- **<u>History of Business Ethics</u>**
  - Micro-approach: Normal business ethics is applying an ethical framework (e.g., Kantianism) to business and derives some moral dilemma as a result. This leaves business ethics anchored within a framework of personal ethics
  - Macro-approach:

- Many features of the welfare state (public education, health care, and pensions) should be viewed as corrections of market failures and a boost of efficiency, instead of an egalitarian commitment.

- **Definition "market failure"**: "(…) a circumstance in which markets fail to achieve Pareto optimum"

- **<u>Transaction cost theory and the consequences of it:</u>**
  - There are two tools for organizing economic corporations, which are markets and administrative hierarchies.
  - "The organization of economic activity through administrative hierarchies is everywhere explained by the existence of market failure. And the organization of economic activity through markets is everywhere explained through administrative failure." In other words, "market failures" are the result of poor organization of economic corporations through administrative hierarchies and "administrative failures" are the result of poor organization through "markets".
  - "Markets are not perfectly efficient. If markets were perfectly efficient, then there would be no corporations. The invisible hand is not magical, it only solves a fraction of economic problems."
  - The state possesses two qualities which give it an advantageous cost profile while organizing economic corporations, namely, that within its territory membership is universal and it exercises a monopoly over the powers of compulsion.

- **<u>Major claim of MFA:</u>**
  - "(…) my major claim is that the market is essentially a staged competition, designed to promote Pareto efficiency, and in cases where the explicit rules governing the competition are insufficient to secure the class of favoured outcomes, economic actors should respect the spirit of these rules and refrain from pursuing strategies that run contrary to the point of the competition."

- **<u>Competition:</u>**
  - Market failures approach is an adversarial system, which weakens some moral restrictions that are effective in daily life, because it encourages a competition where everyone looks out for themselves
  - Similarity to ethics of sport: "how far do you go to win"

- **<u>Efficiency:</u>**
  - The focus on pareto efficiency doesn't mean that there is a conceptual connection between "efficiency" and "pursuit of self-interest". In some scenarios (prisoners dilemma) the efficient outcome isn't the result of individual utility maximization.
  - Efficiency shouldn't be understood as utilitarian welfare-maximization. Efficiency is used by Heath strictly in the Pareto sense, to refer to the principle, that you should improve one person's condition without worsening anyone else.

- Efficiency has such a central part in MFA because it's a normative principle, which constitutes one element of a broader contractualist theory of justice.
- It is one element which must be supplemented by other conception of distributive justice in order to provide a persuasive standard of a social corporation.
- This doesn't mean that every interaction must be assessed under the full theory of justice, because there is a distribution of moral labour within our institutions, with markets special purpose is promoting efficiency.
- Only within a broader context of a welfare state which engages in market-complementing and redistributive policies capitalism can be just.
- Thus, not every market actor is accountable to the moral standards that the system as a whole must satisfy. The market actors are given a license to maximise profits, because this is the best way to get prices which reflect social cost. Those market actors are given an exemption from norms of equality and fairness.
- This is justifiable, because the benefits that can be derived from efficiency outweigh the moral compromises made.
- Conclusion: Because of this moral compromise made at the heart of capitalism, one can only hold market actors responsible to the standard of efficiency promotion and not to higher moral standards.

- * So only those regulations which protect the conditions under which a market actors promote efficiency apply to market actors. But in reality, the regulations can't protect every condition for pareto-efficient market outcomes, so market actors should hold themselves to the moral standard which promotes efficiency where regulations can't.
- Critics: If Heath says, that the regulations aren't enough to keep the market free from negative externalities, and thus market actors should keep in faith with moral standards, how come, that he suggests market actors should have a license which liberates them from moral standards. Heath contradicts himself by stating that market actors are liberated from some regulations, but at the same time market actors should act in faith of other regulations.