

A Primer on Critical Thinking and Business Ethics

Critical Thinking Applied to Business Management

VOLUME 2



**Oswald A. J. Mascarenhas,
Munish Thakur & Payal Kumar**

A Primer on Critical Thinking and Business Ethics

The post-pandemic world presents leaders with unprecedented levels of dynamism and uncertainty, leaving top management teams no choice but to engage in critical thinking – higher order analyses in which assumptions are questioned and disconfirmation is no less important than confirmation. With critical thinking coming to the forefront of leadership development, we as educators need to reflect on our present MBA curriculum in terms of both content and delivery. These three monographs are a must-read for anyone interested in developing graduate-level critical thinking skills and teaching future corporate leaders how to take a more nuanced perspective on the paradigm-shifting challenges they are likely to face when transitioning into their managerial career.

Peter Bamberger,
Prof Simon I. Domberger Chair in Organization and
Management, Coller School of Management,
Tel Aviv University, Israel
Vice President, *Academy of Management*

Organizational leaders continually tell us that what they need most are employees that know how to think and learn. Such skills are necessary for identifying problems, collaborating on solutions, and driving organizational change. Including these monographs on critical thinking in the MBA curriculum will go a long way to providing this essential need for the market.

Dr Kevin Rockmann, Professor of Management,
George Mason University, USA
Editor, *Academy of Management Discoveries*

As someone who teaches business leadership and human values and courses introducing and providing frameworks for analyzing healthcare markets, critical thinking is essential for me and my students. These authors clearly motivate the importance of critical thinking and present techniques to encourage students' development. I could envision these books enhancing my preparation of students, who will become business leaders so they sharpen interpretations and decisions regarding the production and delivery of healthcare services, to create value for those with a financial stake in their organizations' successes and for stakeholders including suppliers, patients, employees, and the community in which healthcare organizations operate.

Kevin D. Frick, Professor,
Johns Hopkins Carey Business School, USA

A Primer on Critical Thinking and Business Ethics: Critical Thinking Applied to Business Management (Volume 2)

BY

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INVESTOR IN PEOPLE

To all teachers who believe in critical thinking as the ultimate differentiator, and to all students who have a penchant for analyzing, assessing, and improving in all that they do.

This volume is dedicated to the late Father E. Abraham SJ, the most well-known Director of XLRI, who held its reins for over 15 years and under whom all three authors were privileged to work.

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Foreword

Business schools as *the* major global institution for educating future leaders in business are under fire for at least two reasons. On the one hand, they are accused of not educating their students in a way that prepares them for core management tasks awaiting them in later organizational life. “What” and “how” skills and competences taught in major areas such as accounting, finance, logistics, and marketing are inadequate to help graduates grapple with the problems they face in practice. On the other hand, an arguably more fundamental accusation is the existence of a massive blind spot: the education of leaders fail in going beyond optimizing organizational performance according to traditional items of the balance sheet and take into account the role of organizations as corporate citizens with a co-responsibility to make the world a better place.

A common thread runs through major organizational scandals of the past decade, e.g., German payment processing company Wirecard revealing in 2020 what they argued was an “accounting error” that grossly inflated the balance sheet by about \$2.3 billion, German car maker Volkswagen being accused in 2015 of implementing software that could cheat emission tests (“dieselgate”), and international soccer association FIFA being the target of the United States Department of Justice’s accusation of money laundering conspiracy, racketeering, and wire fraud in 2015: simply, not only did their upper echelon have insufficient technical skills and competencies to successfully manage their respective organizations, but also made conscious decisions that led their organizations down the dark route of shady business. In a simplistic version of events, finger-pointing, identifying scapegoats, and highlighting personal deficiencies such as greed or lack of a moral compass to navigate the turbulent and dynamic waters of doing business in today’s volatile, uncertain, complex, and ambiguous world serves as explanation. However, a more refined effort would point toward the fundamental problem outlined above: the lack of comprehensive education that many future leaders get in business schools and, more broadly, in universities and other higher education institutions around the globe that goes beyond a traditional “facts and figures approach.”

A major part of a more comprehensive education involves skills and competencies that revolve around reflecting the status quo, questioning assumptions taken for granted, making choices in ethically charged situations, and thinking out of the box. In particular, this comprises critical thinking and aspects of business ethics addressing various facets of doing business. Typical examples at different levels of social complexity include personal and often contested choices

in one's career, such as foreign assignments heavily affecting stakeholders in one's life, interpersonal leadership issues such as in-group versus out-group dynamics that emerge when working in face-to-face groups, organizations externalizing costs by (ab)using natural resources and polluting the environment, grand-scale organizational layoffs affecting whole regions (if not countries), equality and poverty within and between countries, and, arguably, the multiple effects of doing business on the globe and in interstellar space.

The contributions in this book tackle these issues head on. They put critical thinking – in a nutshell “careful goal-directed thinking [whereby...] conceptions of it can vary according to its presumed scope, its presumed goal, one's criteria and threshold for being careful, and the thinking component on which one focuses” (Hitchcock, 2020) – front and center as they explore both the foundation and the application of ways of reflecting on what we find in (and how we construct?) reality, what this means, and how we act accordingly. Of course, critical thinking as such is not new. Some trace it back at least to titans of Greek philosophy such as Plato or Socrates, as well as different schools of Greek skepticism. Others point to the work of John Dewey who has established critical thinking as a potential educational goal. What makes this volume particularly interesting is its comprehensive approach, both in the sense of “horizontally” encompassing a broad range of topics and “vertically” containing phenomena at different levels of social complexity, including the spiritual as well as temporal dimensions of organizing in turbulent and unpredictable contexts (Hitchcock, 2020; Vogt, 2022).

Against this backdrop, the volume is timely and laudable. In it, the authors explore moral responsibility within free enterprise market capitalism through critical thinking, including owning moral responsibility for turbulent markets. They also examine the application of critical thinking to profit maximization and presumptive models of capitalist thinking. In addition, critical thinking is applied to the challenges involved in learning by students and how curricula in business studies should engage students in critical intellectual, ethical, moral, and emotional exercises and standards is also addressed. Further, the authors consider the role of critical thinking in domesticating global social “wicked” problems. They attempt to redesign the MBA program, which will not only address most of its major criticisms but also provide a curriculum framework with basic developmental themes.

I hope the readers will not only better understand critical thinking in its various facets, but also include it organically in their own *praxis* of personal and professional lives. It is a must-read for faculty around the world. My compliments to the authors Oswald Mascarenhas, Munish Thakur, and Payal Kumar, who are all senior academics and authors in their own right.

–Dr Wolfgang Mayrhofer

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Preface

Welcome to the second volume in the *Primer on Critical Thinking and Business Ethics*. The first volume, as per its title, *Recent Conceptualizations of Critical Thinking* introduced and discussed various definitions, concepts, paradigms, and icons of critical thinking. This volume, *Critical Thinking Applied to Business Management*, will delve into current business institutions where critical thinking is needed the most, such as corporate free enterprise capitalism, its major driving forces, the institution of profit maximization with its effect of turbulent markets and their social externalities. We discuss how corporate executives could be assigned corporate moral responsibility for these externalities. We also probe deeper into the causes of turbulent markets and trace the most likely causes to business schools (over 170-years old as an institution) and their programs of learning. We accordingly suggest that the MBA program needs to be redesigned, with critical thinking informing its new design, structure, curriculum, pedagogy, and delivery of learning.

The Universal Scope, Domain, and Function of Critical Thinking

For over half a century, under various forms and functions, critical thinking has been seeking its rightful place in the domain of human awareness, presence, and application. That is, under the scope and purpose of critical thinking and social analysis, almost every aspect of human civilization, growth, and development has been the object of critical analysis. Especially in generating scientific knowledge and related technological advancements, in the development of health, wealth, and opportunity creation and distribution, and related law-and-order administration, the majority of mankind's progress has been screened, analyzed, assessed, and legitimized through the lens of critical thinking and its critical applications, particularly in schools, colleges, universities, and business schools.

While we all welcome this enviable academic success of critical thinking and its diffusion, its beneficial social impact in critical areas, such as reduction of income and social inequality, gender inequity and discrimination, global environmental sustainability erosion, global animal ethics violation, and cosmic debilitation of nature, has been woefully lacking. Obviously, we need a more rigorous assessment and analysis of our critical thinking tools of social analysis as well as social progress, social development, and social welfare. One such tool relates to profit

maximization and the business schools that conceive and institutionalize it via the MBA curriculum, its content, pedagogy, and student learning.

Critical thinking is universal in its potential scope, function, and domain, especially when it relates to evaluating the thinking–reasoning–rationalizing–judging sequence of executive decisions and operations. These in turn, involve value-laden zones embedded in business, economic, or political fields and their theoretical, conceptual, or behavioral underpinnings. While much of this expanding analysis of critical thinking is useful, long overdue, and sociopolitically urgent, it needs to be conceptually more rigorous, robust, valid, and reliable. Axiologically, critical thinking is stimulating and useful when it provokes reflexive and reflexological deliberation.

Socrates (470–399 BC), the Greek philosopher and teacher, is arguably the founder and most celebrated critical thinker of all time. Some 2,500 years ago, he pioneered the tradition of critical thinking through an influential and enduring method of analysis called the Socratic method of questioning. He taught by asking questions, drawing out answers from his pupils to challenge the completeness and accuracy of their thinking. He instituted the critical thinking vision by training his pupils to probe or question common beliefs and explanations of his times, carefully distinguishing those beliefs that are reasonable and logical from those which are not but appealing to our native egocentrism (self-centeredness) and our sociocentric (society-focused) vested interests.

Over the years, critical thinking has assumed multifunctional scope and definitions. Thus, in its earliest and broadest manifestations:

- Critical thinking was *thinking of thinking* (e.g., Socratic methods of questioning and doubting, Baconian method of empirical investigation).
- Critical thinking *included questioning our thinking, rationalizing, believing, and doubting* (e.g., Socratic methods of doubting, Cartesian methods of proving one's existence and operations).
- Critical thinking soon involved questioning our thinking and reasoning processes and judging habits (e.g., Cartesian methods of assumptive and presumptive thinking and reasoning, social structures of discrimination based on natural advantages and disadvantages of race, color, wealth, and nationality).
- Critical thinking assumed even wider and deeper intellectual goals and projects, such as questioning our existence, origin, and destiny (e.g., Thomas Aquinas and the Scholastic methods of dogmatic reasoning).
- The Enlightenment schools pioneered by Immanuel Kant (1724–1804) and his associates Hegel, Fichte, Heidegger, and Schelling questioned the epistemological source of our doctrines, truths, and beliefs; they conceived and designed schools or philosophies of truth based on human reasoning and rationalizing than on human authority (internalized in obedience and submission). In this sense, Kant and his followers founded the schools of Enlightenment some of which are still current and influential. In this context, popular and attractive were Machiavellian critical analysis (see *Prince*) and Bismarck's analysis of political governance structures in the early sixteenth century.

- Martin Luther, who separated from the Roman Catholic Church in 1517, pioneered the Protestant movement which in essence was a pre-critical thinking movement for self-reflection and correction, supported by several second-generation Protestant reformers, such as John Calvin (1509–1564) in France, Zwingli (1484–1531) in Switzerland, and John Knox (1513–1572) in Scotland. These reformers questioned several sedimented doctrines and beliefs of Christian orthodoxy and sought to redefine them so as to liberate them to be relevant and livable.
- Later, critical thinking became primarily social analysis, e.g., Karl Marx (1818–1883) and Friedrich Engels (1820–1895), both German philosophers and economists, were major voices. Marx became the celebrated author of his three-volume opus known to the world as *Das Kapital*, the first volume of which appeared in 1867 with the others being published after his death. Marx founded socialism, later becoming one of the first prophets of European communism. Marx was interested in the revolution itself of socialism and communism rather than in its practical governance and diffusion. His writings became more famous and influential after his death, and his influence continues in the European socialist movements of today. Engels was a close collaborator of Karl Marx in founding and diffusing socialism and communism; they both authored *The Communist Manifesto* (1848), the magna carta of communist socialism. Both spoke of social structures that seemingly divided society into the owner and the owned, employers and the employed, the bourgeoisie and the proletariat, the labor class and its owners, the rich and the poor. Thus, their writings can be construed as the foundational principles of critical thinking as we have them today.

Volume I on Critical Thinking Reviewed

In Volume I, *Recent Conceptualizations of Critical Thinking*, we reviewed several definitions, exercises, and elaborations of critical thinking. In Chapter 1, we reaffirmed the value liberation of critical thinking (not value hibernation); it is freedom from the self-centered rigidity of management orthodoxy and individualism to thinking for others, for the billions of poor people in the world that our capitalist business education or system does not directly benefit or care for. Most global crises today are the unforeseen consequences of uncritical thinking still prevalent in the free enterprise market capital system. Currently, the planet has crossed the threshold point of equilibrium and stability, as global warming, climate change, global pollution, global over-mining, Arctic meltdown, ocean acidity, and global poverty testify. There is a global need for humanity to be engaged in serious critical thinking with immediate remediation policies and measures.

In Chapter 2, we reviewed the history of critical thinking starting from Socrates and Descartes to contemporary contributions. Based on this history we derived several modules and practical exercises for training in critical thinking. Three classic critical thinking models were featured: Socratic questioning method,

Cartesian doubting method, and Baconian empirical method, and we discussed their potential for critical thinking as foundational methods.

In Chapter 3, we characterized the art of critical thinking in terms of its optimal inputs, processes, and outputs. According to great critical thinkers in business management, (e.g., William Deming, Chris Argyris, Stephen Covey, Peter Senge), critical thinking questions or should question the obsessive generalizations, constraints, and the so-called best practices of the prevailing system of management, and try to replace them with more valid assumptions and more meaningful generalizations that uphold the dignity, uniqueness, and inalienable rights of the individual person and the community. We also featured management thinkers on critical thinking, identifying their major models or practical approaches for critical thinking.

In Chapter 4, we focused on our major belief systems, since the way we think and believe influences our behaviors that in turn can either transform the world or negatively affect it. Our mores, paradigms, and worldviews translate into behaviors that in turn even modify the environment. In general, much of our thinking system is backed up by some concept, theory, paradigm, or ideology that our thinking systems generate and interpret as our belief systems of goals and mission statements; our belief systems, in turn, determine our behavior systems (e.g., our strategies, choices, commissions, omissions as implementation systems); our behavior systems determine our impact systems (e.g., impact on us, our families and neighborhoods, cities and villages, our state and country, globe and sometimes even our cosmos). Thus, our behavior systems eventually impact our thinking systems, which we started with, thus completing a circular or spiral loop. We examined the thinking–beliefs–behaviors–impact loop, exploring its internal and external dynamics and structures, as well as the structure and power of our belief systems in business. We applied critical thinking that systematically questions and seeks to redesign our presumed thinking and belief systems.

In Chapter 5, we studied systems thinking, its laws and archetypes that call for a shift in our mindset from seeing just discrete parts to seeing the whole reality in its structured dynamic unity and interconnectedness. Systems thinking fosters our sensibility to see subtle connections between components and parts of reality, especially the free enterprise capitalist system (FECS). It enables us to see ourselves as active participants or partners of FECS and not mere induced factors of its production–distribution–consumption processes. Systems thinking seeks to identify the economic “structures” that underlie complex situations in FECS that bring about high versus low leveraged changes.

In Chapter 6, we introduced the positions of Karl Popper and Nassim Nicholas Taleb, which maintain that uncertainty is our discipline, and that understanding how to act under conditions of incomplete information that creates uncertainty is the highest and most urgent human pursuit. We verify (prove something as right) or falsify (prove something as wrong), and this asymmetry of knowledge enables us to distinguish between science and non-science. According to Karl Popper, we should be an “open society,” one that relies on skepticism as a *modus operandi*, refusing and resisting definitive (dogmatic) truths. An open academic society in which no permanent truth is held to exist would allow

counter-ideas to emerge. Hence, any idea of absolutism and Utopia is necessarily closed since it chokes its own refutations. The difference between an open and a closed society is that between an open and a closed mind (Taleb, 2004, p. 129). Popper's idea is that science has problems of fallibility or falsifiability. In this final chapter of Volume I, we dealt with fallibility and falsifiability of human thinking, reasoning, and inferencing as argued by various scholars, as well as the falsifiability of our knowledge and cherished cultures and traditions. Critical thinking helps us cope with both vulnerabilities. In general, we argue for supporting the theory of "open mind and open society" in order to pursue objective truth.

The Design and Structure of Volume II

Closely following the Socratic questioning method of critical thinking, Volume II questions the existence, major principles, and operations of public institutions such as corporate capitalism as a free enterprise market system, and economics-based political systems, we question its major dogmas of sustained profitability and profit maximization drivers and ventures and how to appropriate corporate moral responsibility for the turbulent markets that unbridled corporate capitalism creates with its foreseen and unforeseeable social consequences.

In order to make critical thinking work and reform society, we deliberately chose topics that can and should respond to critical thinking and thereby strive to reform the world. Chief among them is corporate free enterprise capitalism, arguably traceable to Adam Smith's *The Wealth of Nations* (1776). We analyze capitalism's great successes and failures in Chapter 1. In Chapter 2, we trace the causes of capitalist successes and failures, which we believe are the theory, practices, and strategies of profit maximization. Uncontrolled, unexamined, and unbridled profit maximization can easily spin out of market control and discipline and lead to customary abuses of income and social inequalities, the rich and poor divide, poverty and its effects on those who are forced to stay extremely poor and helpless. In other words, profit maximization may be the root cause of corporate greed and envy, which in the long run result in turbulent markets, which is what we address in Chapter 3 of this book.

In Chapter 3, we focus on the human problem of corporate and social morality, in terms of how and when we can assign moral responsibility and accountability to moral persons as agents, actors, corporates, and decision-makers. In particular, we investigate the moral conditions for corporate moral responsibility (such as corporate involvement of rationality, intentionality, freedom, causality, avoidability, and accountability) that can morally justify or exonerate assignment of responsibility to corporate executives involved in creating turbulent markets.

Turbulent markets, though seemingly random and Black Swan events, are manmade and mostly traceable to corporate capitalist markets, especially its financial institutions represented by global investment banks, and the MBA graduates they employ with very attractive salaries, which cause serious income inequalities. Hence, as part of the primary purpose of critical thinking, in Chapter

4, we study the major criticisms faced by the over 170-year-old MBA program, its curriculum, academic structure, content, and pedagogy. We then attempt to design an MBA program that will not only address most of its major criticisms, but will also provide a curriculum framework with basic developmental themes, such as intrinsic motivation management, creativity and innovation management, productivity management, revenue management, and eco-sustainability management. These basic themes are to be researched and discussed in each of its four half-yearly semesters with higher and enlightened forms of learning such as paradigm shifts, analytical learning, experiential learning, and sapiential learning. In this context, Chapter 5 revisits the MBA redesigning project, this time focusing on some “wicked” problems (Rittel & Webber, 1973), with the great hope of eventually taming them, such that we assure our progenies a long overdue legacy of better quality of life, equality, liberty, progress, prosperity, and universal development.

We submit that these four-semester learning modules, if seriously followed, could start reversing the current trends of increasing extraction, encroachment, deforestation, greenhouse gases, ocean acidity, and overgrazed green fodder for cattle food, all of which unwittingly combine to create the current crises of global warming, global industrial pollution, global, climate change, arctic meltdowns, tsunami and hurricanes, earthquakes, and rapidly decreasing terrestrial habitability. One hopes that our commitment to reversing these trends will eventually assure positive long-term effects of global greening, global regeneration, global rejuvenation, and animation of hitherto degraded lands and depleted terrestrial resources. All these positive contributions to cosmic sustainability will inaugurate cosmic restoration, cosmic healing, cosmic justice, peace and human harmony, and solidarity.

Concluding Remarks

To achieve this higher level of humanity and humanizing processes we need transcendent value structures with equally transcendent concepts and theorizing such that we humans progressively abandon anthropocentric thinking and attitudes, that assume everything in the universe is for man and human civilizations, that all non- or sub-humans have only instrumental finalities of serving human development and aggrandizement since presumably man is the center of the universe’s purpose of doing, being, and becoming.

Hence, we must also progressively decrease extraction and exploitation of the cosmos for human and infrastructural development which we currently think is normal and ethical, and that cattle, bird, and fish factory farming for table food is natural and progressive, and so on. We must progressively desist from deforesting and indulging in ruthless methods of cattle and chicken factory farming for our food; instead, we could devise creative and innovative methods for reengineering, reinstating, regenerating, renovating, and restoring the deeply depleted planet.

Opposed to this anthropocentric paradigm is the non-anthropocentricism or eco-sustainability paradigm that firmly believes in the equality, democracy, and

universality of being and becoming of the cosmos; that all beings (human and non-human) are ends in themselves with no built-in or presumed necessary superiority of humans over non-humans, that the cosmos and its sub-systems are best understood and functioning as connected, networked, and interdependent community of biotic and non-biotic systems. We will delve deeper into some of these themes in Volume III on critical thinking.

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The second author, Prof. Munish Thakur's academic background includes management, strategy, human behavior, entrepreneurship, research, data, and philosophy. He has an MBA from the University of Indore, and is a Fellow of the Indian Institute of Management, Calcutta. He teaches strategy, entrepreneurship, and research methods at XLRI – Xavier School of Management, Jamshedpur, Jharkhand. He is extremely grateful to XLRI for giving him the opportunity to experiment and try new things. His education has been significantly influenced by Nature, mistakes, and failures in life, as well as through exposure to great professors and institutions. He is also grateful to all those who have directly or indirectly influenced his thought process through criticism or support, love or resistance. He would like to thank Father Oswald Mascarenhas for giving him an opportunity to co-author this volume. Although he says his contribution to the book is limited to gathering reading material and having in-depth discussions with

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The third author, Dr Payal Kumar is a prolific, prize-winning author, who has published 14 books with Palgrave Macmillan, Springer, and Emerald Publishing and several journal papers. Her research interests include diversity and inclusion, leadership, and followership, and also mentoring. She would like to thank Nick Wallwork of Emerald Publishers for adeptly navigating these three volumes to the publication stage.

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Chapter 1

Critical Thinking Applied to Free Enterprise Market Capitalism

Executive Summary

This chapter focuses on critical thinking as a new, powerful, and specialized tool and technique for understanding and analyzing the subtle operations of the free enterprise capitalist market system and its ethics and morality. Everything in the world of consumers and market enterprise systems are determined by our supply–demand system that in turn are determined by our presumed limitless production–distribution and consumption (LDPC) systems. From a critical thinking viewpoint, we study the free enterprise capitalist system (FECS) as a dynamic, interconnected organic system and not as a discrete or compartmentalized body of disaggregate parts. Systems thinking with critical thinking calls for a shift of our mindset from seeing just parts to seeing the whole reality in its structured dynamic unity; both mandate that we see ourselves as active participators or partners of FECS and not as mere cogs in its wheels or as mere factors of its production processes. Critical thinking seeks to identify the “structures” that underlie complex situations in FECS with those that bring about high- versus low-leveraged changes in various versions of capitalism. Specifically, this chapter applies critical thinking to FECS as defined by its founder, Adam Smith, in 1776 to its fundamental and structural assumptions, and as supported or critiqued by serious scholars such as Karl Marx, Maynard Keynes, C. K. Prahalad and Allen Hammond (inclusive capitalism), John Mackey and Rajendra Sisodia (conscious capitalism), and others.

Introduction

Economically, free market system or capitalism in the United States has been a grand success. This triumph has partly resulted from natural resources, partly from the United States being one of the largest free-trade areas, and partly from the economic system called “capitalism” by which it is governed. As “standard of living” measurements go, the United States ranks as one of the highest among great nations. In general, this wealth and productivity are widely and equitably

shared. Hence, capitalism in the United States has survived and been a triumph. But there are problems, mostly manmade, of greed, envy, immediate gratification, wanton consumption, overspending, chronic indebtedness, and the like that have shown the darker side of capitalism. Critical thinking analyzes this darker side in order to cast light on it.

Adam Smith (1976) defined a capitalist corporation as an institution for managing productive skills of the labor force; stimulating, diffusing, and institutionalizing technological innovations; accumulating the nation's human, physical, and money capital; developing a strong and large market that controls itself; and thus, raising living standards sufficiently high among the nation's people.

American capitalism has basically fulfilled this fivefold mission since its founding years. Hence, today, the United States is the best surviving model of free enterprise capitalism and the largest industrial capital base in the world. This incredible success story demonstrates that capitalism works.¹ To the extent that free market system has succeeded for the last 300 years in fulfilling its basic fivefold mission with minimal levels of government intervention, and regulation proves that the capitalist enterprise as originally conceived by Adam Smith (1776) is a viable, valid, and legitimate institution. The US government itself as a democratic capitalist system has been the best when it was the least – that is, when it was least needed to correct the ills of the free market system (Gans, 1988; Kelman, 1987). *This is the capitalist paradox*. Currently, with the US market embroiled in recession or stagflation, some timely government interventions, in terms of appropriate monetary and fiscal policies, are needed.

American capital accumulation is second to none in size, quality, coverage, and relevance (Chandler, 1977; Schumpeter, 1934). Despite enormous federal budget deficits and gaping trade deficits, the massive socioeconomic infrastructure in the United States has been its ransom during the years of uncontrollable recession, technological and corporate restructuring, pandemic recession, and industrial depression. Yet, the same accumulated capital and unbridled progress have created problems (Laudan, 1977; Winner, 1977), such as highly skewed income distributions and social inequalities, ghost towns as an aftermath of massive plant closings, periodic liquidity crises, and low interest rates, which have seriously eroded fixed incomes of the elderly. Regional and national retailing concentrations (e.g., casinos) and giant chain stores (e.g., Walmart) have left neighborhood retailing stores and independents less than fighting chances for survival. The greed for market control has also triggered countless hostile company takeovers that have rendered firms, both big and small, increasingly vulnerable (Ackerman & Zimbalist, 1978; Mascarenhas et al., 2005a, 2005b; Okun, 1975).

¹For ethical defenses of market capitalism, see Acton Institute's journal, *Markets and Morality*, and review Gregg (2007) and Novak (2001). For the *ethical deleterious effects* of capitalism, see Budde and Brimlow (2002), Ma and Eliot (2006), and Miller (2003). For various economic views on the *benefits* of capitalism or the free market system, see Acton (1971), Benne (1981), Boulding (1970), Chamberlain (1959), Dalton (1974), Dorfman (1972), Dublin (1979), Eckstein et al. (1974), Edwards et al. (1978), Friedman (1962), Gutman (1966), Rodgers (1978), Schumpeter (1934), Sedlacek (2011), and Warren (1930).

Christine Lagarde, former Managing Director of the International Monetary Fund (IMF), recognized that, of late, capitalism has been characterized by excesses in risk-taking, leverage, opacity, complexity, and compensation. It has led to massive destruction of value. It has also been associated with high unemployment, rising social tensions, and growing political disillusion – all this in the wake of the Great Recession (2008). One of the main casualties has been trust and trust deficit in leaders, in institutions, in the free market system itself. Her conclusion was that this is a wakeup call (Lagarde, 2014).

In his inaugural speech on January 20, 2009, before a groundswell crowd of over two million people on the Capitol Mall, President Barack Obama, addressing the very same problems faced by the Nation after the 2008 financial crisis, said (*Newsweek*, 2009, p. 28):

Nor is the question before us whether the market is a force for good or ill. Its power to generate wealth and expand freedom is unmatched, but this crisis has reminded us that without a watchful eye, the market can spin out of control – and that a nation cannot prosper long when it favors only the prosperous. The success of our economy has always depended not just on the size of our gross domestic product, but on the reach of our prosperity, on our ability to extend opportunity to every willing heart – not out of charity, but because it is the surest route to our common good.

Given the massive financial market crisis of 2008 in the United States and its near collapse in the global markets, does the US model of the free enterprise capitalist system (FECS) have a chance to survive and rebound to prove itself? Even if it rebounds, will it ensure the prosperity of all people or just favor the rich and the famous?

Fundamental Structural Assumptions of Capitalism

Like any socioeconomic and political institution, American capitalism has its own strengths and weaknesses.² Any free market system makes certain assumptions,

²For a discussion on the *social costs* of capitalism or FECS, see Ackerman and Zimbalist (1978), Baron and Sweezy (1966), Braverman (1974), Buchanan (1962), Cox, Goodman, and Fichandler (1965), Dalton (1974), Daniels (1970), Eckstein et al. (1974), Edwards, Reich, and Weisskopf (1978), Galbraith (1956, 1958, 1967, 1973), Heilbroner (1970), Hook (1967), Lasch (1978), Marx (1959), Moyer and Hutt (1978), Novak (1982), Okun (1975), Packard (1957), Price (1964), Pursell (1979), Schumacher (1973), and Weber (1930).

Critics of the classical liberal market system note that the optimistic faith in FECS did not actually lead to the prosperity of all individuals and of all nations. Within the nations, the masses became impoverished. Internationally, liberalism led to an intensification of colonialism on the one hand and the hegemonic competition of the great European imperial powers on the other. The result was the great world economic crisis of 1929 with its concomitant mass unemployment, and two World Wars.

some of them are basic and some are derived, which can help us assess the system ethically. We summarize these assumptions in [Table 1.1](#). *Assumptions 1–3* are based on Adam Smith’s (1776) theory of free capitalist markets. He maintained, “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their self-interest” (see Book I, Chapter 2). In the process of “naturally” seeking one’s own self-interest, the individual contributes to the good of the whole society as if by “an invisible hand.” Thus, according to Smith, the market determines how society invests its resources, human, and material. It decrees when, where, and how humans should labor. It determines the disposition of capital. The market becomes the regulator of what should be produced, its quality, quantity, and price. The market is called the “sovereign” system.

Table 1.1. Basic Assumptions of Free Enterprise Capitalist System (FECS).

Assumption	Buyers	Sellers	Market Institutions
1	All individuals are self-interested by nature.	All corporations are self-interested by nature.	All market institutions composed of buyers and sellers (corporations) are, therefore, self-interested by nature.
2	All individuals are, by nature, deliberate and calculating in the pursuit of self-interest.	All corporations are, by nature, deliberate and calculating in the pursuit of self-interest.	All market institutions are, by nature, deliberate and calculating in the pursuit of self-interest.
3	Hence, all individuals should be free to pursue self-interest.	Hence, all corporations should be free to pursue self-interest.	Hence, all market institutions should be free to pursue self-interest.
4	Most individuals are, by nature, unmotivated unless awakened by appealing information, products, and services.	Corporations should inform, instruct, and motivate consumers regarding their products and services. This justifies corporate advertising.	Corporations should inform, instruct, and motivate consumers regarding their products and services. This justifies market institutional advertising.

Table 1.1. (Continued)

Assumption	Buyers	Sellers	Market Institutions
5	Thus, the moral rule of promoting self-interest (egoism) overrides the moral rule of promoting the interest of others (altruism).	Thus, the moral rule of promoting self-interest of corporations (corporate egoism) overrides the moral rule of promoting the interest of others (corporate altruism).	Thus, the moral rule of promoting self-interest of businesses (market egoism) overrides the moral rule of promoting the interest of others (market altruism).
6	However, individual self-interest should promote common good, without being subservient to it.	However, corporate self-interest should promote common good without being subservient to it.	However, market institutional self-interest should promote common good without the latter dominating the markets.
7	Individuals know best what they want and can best achieve; hence, individual egoism should automatically promote social well-being at the collective level by the theory of the “invisible hand” (Adam Smith).	Corporations know best what they want and can best achieve; hence, corporate egoism should automatically promote social well-being at the collective level by the theory of the “invisible hand.”	Market institutions know best what they want and can best achieve; hence, market egoism should automatically promote social well-being at the collective level by the theory of the “invisible hand” and “the State of Nature” (Thomas Hobbes).
8	Hence, the supremacy of the moral principle of enlightened egoism over that of enlightened altruism.	Hence, the supremacy of the moral principle of enlightened corporate egoism over that of enlightened corporate altruism.	Hence, the supremacy of the moral principle of enlightened market egoism over that of enlightened market altruism.

Source: Compiled by the authors.

The free enterprise or free market system is based on the first three assumptions. *Assumption 4* seeks to justify the advertisement–promotion communication system which is an integral part of the capitalist system. *Assumptions 5–8* justify the free market system. They were not proposed by Adam Smith. But several moral philosophers, such as John Locke (1689), Jeremy Bentham (1790), Thomas Hobbes, Kurt Baier (1965), and Henry Sidgwick (1907), have proposed similar or equivalent defense systems of FECS.

Critical Thinking Exercise 1.1

Given the credible and grand success of American capitalism, apply critical thinking to examine its fundamental assumptions as described in [Table 1.1](#), as well as the following concerns³:

- The interplay of self-interested suppliers and self-interested buyers will not necessarily result in the good of the individual or of the society (as present market inequalities attest).
- Individual decision-making may not always be well-informed in terms of all personal and social choices and their intended or unintended consequences (as evidenced by current threats of global warming, global climate change, ocean acidity or toxicity, global greenhouse gases, and Arctic meltdowns).
- The marketplace is often dominated by very large corporations (such as the top 10–20 Fortune 500 companies) that are frequently not brought to heel by the forces of federal interventions or consumerist advocacy movements.
- In relation to certain addictive products (e.g., casinos, political campaigns, pornography, fatty fast foods, alcohol, and cigarettes), commercial advertisements may not be the right form of appeal or the right medium to inform and instruct. They tend to misinform, under-inform, or over-motivate such that vulnerable audiences (e.g., children, teenagers, senior citizens) may succumb to subliminal appeals that may have

³In all the critical thinking exercises suggested in this volume, when the exercise calls for application through the “lens of critical thinking,” we recommend that the teacher/student/reader apply the following exhibits and critical thinking models from Volume 1 of this series, titled *A Primer on Critical Thinking and Business Ethics*: Exhibits 1.2 and 1.3 (Chapter 1), Exhibits 2.1–2.8 (Chapter 2), Critical Thinking Models 3.1–3.8 (Chapter 3), and Exhibits 4.1–4.3 (Chapter 4). The choice of a specific exhibit or critical thinking model will depend on the content of the exercise. We also especially recommend the following from Chapter 2: Socratic questioning method (Critical Thinking Exercise 2.1), the Cartesian methodic doubt (Critical Thinking Exercise 2.2), checking critical thinking inputs, processes, and outputs skills (Exhibit 2.5), and foundations for all thinking and critical thinking in particular (Exhibit 2.9).

(Continued)

socially undesirable effects (e.g., impulsive or addictive, shopping, purchasing and consumption, behaviors). Ads may often lead consumers to want and buy things that are superfluous (Galbraith, 1968).

- *Expanding consumption is presumed essential to an expanding economy.* Expanding consumption involves more people spending more money for more goods and services to satisfy more needs, wants, and desires. Nevertheless, “civilization, in the real sense of the term, consists not in the multiplication but in the deliberate and voluntary restriction of wants. This alone promotes real happiness and contentment, and increases the capacity for service” (Bose, 1948). Thus, big is not always better than small – indeed, small is beautiful (Schumacher, 1973). In fact, *less can be more* (e.g., advertisements, websites, billboards, aerial, banner, and digital advertisements can be more effective with less information, animation, and graphics)!
- The “deliberate and calculating individual” is not quite as capable when it comes to the wiles of the seller. Today, many products and services are so complex that even a reasonably well-informed buyer needs the aid of the internet, cell phone, blog, Facebook, Twitter, Instagram, or YouTube interaction, a nutritionist, an engineer, or a doctor to make wise decisions about the often bewildering array of possible choices. This is the *tyranny or explosion of choice* (Trout, 2004). This is particularly true, when we have so many “parity products” or “me too” products and so many apparently unnecessary products such as cheap disposable products, artificial products, showy, or show-off products, too many brands of snacks, candy bars, soft drinks, dog foods, children’s toys, beers, cigarettes, and tobacco and alcohol products.
- Freedom from tyranny is freedom to make a mistake and the duty to learn from the mistake, as well as the freedom to be right. While, some will have to learn by making mistakes of wrong choices, over-consumption, substance abuse or bankruptcy, others will enjoy their freedom by making the right choices. What advertising does for the children, the elderly, and the economically illiterate, however, is a separate issue that needs further exploration.

During the Great Recession (September–October 2008), when the global economy experienced its worst hit since the 1930s, almost all policymakers sprang into quick remedial action. To stimulate the economy, the US Federal Reserve offered several bailouts and stimulus packages amounting to over a trillion dollars, while other governments spent lavishly, and central banks slashed interest rates. All these measures reduced the severity of the recession crisis considerably. Unfortunately, all these quick and symptomatic Band-Aid solutions quickly exhausted the economic arsenals of governments. Seven years later, in 2015, they remained depleted. Most central banks had interest rates around zero, and

government debts and deficits ballooned. Should recession strike again, rich countries may not be strong enough to respond (*Economist*, 2015a, p. 68).

The global economy continues to face many hazards, from the Greek debt saga to China's shaky markets. Few economies have ever gone longer than a decade without tipping into recession. Moreover, most rich countries with their central banks have already used whatever arsenal they had (e.g., lowering repo interest rates when they are already at their lowest, controlling inflation or unemployment when they are allegedly below normal, tax havens have ended with tax deficits with many countries) and may not have the ammunition to fight the next recession. The basic lending of federal funds rate has been virtually at zero since 2008. The Bank of England's base rate is at 0.5%; it had never fallen below 2% since the 17th century. The Euro area and Japan have repo rates stuck at zero. The last time the US Federal Reserve raised interest rates was in 2006. Rich countries have their average debt-to-GDP ratio rise to about 50% since 2007. In Britain and Spain debt has more than doubled. Rarely have so many large and rich economies been so ill-equipped to manage a recession.⁴

In other words, when central banks face their next recession, they may have almost no room to boost their economies by cutting interest rates – a position that would make the next downturn even harder to escape. *Growth, however, is better than austerity as a policy for bringing debts under control.* Governments should instead direct their ammunition toward overdue reforms to product and labor markets. Open-product markets encourage enterprise. *The freedom to hire labor under flexible contracts is the best way to keep unemployment low.* Both reforms can enable an economy better able to cope with the next crisis (*Economist*, 2015b).

American capitalism has survived at least since 1776 and will survive despite abuses. According to Alchian and Demsetz (1972, p. 777):

⁴Some economists have resuscitated the idea of “secular stagnation” introduced by Alvin Hansen in the 1930s. This theory explains persistent depressions by asserting that economies fail to recover in terms of a persistent mismatch between the supply of savings and the demand of investment. Reviving this theory, Larry Summers, a former US Treasury Secretary, suggested that demand for investment had fallen because of technological advances that reduce the amount of capital it takes to start a firm. Meanwhile, the supply of funds with which to invest has become plentiful, as a combination of ageing (older people save more) and inequality (rich people save more); also, foreign bond buyers push savings higher. But there are other factors that render the theory of secular stagnation weak: nonresidential investment in the United States was up by 8% in real terms since its peak in 2008 and by 35% since its 2009 trough. As the government's share of gross domestic product shrank following the 2008 crash, investment took up the slack. Despite the phenomenon of falling oil prices and dollar appreciation, business investment in the United States actually rose by an annualized 1%. Corporate investment was bullish: far from weak demand for funds, borrowing soared. Companies issued debt at record rates. Over US\$ 609 billion was raised in 2015 (up from US\$ 40 billion in 2014), according to Dialogic, a consultancy. Bank lending to business rose by 12% until April 2015, according to Federal Reserve data (*Economist*, 2015a, p. 21).