



CREATING WEALTH

SECOND REVISED EDITION

Ethical and Economic Perspectives



**SNEAK
PREVIEW**

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Edited by David Schmitz
and John Thrasher

CREATING WEALTH

ETHICAL
and
ECONOMIC PERSPECTIVES

...

Second Revised Edition

Edited by David Schmitz and John Thrasher
University of Arizona

Bassim Hamadeh, CEO and Publisher
Michael Simpson, Vice President of Acquisitions
Jamie Giganti, Managing Editor
Jess Busch, Graphic Design Supervisor
Marissa Applegate, Acquisitions Editor
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Dedication



For Randy Kendrick, to whom I literally owe my life.
—DS

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—David Schmitz

The Language of Ethics

Introduction

BY DAVID SCHMIDTZ

We have been studying moral philosophy for thousands of years. We have made progress. Only someone who does not know the field's history would say otherwise. On the other hand, the modest, halting, fragile nature of that progress suggests there are few fields of intellectual inquiry whose problems are as intractable as moral philosophy's.

I am a teacher of moral philosophy, so let me say something about what that is like. It is a great privilege to be able to write and teach for a living, but I sometimes teach introductory ethics, and that can be a bit depressing. In introductory economics or biology or calculus, students buckle down, expecting a difficult time, but at least having a sense of how to get started. Introductory ethics is different. Students come in with the vague idea that it will be a sort of encounter group where they tell the professor how they feel about things (and where their strong feelings entitle them to a good grade). Then they find themselves being asked questions that even the professor finds intimidating. Students begin to recoil, insisting it is all arbitrary opinion and that what is true for the grader may not be true for the student. (To a six-year-old, the quadratic equation likewise looks like an arbitrary game whose rules are too complex to be worth learning.) The professor assures students that what they say at parties on Friday night is not the last word on moral philosophy, but the very idea that there is that much to learn is something students find disturbing if not downright offensive.

In addition to the intrinsic difficulty of the subject matter, there is a further problem, and here is where the idea of language enters the picture. Moral philosophy has become an academic discipline, and like any such discipline, it has become esoteric. It is a conversation that has been going on for generations and has become a conversation among insiders

trained in the discipline. The conversation has been going on for so long and has been sufficiently isolated that it has developed its own dialect, only partly understood by people on the inside and unintelligible to people on the outside. It would be the same if you were to walk into an advanced seminar in physics. You would have no idea what they were talking about.

So, if moral philosophy seems hard, it is not your fault. Neither is it your instructor's fault. Nor is the fault of the authors you will read. It is hard for philosophers to talk even to people who speak the same language, and it is that much harder to talk to those who do not. I work on the fundamental nature of value. I work on the nature of the connection between being rational and being moral. It is hard to bring that sort of research to bear on everyday questions about how to live in such a way that at the end of your life people will be glad you were here. It is a worthy challenge, though, because most of this volume's readers are (or some day will be) people whose jobs really matter and who routinely find themselves in moral dilemmas that really matter. My goal, then, is to describe some of the tools (including some of that jargon) that moral philosophers use to help us understand such dilemmas.

WHAT IS MORAL PHILOSOPHY?

The discipline of philosophy can be divided into fields. Typically it is divided into three. In the simplest terms:

1. Metaphysics is the study of the fundamental nature of reality;
2. Epistemology is the study of knowledge and how we acquire it;
3. Ethics is the study of goodness and rightness—what counts as a good life, a life worth living, and what counts as right action, especially with regard to our obligations to other people.

The study of ethics generally is guided by certain presuppositions. Among the main presuppositions are these.

1. We are more or less rational beings, capable of understanding the world.
2. We can act on the basis of what we understand.
3. Our actions can serve a purpose—we can make a difference.

Ethics itself can be divided into subfields.

1. Normative ethics is the study of rightness and goodness per se.
2. Descriptive ethics is the study of opinions or beliefs about what is right and good. (Descriptive ethics often is considered to be a branch of anthropology rather than

philosophy. However, we insist on separating normative from descriptive ethics in order to emphasize that seeking the truth about ethics is not the same as cataloguing opinions about ethics.)

3. Metaethics studies the meanings and presuppositions of moral theories and moral language. In effect, then, where normative ethics asks what is right and what is good, metaethics steps back to ask what we hope to accomplish by theorizing about it.

Within the subfield of normative ethics, we seek to formulate theories of the good, sometimes called theories of value. We also seek to formulate theories of the right. (“Good” and “right” often are interchangeable in ordinary use, but in philosophy we treat rightness as pertaining to what we should do, whereas goodness pertains to what we should want.)

When we try to apply the results of normative ethics to questions of practical policy and personal conduct such as those discussed in this volume, we move into the realm of applied moral philosophy. Different contexts give rise to slightly different problems, so we seldom teach courses in applied moral philosophy as such. Instead, we teach courses in applied moral philosophy from a more specific perspective, such as engineering ethics, business ethics, and environmental ethics. Each of these perspectives is, of course, relevant to the problems discussed in this volume.

Some people view ethics from a personal perspective, while others view it from an institutional perspective. Thus, in an environmental ethics course, when we ask students what they can do to live a good life that is also an environmentally friendly life, some respond by saying, “We could print our term papers double-sided.” Or “We could properly insulate our water heaters.” They interpret the question as a personal question about what we as individuals can do here and now, given institutional structure as it is, to reduce personal consumption in ways that are personally as well as environmentally beneficial, even if only in small ways.

Others respond by saying, “We could redefine the role of the U.S. Supreme Court so as to make it responsible for striking down any legislation that has adverse environmental impacts.” These people interpret the question not as a question about how to live but as a question about institutional design. Professors sometimes find it disturbing that people would see ethics as primarily about what the government ought to do rather than as primarily about how they ought to live their own lives. Yet, both perspectives are legitimate on their own terms, and each is relevant to problems discussed in this volume.

Suffice it to say that there are two perspectives, which in effect implies that morality is more than one thing. One part of morality ranges over the subject of personal aspiration—which goals we should spend our lives trying to achieve. Another part of morality ranges over the subject of interpersonal constraint—especially which socially or institutionally embedded constraints we ought to respect as we pursue our goals in a social setting. The morality of institutional constraints leads us to ask whether we are meeting our obligations to other people, whether we are obeying the law, and so on.

The morality of personal goals, though, leads us to go beyond what it required of us by the morality of interpersonal constraints. You will find that wealthy businesspeople, late in life, are not content merely with being rich. They spend time looking in the mirror, looking at their lives, and they no longer get much of a thrill from simply counting their money. Neither are they content merely to assure themselves that their way of getting rich was legal. They are asking deeper questions: whether they had a cause, whether they did something that made their lives worth living. They ask whether it was good that they were here on this earth. They ask who will have reason to be glad they were here.

I hope you get rich! If you do, then you too will one day have these questions. These questions will make up this most final of your final exams.

ETHICS IS NOT A JINGLE

Much of the history of moral philosophy revolves around the project of articulating an adequate theory of morality. How do we construct a moral theory? We begin by asking a moral question, which is roughly to say, a question about what makes a particular kind of thing right or good, and that question defines the theory's subject matter. For example, we might ask what makes an act right. (We could have asked more specifically what makes an act permissible, or what makes an act obligatory. Or we could have asked about a different subject altogether, something other than acts. To give a few of the most important examples, we could ask about rules, laws, institutions, or character traits.)

If we ask what makes an action right, one plausible answer is that the right action is the action that does as much good as possible. This is (roughly speaking) the theory known as utilitarianism. The theory is most often associated with John Stuart Mill, and it is one of the simplest theories we have. An alternative theory: What makes an act right is not whether it promotes what is good so much as whether it respects what is good. Associated most often with Immanuel Kant, this theory is known as deontology and says, a bit more precisely, that an action is right if, but only if, it expresses respect for all persons as ends in themselves and therefore treats no person merely as a means to further ends.

Yet another alternative, virtue theory, is so different it might be best to see it not as an alternative answer to the same question but as responding to a different question altogether. Associated most often with Aristotle, virtue theory tells us that what is right is to be a certain kind of person, a person of virtue: courageous, modest, honest, evenhanded, industrious, wise. Moral life is not about doing the right thing so much as it is about taking the best of our potential as persons and making it real.

I wish I could simply tell you which of these theories is right, then specify in simple terms what that correct theory tells you to do. For better or worse, though, moral life is more complicated than that. The three theories just described are the main theories we discuss in introductory classes in moral philosophy, but few philosophy professors believe

that any of them comes close to being the complete truth about morality. Each contains a grain of truth, but none can be treated as infallible.

We need to understand, then, that the key to morality will not be found in a jingle, or even in a sophisticated professional code of ethics. Morality is complex. It calls for creativity and judgment in the same way that chess does. You might come to the game of chess hoping to be given a simple algorithm that picks out the winning play no matter what the situation. For human players, though, there is no algorithm. There is no substitute for creativity and good judgment, for the ability to think ahead and expect the unexpected. Even something as simple as a game of chess is full of surprises, yet the complexity involved in playing chess is nothing compared to the complexity involved in being moral.

A MATTER OF PRINCIPLE

Perhaps our first and most important practical task, then, is to understand what we should not be hoping for. What we naturally hope for is to be given a list of rules or a code of professional conduct. When moral philosophers try to do applied ethics, though, it becomes apparent that there is something artificial and unhelpful about trying to interpret morality as a set of rules. Rules function in our reasoning as trump cards. If we have a rule, and if we can really believe with complete confidence that the rule ought to be followed, and if we ascertain that a certain course of action is forbidden by the rule, then that settles it. The rule trumps all further reasoning, so no further reasoning is necessary.

How comforting it would be to have such rules. And of course, sometimes the situation actually is rule-governed. Not always, though. Much of the time, there are reasons in favor of an action, and reasons against, and neither trumps the other.

It may still be possible, though, to decide in a principled way. Principles are not like rules. Where rules function in our reasoning like trump cards, principles function like weights. If the applicable moral rule forbids X, then X is ruled out, so to speak. In contrast, it is possible for a principle to weigh against X without categorically ruling out X.

If you need to figure out what to do, don't look for rules. Look for principles.

Consider an analogy. A home builder might say, in describing his or her philosophy about how to build houses, "You have to minimize ductwork." Question: Is that a rule or a principle? The answer is that, interpreted as a rule, it would be silly. As a rule, it would say, no matter what weighs in favor of more extensive ductwork, minimize ductwork, period. In other words, zero ductwork!

In fact, though, "minimize ductwork" is a good principle rather than a bad rule. As a principle, it tells home builders to be mindful of energy wasted and living space consumed when heated or air-conditioned air is piped to remote parts of the house. Other things equal, get the air to where it has to go by the shortest available route. This principle will

seldom outweigh the principle that the ceiling should be a minimum of seven feet above the floor. That is to say, it is not a trump, but it does have weight. A good builder designs houses with that principle in mind, but does not treat the principle as if it were a rule.

When students sign up for introductory courses in ethics, some of the most conscientious of them are expecting to be told the moral rules. It is a shock when we tell them we have been teaching ethics for twenty years, but for the most part, we don't know the moral rules, and we suspect there aren't any. Or more accurately, we suspect there are too few to give comprehensive guidance regarding how we ought to live.

When we are making real-world practical decisions, the considerations we bring to bear are more often principles than rules. So why, when we look to moral philosophy, would we hope to be given rules than principles? What is the attraction of rules? The idea of following a rule is comforting because it has the feel of relieving us of moral responsibility. If we just follow the rules, it seems to guarantee our innocence. Unlike rules, principles offer no such escape. Rules are things we follow. Principles are things we apply. Principles leave us with no doubt as to who is responsible for weighing them, for making choices, and for bearing the consequences of those choices.

The upshot, and it is fundamental to understanding what being a moral agent is like in the real world: If you need to figure out what to do, don't look for rules; look for principles. Needless to say, this too is a principle, not a rule. It has exceptions. There are, after all, rules. They sometimes do trump all other considerations.

COMING TO GRIPS WITH THE SITUATION

A few decades ago, Stanley Milgram ran now-infamous experiments on the phenomenon of obedience to authority. Volunteer subjects were told the experiment was designed to test whether learning is enhanced by the use of pain to motivate subjects to pay maximum attention to the learning task. A volunteer test giver watches as a test taker (actually an actor) is strapped down to a chair and wired to a machine that delivers the pain stimulus in the form of electric shock. The volunteer is asked by the experimenter to administer a multiple-choice word association test, and in the event of an incorrect answer, to hit a switch that sends the electric shock to the test taker. The test giver is also instructed to increase the voltage by fifteen volts after each incorrect answer, beginning at fifteen and eventually going beyond four hundred and fifty volts to settings marked XXX. After a few (scripted) mistakes the test taker begins to howl with pain, complains of heart pain, then collapses into apparent unconsciousness.

The volunteers for the most part had no idea that it was an act. I have seen films of the experiments. Typically, the volunteer is extremely agitated, begging the experimenter to check the condition of the test taker to make sure he was all right. The volunteer typically and repeatedly begged the experimenter to discontinue the experiment. But when firmly told to continue with the experiment, the volunteer most often did. The volunteer kept

asking multiple-choice questions, to which the apparently dead or unconscious test taker did not respond. Having been instructed to treat nonanswers as incorrect answers, the subject kept sending ever more powerful electric shocks to that dead or unconscious body.

Needless to say, there is a moral rule against strapping down innocent people and torturing them to death. It is safe to say none of the volunteer test givers were unaware of this rule. Yet, when told to break this rule, they did, and for no reason other than that they were told to do so. They did not wish to break the rule. Indeed, it was agonizing for them. Many were hysterical. However, they simply lacked whatever psychological resources a person needs to be able to disobey a direct order from someone perceived as an authority figure, even when they knew that what they were being ordered to do was wrong.

If it had been me, I am sure I would not have obeyed. But I am the same as everyone else in that respect. No one thinks they would have obeyed. So, perhaps I should not be so sure of how I would respond. I have been forewarned about the electric shock experiments, so of course I would see through them. But what if I were a Morton Thiokol engineer presenting my boss with reason to believe that seals on the space shuttle's booster rocket were not safe, and what if my boss told me to keep my mouth shut? As it actually happened, the engineers did shut up. The Challenger space shuttle was launched. Seconds later, it exploded. The engineers' worst fears were confirmed.

Now, if I imagine myself in their position, prior to the launch, part of the problem is that if I refuse to back down and succeed in aborting the launch, there will always be an unanswered question. The program would be halted until the seals were redesigned at great expense. The faulty seals would never be tested under full operation. I might be fired without anyone (including me) ever knowing whether I was right or whether I was a troublemaking lunatic. I would be smart enough to see that. Would I also be smart enough, and brave enough, to sound the alarm anyway? In the heat of the moment, would I remain calm enough to be able to call vividly to mind a picture of the kind of person I want to be?¹ In the heat of the moment, would I realize that while life has just raised the price of being that kind of person, it has not changed my reason for resolving to be that kind of person? Would you?

If we are looking for a moral code, the test of a code is not that it presents us with answers to all questions, but that it helps us to decide what questions to ask, when to ask them, and when not to settle for easy answers. Moral philosophy's value is not so much in the information it gives us regarding how to pass the test. Moral philosophy can indeed help us prepare for the test. But moral philosophy prepares us not so much by giving us the answers as by training us to recognize when the test has begun.

1 A word of caution. Unwary readers could think of this idea as vaguely egoistic, without being careful to sort out what they mean by egoism. Suffice it to say, there is a world of difference between thinking that morality is centrally about getting as much good as you can get and thinking (a part of) morality is centrally about being as good a person as you can be. Only the former is egoistic.

Moral philosophy prepares us not so much by giving us the answers as by training us to recognize when the test has begun.

One simple principle that often helps: Talk to people. Don't suffer in silence. The point of talking is twofold.

1. Talking helps us to examine our judgment.
2. Talking sometimes gives us the courage to trust our better judgment when we otherwise might have caved in like a subject in a Milgram experiment. In other words, sometimes, what we need to question is not what we judge to be right so much as whether we're actually doing what we judge to be right.

Talk to the wisest and most honest people you know, to counteract the mind-numbing influence of social pressure.² Or, if you'd rather not talk about it—if you would prefer that the people you most respect not know of your situation or of what you have decided to do—that is a sign that you are in trouble.

I defined deontology as the theory that one ought never to treat persons merely as means but also as ends in themselves, not to be sacrificed to the ends of others. According to Immanuel Kant, another way to express the same idea is to say we ought to do only that which we could will to be a universal law. Whether this really is the same idea is debatable, but in any case this new formulation contains a thought about the secret of being moral that has considerable value in practical terms. The thought is this: Act in such a way that you would be willing to let your action be presented to the whole world as an example of how a person ought to act. If you are doing that, then you are doing the right thing, or at least you are trying to the honest best of your ability.

Studying moral theory can make a person wiser, I believe, but it is not obvious how the process works. Learning is somewhat mysterious. Especially when we are learning something that is more a skill than a list of facts, it can be hard to describe what we have learned or how. For example, we know there is such a thing as learning how to ride a bicycle, yet we cannot teach a person to ride a bicycle simply by explaining how to do it. Being moral is like that. As teachers of moral philosophy, we try to explain how to be moral. But if our students are learning to be moral in our classrooms, it is not because they are memorizing information. Ethics is more skill than dogma. If they are learning to be moral, it is because they are getting a feel for what it is like to wrestle with hard choices. At least in their imaginations, they are practicing the art of acting with integrity in cases where integrity is not without cost.

² Of course, I do not mean to say talking to people is a panacea. It is only a principle. In the actual case of the failed Morton Thiokol booster rocket, fourteen of the company's engineers opposed the launch, so there was considerable mutual confirmation of each other's best judgment, but even so it evidently did not lead the engineers to go over the heads of their immediate supervisors.

NUMBERS DO NOT ALWAYS COUNT

Adam Smith was one of the greatest moral philosophers who ever lived. He also is credited with inventing economics as an academic discipline. Here is what he says about, in effect, playing God with other people's lives.

The man of system ... is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests, or to the strong prejudices which may oppose it. He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might chose to impress upon it.³

Smith's point is as relevant as ever. In moral philosophy, there has been much discussion of the following kind of case: Imagine that five patients lie on operating tables about to die for lack of suitable organ donors. A United Parcel Service delivery person walks into the office. She is a suitable organ donor for all five patients. If you kidnap her and harvest her organs, you will be saving five and killing one. Should you do it? Why or why not?

The answer is not simply a matter of numbers, of one versus five. The issue is more centrally a matter of trust. What gives society its utility for those who live in it? The answer is trust. Hospitals cannot serve their purpose unless people can trust hospitals to treat patients and everyone else as rights bearers. Institutions have utility by creating conditions under which people can trust each other not to operate in a utilitarian way, as if other people were simply pawns to be moved around in such a way as to maximize the overall good.

Moral institutions get the best result not so much by aiming at the best result as by imposing constraints on individual pursuits so as to bring individual pursuits into better harmony with each other. Institutions (e.g., hospitals) serve the common good by creating opportunities for mutual benefit, then trusting individuals to take advantage of them. In effect, there are two sides to the sense in which institutional utility is based on trust. First, people have to be able to trust their society to treat them as rights bearers, not as mere pawns. Second, society has to trust people to make use of opportunities that people have as rights bearers within society. Even from a utilitarian perspective, then, numbers do not

³ Adam Smith, *Theory of Moral Sentiments*, Indianapolis: Liberty Fund Press (1976): Part VI ("Of the Character of Virtue").

always count. There are times when simply treating values with respect is the best we can do to promote them.

So, the principle here is: Consider the consequences. However, when applying this principle, we must realize that, even when considering consequences, there are times when the numbers do not count. They paint a misleading picture of what is really at stake.

HOW TO SAVE THE WHALES

As mentioned earlier, the moral problems discussed in this volume tend to have institutional as well as personal dimensions. We want to know how to conduct ourselves when we find ourselves in moral dilemmas. We also want to know whether there is anything we could do by way of institutional design to minimize the pressures that lead to dilemmas in the first place. Here is one idea.

We know why consumers are so often thoughtless. We insist on it. We insist on thoughtless consumption when we insist on pricing policies that protect consumers from the true full cost of consumption. Water is a scarce good. When we price it as if it were not, we run out. Electricity is a scarce good. When we price it as if it were not, we run out. If, in the nineteenth century, we had heavily subsidized whale-oil consumption, whales would be extinct today. Would-be producers of alternative energy sources (e.g., petroleum, in the case of whale oil) would not have been able to compete. Imagine selling food by charging each household a flat monthly fee, then simply turning people loose on the supermarkets. We would run out of food. A vast amount of food would be wasted.

From an environmental perspective, we want consumers to economize, to moderate their demand. That will not happen so long as consumers do not pay the true cost of consumption, on a per unit basis. If Paul does not pay for Paul's consumption, then Peter will pay for Paul's overconsumption. We can choose to detach the cost from people as consumers and reattach it to people as taxpayers, but whatever the reasons for doing such a thing, we should not ignore the fact that when we do that, we eliminate the incentive to conserve. To make consumers stop to think before consuming that extra unit, the extra unit needs to have a price.

Likewise, from an economic perspective, we want to "keep an eye on the unseen." Frederic Bastiat warned us long ago (and his warning is as timely as ever) that however many jobs we think we are creating with make-work programs funded by taxes, the inescapable truth remains that the money has to come from somewhere. The unseen cost of transferring those tax dollars from private employers to government programs is that we are taking away money that would have been creating real jobs, if we had only left it alone. When we read that a program creates a new job for every \$500,000 that it spends, we can be fairly sure that for every job the program creates, it stopped at least five jobs from being created in the larger economy from which it took those funds.

Ethics is not warm and fuzzy. Business ethics, like environmental ethics, is ethics for a world in which choices have consequences, a world in which mistakes have costs that cannot be wished away. We live in a complex world in which there are many relevant considerations, but as a rule, we should not subsidize consumption. The basic principle is this: If you want to save whales, do not subsidize the consumption of whale oil. Do not give cash prizes to people for doing things you do not want them to do. When you subsidize consumption, you pay people to consume more than they otherwise would. If that is not your objective, eliminate the subsidy. Let prices rise. Let the market do its job of steering consumers and producers toward (for example) alternative energy sources.

SUMMARY

From an environmentalist perspective, one of our primary policy responsibilities in setting public policy is to avoid unmetered consumption. Unmetered consumption is a prescription for irresponsible consumption, thus a prescription for future dilemmas. From a more personal perspective, it is important not to underestimate how social pressure affects our moral thinking. This weighs in favor not of deliberating in isolation but in favor of being committed to consulting the most levelheaded people we know.

I explained why being moral is not simply a matter of following the right rules. Nevertheless, there are such things as moral principles (many more than can be enumerated in a useful written code) that carry considerable weight and that fairly reliably lead us in the right direction. One example: Consider the consequences. However, do not treat people as if they were numbers, such that it appears permissible simply to sacrifice low numbers for the sake of high ones. Instead, treat all persons as ends in themselves. Finally, think! Think about what is involved, day to day, in living a life of integrity. Think about what you need to do to be true to yourself, true to the people around you, and true to the highest standards of your profession.