with their own identity, interests, culture and responsibility. In sum, the model of shareholder primacy is hardly a model of economic rationality.

4.3 The business model of the UN Guiding Principles on Business and Human Rights

Based on the UN Global Compact [6], the UN Guiding Principles on Business and Human Rights were endorsed by the UN Human Rights Council in 2011 and consist of three pillars: the States' existing obligations to respect, protect and fulfill human rights and fundamental freedoms; business enterprises' responsibility to comply with all applicable laws and to respect human rights; and the States' and business enterprises' commitment to provide appropriate and effective remedies when rights and obligations are breached (UN 2008, 2011, 2012).

The implied business model of "corporate responsibility to respect human rights" includes five features: (1) It applies to all business enterprises, both transnational and others, regardless of their size, sector, location, ownership and structure. (2) It concerns all human rights contained in the International Bill of Human Rights and the International Labor Organization's core conventions. (3) Corporate responsibility, carried by the whole organization and its members, holds independently of the fulfillment of the States' duties. (4) "Respect" means that businesses do not cause, contribute, or link themselves to operations, products or services that involve the violation of human rights. (5) The human rights due diligence process should uncover risks of non-legal (or perceived) as well as legal complicity and generate appropriate responses. [7]

4.4 Conflicts between these two business models

A brief comparison shows that either model provides managers clear guidance to run a business organization, though in conflicting directions. The conflicts relate to the concept, purpose and responsibility of the business organization, the freedom and responsibility of management, the role of multiple stakeholders, the impact of corporate conduct in terms of human rights, and the time perspective. The shareholder primacy model does not conceive the corporation as an entity and corporate actor on its own right and bearing responsibility in an ethical sense for a purpose other than shareholder value maximization – as the UN Guiding Principles assume. Since economic rationality demands in the first model to align the managers and employees of the firm to pursue this maximization purpose for one single stakeholder (i.e., shareholders), managers and employees do not have the freedom to act differently in a rational way. In contrast, the second model expects any business organization and its managers to take all human rights seriously as both objectives and means and to use their freedoms to do due diligence in order to respect all human rights at stake; by doing so, they acknowledge the interests of multiple stakeholders. Furthermore, the first model neither specifies the time horizon nor strives for the well-being of the business organization itself, be it in the short or in the long term. In contrast, the second model takes the time perspective explicitly into account and balances the short and the long term perspective in view of genuine sustainability.

5. Conflicts of individual actors

Individuals face a great number of conflicts between economic rationality and ethical demands, as members of the economic system and business organizations and in relation to other individuals. [8] Particularly tough challenges are situations in which individuals feel obliged to "blow the whistle" against unethical or illegal activities at the individual, organizational or systemic level.

A recent example [9] is the case of a head financial advisor, Sam Crocker, second to his boss Kevin Fairland, working for a small financial advisory firm, Brotherly Capital, with six employees. Sam began his career as an entrepreneur and became a go-to technology guy. Kevin was a portfolio manager, wrote a weekly column about stock picking and eventually founded with Sam Brotherly Capital. Sam respected Kevin and was very grateful for everything that Kevin taught him.

One day Kevin fired a new assistant who was beloved in the office for her skills and demeanor without explanation and brought in a technology expert to set up a new folder with financial statements of Kevin's clients including his friends and family. Sam became suspicious and discovered a set of forged statements with 60 accounts worth approximately 10 million dollars stolen from the clients. Immediately, he knew that was a Ponzi scheme. So he performed a "noisy" exit from his firm, including an email to all clients of Brotherly Capital and publically announcing his resignation. The SEC and several other investigators interviewed Sam for many weeks on any information he had. They wanted to make sure that Sam was not also involved in the scheme. Then they turned in Kevin, CEO of Brotherly Capital, who ended up going to jail for 10 years. Sam, the whistleblower, had to pay large amounts of lawyer fees, was unemployed for two years and devoted a lot of time for going through the process. But he stated he would do it all again because it was, legally and ethically, the right thing to do. – At first glance, doing the right thing seemed to cause a massive conflict between ethical demands and economic rationality. But, on closer inspection, it turned out that the ethical demands – congruent with economic rationality – conflicted actually with economic irrationality.

As this example shows, whistleblowing can demand a high level of professional competence, a clear view of ethical responsibility, extraordinary determination "to do the right thing" and the willingness to make huge personal sacrifices. According to Catholic Social Teaching, such courageous behavior is the fruit of ethical responsibility, rooted in human dignity, to use their freedom to obey their conscience in which they can hear the voice of God (GS #16).

6. Concluding remark

Our investigation on conflicts between economic rationality and ethical demands was guided by Arthur Rich's principle that does not separate the economic and the ethical into two worlds but rather relates and distinguish them: "That which is not economically rational cannot really be humanly just, and that which conflicts with human justice cannot really be economically rational" (Rich 2006: 74-75). To express this relationship and distinctiveness we used the image of the compass and the map. Both are necessary to find the right ways through uncharted land of business and economic ethics, the compass pointing to the ethical demands and the map indicating economic rationality. After clarifying different notions of economic rationality and explaining key ethical demands of Catholic Social Teaching, we identified a number of conflicts in the sphere of economic life. They concern anthropological and methodological assumptions, the purpose of the economic system, two different business models and individual decisions of whistleblowing. It turned out that conflicts, which appear at first glance, are not necessarily conflicts on closer inspection. Depending on the chosen concepts, economic rationality and ethical demands can be compatible or even support each other. And real conflicts often occur between ethical demands and economic irrationality. Having reached at this encouraging conclusion, we cannot deny that a reduced range of real conflicts remain, which need our continuous attention and scrutiny. Therefore, to further identify seeming and real conflicts between economic rationality and ethical demands, we will focus in the following presentations on four particular areas: data gathering, technological innovation for socially inclusive business, regulation versus personal ethics, and individualistic versus common good ethics.

Notes

(1) The fourth technological revolution is building on the third, the digital revolution that has been occurring since the middle of the last century. It is characterized by a fusion of technologies that is blurring the lines between the physical, digital, and biological spheres.

(2) In German, the guiding principle reads as follows: "Die hier angestellten Erwägungen lassen sich nun dahin zusammenfassen, *dass nicht wirklich menschengerecht sein könne, was nicht sachgemäss ist, und nicht wirklich sachgemäss, was dem Menschengerechten widerstreitet.*" (emphasis by the author; Rich 1984, 81). "Das Menschengerechte" means "to do justice to humanity" or "human justice" – here "ethical demands" while "das Sachgemässe", literally "in accordance with the matter", has no precise equivalent in English; it means what is "objectively" required, based on theoretical knowledge and / or practical expertise of the field of the application of ethics – here "economic rationality."

(3) The conception of business and economic ethics that "walks on two legs" is explained in Enderle 1999, 2003, 2010b, 2015a, 2015c.

(4) Sen's capability approach has been systematically developed in Sen 1985, 1987, 1993, 1999, 2005, 2008, 2009, 2017. It is used in Stiglitz et al. 2009 and summarized and applied to corporate ethics in Enderle 2012b.

(5) The purpose of wealth creation in a comprehensive sense has been discussed in many respects in Enderle 2009, 2010a, 2011, 2012a, 2013a, 2013b, 2014a, 2015b, 2016, 2017.

(6) The UN Global Compact was promulgated by the Secretary General of the United Nations Kofi Annan in 2000. It calls "on companies to align strategies and operations with universal principles on human rights, labor, environment and anti-corruption, and take actions that advance society goals" (www.unglobalcompact.org).

(7) This robust business model can be further developed into two directions: (1) By explicating its ethical implications, including its potential conflict with self-regarding motivations of

business enterprises (Enderle 2014b); and (2) by substantiating the purpose of business as wealth creation (Enderle 2017). It would be fascinating to test this broader model with Unilever.

(8) An effective pedagogical approach to become aware of and address these conflicts is developed in *Giving Voice to Values* by Mary Gentile (2010).

(9) The case is a real-life case; but all names are fictitious.

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