Critical Theory, Game Theory, and the MBA Business Ethics Course

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Presented at: Whither the MBA? The Forms, Prospects and Critiques of the MBA (and Business School 'Education')
4th International Critical Management Studies Conference

Ethics is in demand. In response to a general public perception that there is some sort of moral crisis in Corporate America (Enron and Arthur Anderson scandals cited most often), those who sit on curriculum committees for the MBA feel the pressure to create complete business ethics courses. Less and less are satisfied with the notion of "ethics across the curriculum", where bits and pieces of moral issues are tossed into traditional MBA courses in marketing, management, finance and more, all with the "add ethics and stir" mentality. Comprehensive and practical stand-alone business ethics courses are being developed. But what makes any MBA level business ethics course hang together? What is the driving theoretical paradigm? As we will see, the standard positivist methods used in business studies are of little use. Statistics and quantitative methods can never tell us if a policy is or is not morally acceptable. So, to compete with the pragmatic normative ethics approach used in philosophy departments, some turn to game theory. In part one of this paper I will argue that the approach taken in philosophy, while providing us with the proper learning objectives for an MBA business ethics course, is not an exhaustive paradigm. After reviewing the limitations of quantitative methods as a paradigm for teaching business ethics, game theory as an alternative will be explored. It is my position that each different approach has its merits as one tool among many. In particular I will be focusing on how game theory can be used in teaching business ethics, and used in a critical manner. As an illustration I will look at Marx's understanding of Game theory in the Critique of Political Economy, and Capital V.1 (and elsewhere) in order to show how even game theory, a product and sine qua non of modern conservative economic theory, can be critical and useful in teaching MBA students, thus helping to make the MBA relevant for years to come.

1. Three Paradigms in Business Ethics

In section one I will review three basic approaches to understanding business ethics. It is my belief that each metaphor for understanding the way we teach business ethics has merit. There are many other ways of looking at the problem. From feminism, and legal theory to postmodern theory and more, any tool we can bring to bear in the quest to make our MBA business ethics students better moral decision makers is fair game. But for now, let me focus on three main paradigms currently used in teaching business ethics.
1.1 Philosophy, Normative Ethics and Business

The study of business administration and management is a diverse and, in some ways, catch as catch can discipline. Borrowing methods from mathematics, statistics, psychology, sociology and more, scholars in the field of business studies take what they find useful. In a sense, ethics and philosophy has been forced onto the field of business by the need to respond to an alleged moral crisis in corporate America. (I say “alleged” not because I question THAT there is a moral problem with the way corporate America does business, so much as the sense that it is not any worse than it has ever been) Always interested more in positivism and the scientism of management, business professors often respond negatively to the recent push for more ethics in the curriculum. But ethics is here to stay; and to do that, at least some moral philosophy must be endured.

Ethics is a branch of philosophy. Along with metaphysics and epistemology, the study of reality and the study of knowledge, ethics and moral problems have been at the heart of philosophical studies for several millennia. Fairly recently, philosophers found that the rest of the world might actually care about something that they had to say if they made it relevant to contemporary moral problems. Hence the birth of medical ethics, business ethics, legal ethics, ethics in education, and the list goes on. Wherever an FTE was to be had, the philosophy department was there proposing a new branch of “applied ethics”. Setting aside the cynicism over academic competition, and the relative neglect philosophers feel, the fact remains, applied ethics hit a nerve. The past 30 years has seen an unprecedented explosion in all areas of applied ethics.

Central to the philosopher's approach to applied ethics, and a fortiori business ethics, is the logic of normative ethics. The word “normative” here just means “ought” or “should”, as in “what should I do in this given situation”. Moral decision making is what applied ethics is all about. How can we help people become better moral decision makers, in business, medicine, and in all areas of life? This, I would argue, is the essential learning objective of any applied ethics course. My approach is pragmatic and post-foundationalist. In an MBA level business ethics course we have anywhere from 10 to 16 weeks to do something constructive. We often flatter ourselves into thinking that we can, in so short a time, touch the deepest moral values of a person. We give ourselves too much credit if we think that we can change these values in one short course. But what we can do practically is help students learn to address moral problems in the business environment. Students can be reasonably expected to learn to identify moral problems and bring the necessary tools to help them reach what they feel to be a just and fair conclusion, given their own personal value system. If students are treated with respect, this learning objective is possible. And it is within this context that I will argue for an eclectic approach to teaching business ethics.

Normative ethics breaks down into two types, and philosophers generally sit in one of two camps, utilitarianism and deontology. What typically happens in an applied ethics course is that the professor lays out both ways of looking at things. Then, the professor tries to get the students to employ both, to show how their positions maximize utility while respecting basic rights. Students are not asked to choose one theory over another, though the professor often has a marked preference. What happens, in the bottom line, is that the student is taught to reason through moral situations by using a blend of utilitarian and deontological reasoning.

To be more specific, in terms of utilitarian reasoning students are taught to look for the “greatest good for the greatest number” by seeing who is affected by any given policy. Utilitarianism, of course, was developed first by Jeremy Bentham and later by John Stuart Mill. The nut of the argument lies in trying to maximize human happiness and minimize human pain. For Bentham this was a mathematical approach to ethics that eschewed the mysticism of the Church and made ethics a proper focus of scientific inquiry. While Mill backs away from much of
the scientistic aspects of Bentham’s formulation, he moves Utilitarianism forward with his renovations of the concept. Here we look to the consequences of an action and see what the results are, hence the perspective that Utilitarianism is a form of consequentialism. The consequences at issue for the Utilitarian are the pain and pleasure for all involved, as opposed to just the pain or pleasure of the person doing the reasoning, which would constitute some form of ethical egoism. Looking at the pain and pleasure for everyone involved in the situation, the student is then encouraged to do a “cost benefit analysis” and show how his or her position is on balance best for all involved. This half of the argument, then, means that students are to look at a particular case study and lay out who is involved, and decide which course of action will provide the maximum amount of happiness for people with the least amount of unhappiness. That is the simple nut of the theory in terms of teaching business ethics. Now some philosophers go much deeper, and try to bring in variants of rule utilitarianism and other permutations of consequentialism. Some of this is simply “tail wagging the dog” in my book. Philosophers tend to introduce detailed aspects of normative ethics as they are, quite frankly, more interested in the moral theory than in the practical problem at hand. The same is true for the presentation of deontology.

In terms of deontological theory, or duty based approaches, philosophers will lay out the logic of rights and duties. Rights tend to correlate with duties; where I have a right to free speech one has a duty to leave me alone and let me speak. In this case I am identifying a negative right and a correlative negative duty, i.e., a right to be left alone. If I require that someone give me a microphone and include me in a debate, then I am asking to be provided with something and hence the right is positive. The right to a safe work place is typically positive as the employees are asking to be provided with a safe working environment. The right to privacy is typically, but not always, negative, in that usually one is being asked to be left alone or not interfered with. The origin of rights is also at issue. Are right human right, rights accorded to every human being simply by virtue of being human, e.g., the right to life? Are the rights in question civil, and as such enumerated in a constitution? Are the rights contractual in terms of a specific, say, wage contract signed by both parties? Is a right negative or positive, human civil or contractual? These are all parts of the deontological elements used in teaching applied ethics. One will notice straight away of course, that I have said nothing about the Lord of the Deontological dance, Immanuel Kant. I know that this is heresy, but I will say it anyway. I have my doubts about whether or not teaching Kant is of any value in an applied ethics class. The concept of the categorical imperative is very hard to get across and not all that much use in terms of practical problem solving. If the purpose of a business ethics class is, as I have argued, to teach students to solve tough moral problems, then I think that we are better off leaving out some of the more esoteric elements of moral theory. This is of course different if the purpose of a business ethics course is, in part, to meet general education requirements. This paper focuses on business ethics courses taught in an MBA program. When the course is taught in the philosophy department, and counted for general education credits, it is a different matter altogether.

The bottom line to this approach is simple, teach the students to solve tough moral problems. At the undergraduate level business ethics exists to help people learn to deal with the difficult moral problems that they will face in their every day business life. At the MBA level the course should be geared more towards evaluating policy and managing employees. If the old adage that, at the undergraduate level we teach people how to do business, at the MBA level we teach how to manage it, and at the PhD level how to research it, then at the MBA level, an ethics course is there to teach managers how to assess the moral status of a policy and better manage people in a tough moral environment. Is this company’s policy right or wrong? When managing people and applying the company policy, how do we get a fair outcome? The Normative Ethics
paradigm used in philosophy departments is one good way to frame the problem. Get students to take a stand in a tough case situation and defend that stand by showing how their position maximizes utility and respects basic rights. As a framework for teaching business ethics, and meeting the basic learning objectives of a business ethics course, this works very well. But it is not the whole story.

After decades of teaching business ethics this way I have found this approach to be incomplete. There is a world of theory out there all available and helpful. Rather than seeing the normative ethics paradigm as the right way to do things, we need to see it as one way of framing the problem. If we are to solve the problem of teaching our students to think, and think critically (in all senses of the word), then we need to employ pragmatically any and all tools we can find. This is acutely important as I have found that, often, moral issues are preceded by important conceptual issues that are not per se ethical problems. The idea struck me many years ago while teaching a medical ethics course. As we sat in the classroom arguing ferociously about the ontological status of the fetus, coming to understand the enormous considerations around the question "is a fetus a person in the morally relevant sense?"; it occurred to me that we were really not asking a moral question per se. The issue of personhood, while it has tremendous moral implications, is a metaphysical question. What is it to be a person? What are the necessary and sufficient conditions for personhood? I won't go any further with the problem, but the general concern should be evident. Before we answered the moral question, is abortion morally acceptable, we had to answer a metaphysical question regarding the ontological status of the fetus. Teaching business ethics, as well as medical ethics, legal ethics, educational ethics, environmental ethics, and more, I began to realize that this was not a one time issue. Questions of legal theory, metaphysics and epistemology, political theory, game theory, feminism, critical theory, and a whole host of other philosophical tools are needed to fully flesh out the moral problem at hand. Often the moral problem itself is not all that complicated. It can follow straightforwardly from the non-moral prior philosophical question. That hate speech in the workplace is wrong, for example, is not something that will be contested widely. However, coming to understand just what constitutes hate speech in the workplace is an interesting hermeneutic that must be answered before we get to the moral problem. Different aspects of philosophy of language, philosophical hermeneutics, communication theory, critical theory, and more, must be discussed before we get to the moral problem itself. As such, I found that we must move beyond applied ethics as a simple paradigm for understanding business ethics, or applied ethics simpliciter, and embrace the wide range of knowledge systems available in order to fill their toolbox and give our students an ever better chance of solving the tough moral problems our students will face every day. This is the pragmatism of teaching applied ethics.

1.2 Quantitative Methods

In business schools the general approach to truth lies with positivist social science, statistics, and quantitative methods. There is, of course, a good deal of merit to the general paradigm. Scientific inquiry is, and should be, at the heart of business research. However, it is of little or no use to the business ethics teacher. One can use quantitative studies to provide certain facts that help support a decision one way or another. But the use is limited solely to descriptive facts. Quantitative methods can only show THAT, they can never show SHOULD. If we take ethics, as a discipline, to break into three areas, metaethics, normative ethics, and social or cultural ethics, then quantitative methods can be of use on in part of the last of these three.

Metaethics involves understanding moral language or the nature of moral concepts. We can talk in terms of analyzing what we mean when we claim something to be just. What is a moral
claim? Or we can look at metaethics definitionally and ask, “What is Justice”, as Plato does in The Republic. Either way, quantitative methods are not going to be of much use here. Coming to understand what “justice” really means, or what we mean when we talk about “justice” is not something that is amenable to quantitative analysis. Similarly, with normative ethics, if we ask “what should we do” in a given situation, we can not refer to a mathematical model for assistance. No amount of analysis of variance or regression will help come to understand the morally right course of action. In terms of social or cultural ethics, a sociology of morals if you will, we ask three things: what do people believe, why do they believe it, and how did they come to believe it. A philosopher like Frederick Nietzsche will give answers to these kinds of questions genealogically. But he does not do it with numbers. We can not determine why people believe what they believe quantitatively. Nor can we try to understand how they came to believe it by using these methods. What we CAN do with quantitative methods is see what people in fact believe.

With that said, quantitative methods can say three things about business ethics in terms of what people in fact believe:

**Substantial**: Quantitative studies can substantiate THAT a particular group believes something to be true.

**Comparative**: Quantitative studies can be used to compare beliefs. That group X believes A to be morally true, while group Y believes B to be true. Comparing moral beliefs between groups is the sort of thing that can be proven by a quantitative study.

**Change over time**: Quantitative studies can be used to show that groups change their views over time. That group X believed A at time T1 but believes B at time T2 can be shown through a quantitative study. Of course, one could also have a comparative change over time study as well.

This whole approach of showing what people in fact believe is at the heart of things like human resource management and organizational behavior. We want to know how the “perception” of morality affects employee behavior, job satisfaction, and employee performance. This properly is the locus of study in an HR or OB course, but not really in ethics per se. In fact, many textbooks define “distributive justice” as “the perception of distributive justice”, although it makes little sense to me to define X as the perception of X. Nonetheless, to define distributive justice as the perception of distributive justice is to embed the methodology in the very definition of the term. Since statistics can only measure perceptions, not the moral reality of a problem, business scholars define away anything in the field that is not quantitative in nature, and leaving the academic world poorer for it.

Studying what people believe, how it compares to others, and that it changes over time is only of marginal use if one believes, as I do, that the purpose of an MBA level business ethics class is to train students to better evaluate policy and make better decisions. Now I don’t want to be dogmatic here. There is a place for showing students studies on what people say they believe in different cultures, times, and places. But for decision making, this is very limited. More to the point, if ethics is about metaethics, normative ethics, and social/cultural ethics, limiting ourselves to quantitative methods will only shrink the universe of discourse to a very tiny fraction of the problem.
1.3 Game Theory and Business Ethics

Given the necessary level of silence business methodology will have in ethics, another contending paradigm in business studies reluctantly stepped in to fill the gap (Solomon, 1991). Recently there has been some discussion of the use of game theory in teaching business ethics. (Gibson, 03, James & Cohen, 04) Since economics is the mother discipline of business studies, and game theory is the backbone of economic theory, there is good reason to think that game theory might be of value in business ethics. And it is. In my view, a solid understanding of game theory is essential to teaching business ethics, even if it is not an all-encompassing paradigm.

1.3.1 Game Theory and the Problem of Collective Action

Libertarians have long told us that individuals left to themselves and allowed to compete and act on their own best interest will necessarily choose the option that is best for society as a whole. To be sure, history shows this, more often than not, to be manifestly false. But it is not merely an empirical fact that individual rationality often leads to collective irrationality. Basic formulations of game theoretical problems serve to make it clear that, much of the time, people left to choose on their own self interest will, in fact, undermine the public good. (Olson, 1965, Taylor 1988, Gauthier, 1986) And, as we will see below, Marx saw this point as fundamental to the logic of Capital. In modern times this problem of individual rationality and collective irrationality is most often referred to as the ‘prisoner’s dilemma’.

The prisoner’s dilemma is a shorthand expression for the situation where two or more individuals face circumstances where, if each acts on his or her own best interest, the collective decision will be worse than if they had chosen together. Imagine that two people rob a store, murder the shopkeeper, and are caught. The two are placed in separate cells and cannot communicate; hence they are forced to reason on their individual best interest. (Here we get the model of rational individual decision making of capitalism, as opposed to socialism where we are all stuck in the same jail cell, as it were) The state prosecutor knows that she has enough information to convict both defendants on the robbery charge, but she needs a confession from at least one to get a conviction for murder. Hence she proposes the following deal to each. If neither defendant confesses, each will likely be sentenced to one year in prison for armed robbery. If both confess, then they will each receive a reduced sentence for murder of five years each (the punishment mitigated for confession). On the other hand, if one confesses and the other maintains his or her innocence, then the former will be released from prison and the latter executed. The utility matrix then looks something like this:

<table>
<thead>
<tr>
<th></th>
<th>Confess</th>
<th>Not Confess</th>
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<tbody>
<tr>
<td>Confess</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Not Confess</td>
<td>Death</td>
<td>0</td>
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The essential thing to notice is that each, reasoning on his or her own rational self interest, will choose to confess. Person A reasons that, if person B confesses, A has a choice of 5 years for
confessing or death for not confessing; not surprisingly A would confess. If B does not confess, A
then has a choice between freedom for confessing and one year for not confessing – again
confession is in his or her best interest. The same, of course, applies for B. Hence, the strategy of
confession is said to be dominant in that it is the uniquely best alternative for both players in the
game. No matter what option the other takes, it is best for each, individually, to choose confession.
Unfortunately, this yields and option that is collectively worse. Acting on their individually rational
choices, the players determine an outcome of 5 years in prison each, which is worse than the
collective decision where both choose not to confess and receive 1 year each.

What this prisoner’s dilemma game shows, essentially, is that the logic of libertarian or
free-market capitalism is patently false. We have just shown that often people are in the situation
where, left to choose on their own individual interests (read profit motive), they choose a strategy
that is in fact worse for both than if they chose collectively.

The logic of collective action also entails an analogue, namely that of the “Free-Rider”. In
any situation where a group pursues a collective long-term good at the sacrifice of short-term
needs there is always an incentive for individual members of the group to cheat on the agreement.
So, for example, when an oil cartel attempts to raise prices by limiting production and hence cutting
supply, it is actually in the individual interest of each member of the cartel to cheat on the
agreement. Rather than paying the short-term price of restricting oil production (in order to help
reduce supply and raise the price) and losing out on hard currency, it is in the interest of each
member to cheat on the agreement and sell the differential oil on the black market. This way, the
cheating nation gets the benefit of the other members’ collective restraint (that is, the cheater’s
extra oil sold does not really affect the overall cutback, and the price of oil rises due to limited
supply) while avoiding the costly cutback in production. In this way, the cheating member takes a
“Free-Ride” on the collective restraint of others. This is why, without some sort of external
compulsion or incentives, cartels are notoriously unstable. This same situation can be said to
obtain in forming labor unions, revolutionary activity, pollution control, and other areas that will be
alluded to at the end of this paper.

1.3.2 Game Theory as a Paradigm for Business Ethics

I can’t recall reading a philosopher’s outrage quite like that expressed by Robert Solomon;
when confronted with Game Theory as a possible paradigm for understanding business ethics,
Professor Solomon’s indignation comes through loud and clear (Solomon, 1999). I will admit
straight up that I’ve long been a fan of Solomon’s work. From close late night readings of In the
Spirit of Hegel (1983) in graduate school to driving the kids to camp in the mountains while
listening to the wonderful audiotape lectures on Nietzsche, created (with Kathleen Higgins), I’ve
enjoyed the style and quality of his scholarship for many years. I feel the same way about his
wonderful Aristotelian account of business ethics presented in Ethics and Excellence (1993) So
my bias is presented here up front. With that said, Solomon triggers a nice debate on the use of
game theory in business ethics that, for the teacher of business ethics, misses the mark. Now I
don’t blame him for that. Solomon is responding to those like David Guathier (1986) who want to
use game theory as a general paradigm for the study of business ethics. And I agree with
Solomon that, as a general method, it falls short. However, game theory has its place in the
classroom.

A few years back, Solomon participated in an interesting exchange on the use of game
theory in business ethics in the journal Business Ethics Quarterly. For Solomon, the model of
rationality understood in game theory is “dangerous and demeaning”. Game theory as a metaphor
for business fosters, Solomon says, a “false sense of competition” and encourages the destructive “obsession with measurable outcomes”. (1999)

Solomon’s objections to game theory as a metaphor for business ethics are somewhat predictable. He attacks the notion of rationality on the grounds that the narrow conception of onedimensional strategic thinking cannot possibly encapsulate the rich culture bound diversity of human thinking. Can game theory really move rationality beyond self-interest and a refusal to seek anything beyond one’s own personal advantage? The whole notion of human economic activity as a “game” truly disturbs Solomon. Survival is just too serious a thing to see as merely a “game”. Game theory engenders further rebuke for not truly understanding the altruistic nature of people. It makes it seem that people care only about money and that “the community” plays no role. Solomon tells us that Ethics requires “the nuances and intricacies of human relationships, only some of which are sometime competitive and require strategy and tactics rather than tact, sympathy, mutual consideration and sharing.” (1999) Clearly ethics must be something more than merely “cold numbers”.

Solomon sees the world of business, on the positive side, as a cooperative enterprise, where shared values and goals are just as important as individual interests. On the negative side, business can be an exploitative activity that can be “pervaded by the Hobbesian distortions of “Force and Fraud.”” Contemporary game theory, we are told, neglects the truly cooperative games where shard interests and mutual benefits carry the day. Business, Solomon tells us, is more about “contractual and positional duties, fostering relationships between managers and employees…the corporation and community.” (18) In short, Solomon tells us that the “mathematically precise model” of game theory misses the obvious truth of the “personal dynamic of actual business activities”. (19)

Solomon’s deep concern lies with Game theory as Ideology. How quickly we move from ‘this is how it is’ to ‘this is how it should be’ gives Solomon and others pause to consider the possible deleterious effects of game theory as a paradigm. He says: “It may be neat, even elegant, but whether it is relevant to ethics or business ethics is worth serious reflection and discussion.” I think it is; but only if we move in a different direction.

Now, I will not go through the responses to Solomon made in the BEQ exchange. Ken Binmore does a nice job of summarizing Solomon’s concerns and giving some of the expected responses. Naturally any proponent of game theory will get into the suitable refinements that Solomon assumes will blunt many of his objections. And they do. Game theorists have some elegant replies to the issue of narrow rationality, cooperation, and other concerns ethicists express. Players in a game may be neutral about the goals involved. There might well be altruism in the interests expressed by players in a game, be they “brothers and sisters”, as in the study cited by Binmore, or simply coworkers. Similarly, game theorists may not be committed to any one view of human nature. Competition is not necessarily the way of things in the way games are played. So there are ways to refine game theory and blunt, if not actually deal with, the criticisms Solomon comes up with. But why do we care?

In some ways, the segment of this small debate that intrigued me the most was the conclusion reached by Kay Mathiesen. Mathiesen draws a middle ground between Solomon and Binmore, seeing some value in game theory suitably refined, but she has some sympathy for the objections raised. The details of the argument are not important. But her conclusion is. Mathiesen says:

…..I have argued that game theory is not an ideology and, thus, need not be banished from business ethics. Nevertheless, Solomon points out the dangers of treating game theory as if it were an ideology. He thereby provides an important caution to those who bring game theory into business ethics. The teacher of business ethics, in particular, must be careful
to distinguish for herself and for her students, between game theory as a model of rational choice and game theory as an ideology with particular account of human motivation. She must remember to bring her students back to a broader, perhaps Aristotelian, conception of ethics – a conception that allows us to reason, not just about the best means to our ends, but about which ends are morally worthy. (1999;44)

Here Mathiesen shifts ground in an interesting manner. Mathiesen assumes that anyone talking about business ethics is, of necessity, talking about teaching. Nowhere in Solomon’s article, or in Binmore’s response, do we see the argument restricted to, or in any way related to, pedagogy. The discussion of game theory relates to business ethics as a researchable discipline, as part of business practice, and as a consulting activity as much as it can be useful in teaching. Now it is reasonable for Mathiesen to assume that anyone reading Business Ethics Quarterly is an academic, whose is concerned with teaching. But to slip the argument directly into the pragmatic activity of teaching takes the argument in a wholly different direction.

From my perspective Mathiesen’s preachy approach of bringing students back to the good and the right of Aristotle is commendable but impractical. Teaching business ethics starts with respect for the student. Game theory is a wonderful tool that can be placed at the student’s disposal. However, in the short time that we have them, students, particularly adults at the graduate level, they need to learn to apply theory to problems in a way that works with their own values. At the end of the day, it does not matter to the MBA business ethics student if Solomon is right or if Binmore is right. What matters is that the student knows how to use game theory to provide the prior analysis necessary in order to address a real moral problem.

2. Game Theory as Critical Theory

Critical theory, in its most general form, seeks to expose the underlying mechanisms that constitute our social and economic experience in a way that moves us towards a fuller sense of human freedom. For Marx, there was an essential logic to the inner workings of capitalism. To make manifest these inner workings is the first step in developing an emancipatory program. Like Adam Smith, Marx understood that the logic of collective action, tensions between individual rationality and collective rationality, underlies much of our motivations and actions. In this section I will unpack a few passages where Marx directly confronts game theoretical problems in his account of the state in capitalism. After which we will see a wonderful example from Marx on how exposing the inherent logical of capital allows us to understand crucial business ethics problems that lived in his time and ours.

2.1 Marx’s Theory of the State and The Problem of Collective Action

For some, game theory is a product of the late 20th century. In reality though, the foundations of game theory date back to the neo-classical economists of the 19th Century. Smith, Ricardo, and Marx were well aware of the contradictions that can occur between individual rationality and collective action. My interest here lies in briefly and simply laying out Marx’s understanding of game theory and how it provides a prime example of a critical application of game theory to business ethics.

In the 1861-3 draft of The Critique of Political Economy, Marx says that,

It may perhaps be thought that just as the slave owner is forced to purchase new Negroes, to replace those he has used up every seven years, the same would apply to Capital,
since it is predicated on the uninterrupted existence of the working class and must therefore pay for wearing the workers out so quickly. But Capitalist A may be able to grow rich on the policy that this ‘killing is no murder’, while Capitalist B, or the generation of Capitalists B, may have to foot the bill. For the individual capitalist is in constant rebellion against the general interests of the capitalist class as a whole.

Marx says in no uncertain terms that capitalists do not have the same incentive to protect their long-term interests that slave owners do. It is in the interest of each capitalist, or even each generation of capitalist, to exploit and render fluent as much surplus value as possible in a given day, even at the expense of other capitalists or even the next generations of capitalists. And how could a statement to this effect be clearer than the last sentence? Marx simply states that the individual profit motives of capitalists are not compatible with the collective interest of their class. In other words, the drive for profits due to competition simply does not allow the capitalist to look to the long-term needs of his class. Similarly, in Capital I, Marx says that,

Capital that has such good reasons for denying the Capital that has such good reasons for denying the sufferings of the legions of workers that surround it, is in practice moved as much and as little by the sight of the coming degradation and final depopulation of the human race, as by the probable fall of the earth into the sun. In every stock-jobbing swindle everyone knows that some time or other the crash must come, but every one hopes that it may fall on the head of his neighbor, after he himself has caught the shower of gold and placed it in safety. Après moi le deluge! is the watchword of every capitalist and of every capitalist nation. Hence Capital is reckless of the health or life of the labourer, unless under compulsion from society. 380-1

This, of course, is a beautiful statement of the ‘Free-Rider’ problem. The capitalist, Marx tells us, may know of the potentially fatal damage he or she inflicts on the system that allows him or her to extort profit, yet the capitalist hopes to squeeze as much out of the worker to make the maximum profit possible while proclaiming that “le deluge” should come only “après moi”. (Marx, 77, 587-8)
The upshot of all of this must be that the early understandings of Marx’s theory of the state, namely the instrumentalist interpretations of Engels and Lenin, were logically as well as empirically incorrect. In The Origin of the Family, Private Property and The State, Engels tells us “the modern representative state is an instrument of exploitation of wage labour by capital.” Engels consistently identified the state as the simple instrument of the capitalist against the worker, stating explicitly that state action can be reduced to the wishes and desires of individual capitalists. But as Marx made clear, such a reduction goes against the very logic of Capital. Capitalists, left to their own, will destroy the very thing upon which their position depends, namely wage-labor. Hence the state must have some measure of autonomy from the dominant class in order to ensure the survival of the system of exploitation. Marx says in his critique of Girardin that the state,

...Is nothing more than the reciprocal insurance of the bourgeoisie against both it's own members and the exploited class, an insurance which must become increasingly expensive and apparently increasingly independent as against bourgeois society, because the subjection of the exploited class becomes increasingly difficult. 333

It could not be more apparent that the capitalist state, for Marx, must have a significant degree of autonomy from the dominant class, autonomy relative to the level of challenge to bourgeois hegemony, in order to respect the needs of the proletariat who, through the insatiable capitalist
thirst for profit, will be exploited into oblivion. Recall the passage cited above from Capital I
“Capital is reckless of the health or life of the labourer, unless under compulsion from society”. Hence, the state must often play the role of protecting the system even in the face of capitalist interests and wishes.

Much more, of course, needs to be said to get a complete account of Marx’s theory of state. However, it has been my sole purpose here to show that, implicit in Marx’s ideas, are the fundamental elements of game theory. Marx fully understood the implications of the incommensurability of individual and collective interests. And this led him to numerous conclusions about the relative autonomy of capitalist state action that have profound implications for moral issues in the business environment.

2.2 Marx’s Critical Applications of Game Theory

Marx, as we have seen, understood that individual rationality can conflict with the needs of the collective. In a dramatic footnote to the passages from Capital v.1 Marx gives a wonderful example of this contradiction in terms of the needs of manufacturers and their relationship to their employees and to the state. This critical exposition of the logic of collective action in capitalist production lays out an analysis that is essential for understanding business ethics. Marx says,

We, therefore, find, e.g., that in the beginning of 1863, 26 firms owning extensive potteries in Staffordshire, amongst others, Josiah Wedgwood, & Sons, petition in a memorial for “some legislative enactment.” Competition with other capitalists permits them no voluntary limitation of working-time for children, &c. "Much as we deplore the evils before mentioned, it would not be possible to prevent them by any scheme of agreement between the manufacturers. ... Taking all these points into consideration, we have come to the conviction that some legislative enactment is wanted." ("Children's Employment Comm." Rep. I, 1863, p. 322.)

Josiah Wedgwood came from humble roots. He knew what it was like to work the hours of a child laborer. But his motivation to seek state intervention to limit the working day for children did not come solely from altruism. Wedgwood knew that he, and his fellow manufacturers, could not afford to continue to burn out the next generation of laborers. He also knew that he could not protect this valuable future asset by individual agreement. If the pottery manufacturers came together and agreed to limit the use of child labor another pottery maker would come along and abuse child labor. This new entrant to the market would then undercut the price of those participating in the agreement. On another line of reasoning, some manufacturers who make the agreement might well cheat on the agreement. They would claim to honor the agreement and appear to limit the working day of children. But in fact they would continue to work the children at lower wage for longer periods of time. In other words, they would take a free ride on the collective self restraint of other manufacturers, reasoning that, as merely one manufacturer, their abuse of child labor would have a minor impact on the long term health of the labor pool. Be it from a new entrant into the manufacturing market, or a current manufacturer cheating on the agreement, Wedgwood knew that a voluntary agreement to reduce the use of child labor would fail. Hence, Wedgwood unwittingly bought into Marx’s claim in the Critique of Political Economy that,

The history of modern industry teaches us, however, that the boundless demands of Capital can never be restrained by the isolated efforts of the worker. Instead his opposition has to take the form of class struggle and only when this has led to the
intervention of the state has it become possible to set certain limits to the overall length of the working day.

However, for Wedgwood, it was not the isolated efforts of the working class, but the inability of his own class, the manufacturers, to sustain any collective agreement. What makes this footnote particularly engaging from a moral point of view is that it flies in the face of the vulgar Marxist approach that would make all the ills of capitalism the fault of the bourgeoisie per se. For Marx, capitalist and worker are each bound by the inexorable laws of capital. Marx says in Capital v.1, 

But looking at these things as a whole, it is evident that this does not depend on the will, either good or bad, of the individual capitalist. Under free competition, the immanent laws of capitalist production confront the individual capitalist as a coercive force external to him.

From a moral perspective then it becomes clear, problems like the abuse of child labor are often not always the result of the evil intentions of this or that manufacturer. Often they are the product of the laws of capital and, in this instance, the logic of collective action. Wedgwood, and the other industrial manufacturers, could not sustain an agreement to limit child labor voluntarily. The logic of capitalist relations of production, in this case, precludes any such pact. Someone will cheat. Someone will enter the market and undercut the agreement. Hence, an exogenous coercive mechanism is needed to ensure that the collective good, namely the long term health and vitality of the working class, needs to be in place; the state must act to protect children. Of course, in this case they did not. The British government refused Wedgwood’s request to limit the working day for children on Laissez Faire principles. But the point is well clear. Marx identifies a wonderful moral issue in business, namely the obligation to place limits on the length of the working day for children, and shows how the logic of capital demands state intervention. More to the point, or at least the issue I am pursuing here, it is clear that we need to understand the logic of collective action before we address the moral problem of child labor laws. Marx understood that we can’t expect manufacturers per se to deal with the burden placed on child labor. The internal logic of capital precludes any voluntary pact. And we need to understand this before we confront the moral implications of placing limitations on child labor.

3. Conclusions

The way Marx understood the problem of collective action imminent within the logic of capital, and then applying it in a way that helps elucidate a moral issue in the corporate world shows clearly how one can use political theory to expose the structure that underlies forms of oppression. Teaching business ethics in a critical fashion necessitates moving beyond the simple paradigm of normative ethics and exploring the prior theoretical questions. Being open to use whatever theoretical tool works best allows an instructor to create a truly critical approach to business ethics while pragmatically helping students prepare for a future as managers who will face these kinds of problems on a regular basis. Business ethics, taught in this way, can help keep the MBA relevant long into the future by making it real for students. Just to push the issue a bit further, let me give a few examples of other business ethics problems that depend, in part, on a prior analysis of a game theoretical problem.

A. Game theory is essential in understanding union activity and the moral problems surrounding labor strikes. The collective good for workers in capitalism depends on organizing a union and bargaining collectively. Yet it is not in the interest of each individual worker to strike and
form a union, since the cost to the individual in lost wages during a strike, and perhaps even physical danger, makes it in the interest of each laborer to keep working and let others take the risks. Since this "Free-Rider's" (read Scab) labor will not significantly affect the strike, the collective action would be successful and the worker would receive the benefits of an established union without having paid the costs. This is, of course, why solidarity is so important and so difficult to muster, and why it often takes persuasion or even overt pressure from other workers to make a strike work.

B. Understanding the moral imperatives pollution control in the business environment means understanding the logic of game theory. For example, farmers who use dangerous pesticides and pollute the ground water have an incentive to cheat on agreements to limit their use as the amount they contribute to pollution individually is negligible and their profit from the use of these chemicals is immense. If one farmer cheats and uses pesticides he or she gets the benefits of an increased yield with the advantage of clean water from the collective restraint of others.

C. Drug testing employees involves questions of game theory. While privacy rights dominate the discussion on drug testing, understanding how collective pressure can force employees to behave in certain ways means understanding aspects of game theory. In particular, employees in professional sports are often pressured to use steroids. The long term interest of each individual is sacrificed, i.e., the health of the worker, in favor of the short term pressure to compete. This is actually an association problem rather than a collective action problem per se as the conflict is embedded in the short term/long term interests of the individual rather than the individual versus collective interests.

In each of these cases we see that some prior examination of the issue in game theoretical terms is essential to understanding the moral problem at hand. If we want to ask if it is morally acceptable for Unions to have shop laws we need to understand the individual/collective conflicts in objective interests first. If we want to ask if it is morally acceptable to have the government impose strict environmental laws on pollution in farming communities we need to understand the competitive pressures and logic of collective action involved in farming communities. If we want to ask if it is morally acceptable to drug test professional athletes then we need to understand the competitive pressure exhibited in association situations like those found in professional sports. One way or another, there is a prior theoretical problem that needs to be understood before we can assess the moral problem at hand. And the more theoretical tools we place at the disposal of our students, the more successful they will be in finding solutions to the problems they are sure to face in the real world of management. Few things can do more to help make the MBA relevant for today’s managers.

References