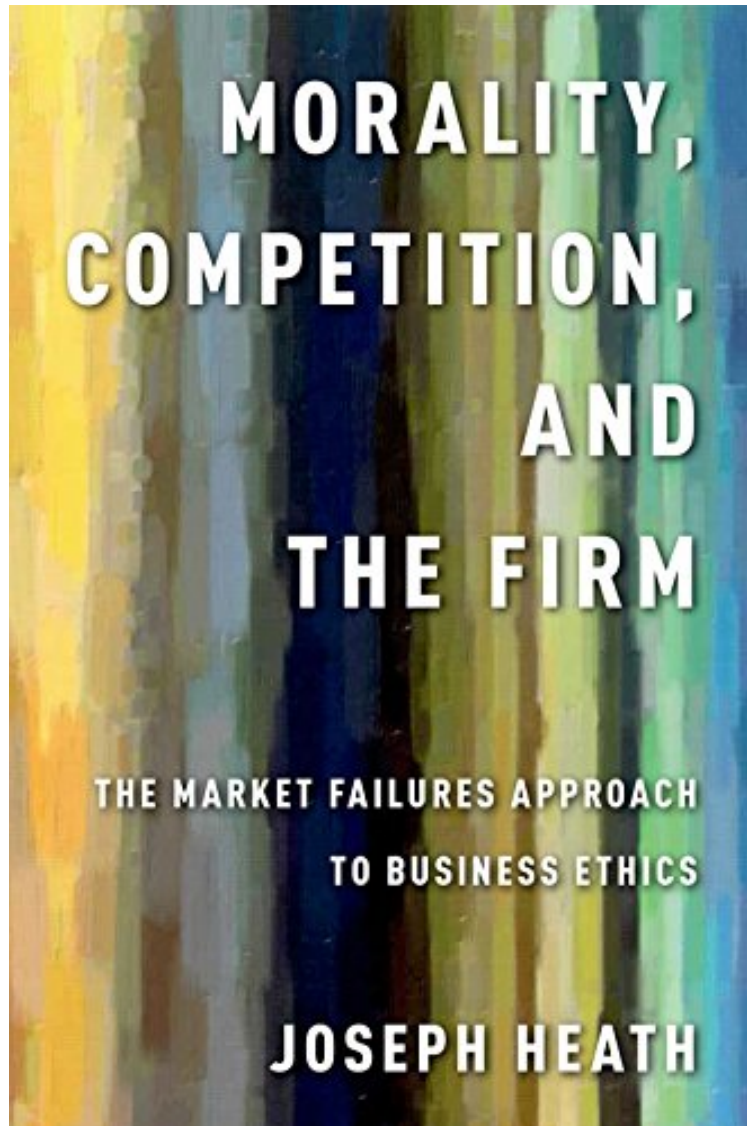


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Morality, Competition, and the Firm: The Market Failures Approach to Business Ethics

Joseph Heath

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0 of 0 people found the following review helpful. Must read for business ethicists! By EPCIII Morality, Competition, and the Firm: The Market Failures Approach to Business Ethics by Joseph Heath is very important work. The case is presented persuasively that top executives of Exxon, Pfizer, IBM, Sears, General Electric and many others named have

taken advantage of market failures or enhanced them —; exercising power or concealing important information —; to commit crimes. Heath argues that criminal acts reduce the economic efficiency of markets and the economy, but points out the profound difference in efficiency caused by an incompetent CEO and one whose firm defrauds customers, sells them harmful products, or risks the lives of its workers. Heath's thesis is that a CEO's can put into place a highly pernicious business strategy and financial incentives to drive it without lying, cheating, stealing, or causing bodily injury, or by asking his immediate subordinates to violate these conventional standards of personal ethics. This insight should cause all who teach business ethics to reexamine their operating assumptions. This book does an excellent job in conveying its message to its intended academic audience, but Heath would perform a great public service if he published a non-technical version targeting the widest possible audience. The book's thesis could also be extended to examine the behavior of legislators and regulators who may meet the highest standards of personal ethics but have aided and abetted dangerous CEOs who have done the same.

3 of 4 people found the following review helpful. The Interesting "Market Failures" Approach in Economics By Baraniecki Mark Stuart Joseph Heath's new book needs commitment and it isn't for beginners, but it has to be the best expression that this reviewer has seen of new trends in 21st Century economics. A principal source for the book comes from efficiency arguments around Canadian healthcare, with a basic observation that the Canadian single payer system delivers more or less the same results as the US system at about half the cost. The interesting point is that the Canadian system is almost always defended for its equality rather than its efficiency, which Heath finds curious since from an efficiency viewpoint, the system directly saves billions of dollars that can be put to more productive use elsewhere (by government or privately). The point here is that the state is intervening in the health insurance market to correct a market failure just as much as it is intervening to ensure distributive justice. In fact the efficiency gains are so great that they benefit everyone without considering distributive justice at all. Heath defines "market failure" as the failure in a market to reach a Pareto Optimum (someone can gain without someone else losing) with higher levels of organization (e.g. corporations, governments, legal frameworks etc.) needed to capture efficiency gains and reach the Pareto Optimum. Sometimes optimality can be obtained by government action and sometimes through private markets. The "Market Failures" approach is a truly interesting viewpoint and he develops it showing the basic tension in a competitive free market that generate Pareto optimality (higher efficiency, better quality and lower prices) with the continuous conflict between market players and its evident winners and losers. Result that some see free market competition as unfair and unethical (never mind the efficiency gains) and an abandonment of common morality. The author doesn't accept this. He shows quite convincingly that most societies have a basic morality that exists without the threat of sanction and that this basic morality extends naturally to the economic sphere despite decades of "anti-normative" economics tuition. Normative factors such as loyalty, commitment, ethics and fairness are a significant part of economic life. So what we are left with is something like a government licensed sanction to compete in the interests of Pareto optimality, which he compares to a competitive football league with games played within the rules to get the best performance. Of course players can cheat, but so can corporate employees (eg. at Enron, Hollinger etc.) and these are local market failures (breaking the rules) rather than a basic fault in the game itself. The papers in the book search around these themes in an exceptionally interesting way but in the opinion of this reviewer, the author could perhaps have extended the analysis into a couple of other areas: The papers are realistic and evidence based but outsourcing doesn't get a mention. In terms of the sports metaphor, what happens if the winning team in the US league is mostly made up of Chinese players? Isn't the league developing the skills of the Chinese players and crowding out/weakening the skills of American players? or does this matter? In economic terms outsourcing seems to flatten and lower the supply curve shown on page 188 to such an extent that US suppliers can't compete, whatever technology they use, so US consumers perhaps get the doubtful utility gain of flat screen tv's in every room and boxes full of unused toys at the expense of US industries and jobs. Outsourcing would also seem to be very divisive within corporations as managers and shareholders gain at the expense of production workers. The text also takes "society" for granted. Heath quotes Rawls saying that society is a, "cooperative venture for mutual advantage" which is fine except that countries like the US have nothing like the cohesion that they used to as they segregate along social, racial and economic lines. Continue this long enough and "society" no longer really exists except for fake cooperation taking place just long enough to allow defection with advantage. All the same, the book is highly recommended, and the reader gets some interesting discussion regarding the similarity of the 20th century's large corporate bureaucracies and centrally planned bureaucracies (the same "scientific management" fashion) + Durkheim's view that hunter gatherer groups can easily split and separate but settled societies can't, so it seems that we are pressured to find an equitable way to live together.

In this collection of provocative essays, Joseph Heath provides a compelling new framework for thinking about the moral obligations that private actors in a market economy have toward each other and to society. In a sharp break with traditional approaches to business ethics, Heath argues that the basic principles of corporate social responsibility are already implicit in the institutional norms that structure both marketplace competition and the modern business corporation. In four new and nine previously published essays, Heath articulates the foundations of a "market failures" approach to business ethics. Rather than bringing moral concerns to bear upon economic activity as a set of foreign or

externally imposed constraints, this approach seeks to articulate a robust conception of business ethics derived solely from the basic normative justification for capitalism. The result is a unified theory of business ethics, corporate law, economic regulation, and the welfare state, which offers a reconstruction of the central normative preoccupations in each area that is consistent across all four domains. Beyond the core theory, Heath offers new insights on a wide range of topics in economics and philosophy, from agency theory and risk management to social cooperation and the transaction cost theory of the firm.

"Undergraduate and graduate students in business and society courses might be well served by focusing on these two sections of the book; later chapters balance the text by delving further into details for those desiring much greater depth or conducting research on the subject. There is also an outstanding bibliography... Highly recommended." -- Choice "Heath's book is essential reading for scholars and students interested in new ways of thinking about the foundations of business ethics."--Erasmus Journal for Philosophy and Economics "...the book is well worth engaging by anyone interested in economics, agency theory, fiduciary concerns, public policy, corporate governance, and of course, business ethics. Heath is to be commended for this provocative book, explaining a provocative approach to business ethics (market failures approach) that sees as its guiding star the always elusive Pareto-optimal market conditions. I know it has informed my own approach to how I will teach stakeholder theory, theory of the firm, and competition in future courses." --Notre Dame Philosophical s Online "...Morality, Competition, and the Firm is a rich anthology. It's a tour-de-force of political economy, corporate governance, and business ethics. It contains powerful critiques of virtue ethics and the misuse of moral psychology by other business ethicists. It is valuable reading for anyone interested narrowly in business ethics, but also more broadly in political philosophy or the intersection of politics, philosophy, and economics." -- Kennedy Institute of Ethics Journal About the Author Joseph Heath is a Professor in the Department of Philosophy as well as the School of Public Policy and Governance at the University of Toronto. He is the author of numerous scholarly works, including *Communicative Action and Rational Choice* (2001) and *Following the Rules* (2008). In 2012 he was appointed a fellow of the Trudeau Foundation.