



Chapter 3

The nature of capitalism

Overview

This chapter discusses two different socioeconomic systems – capitalism and socialism – and considers the issue of their moral status with regard to fairness and justice.

The economic system in place within a society determines to a large extent how and by whom goods, services and wealth are produced. Importantly, it also determines how those goods, services and wealth are distributed. Economic systems have underlying assumptions and values that are echoed in the dominant political systems within that economy. The current Australasian system is capitalism, whereas other states may have socialist-oriented political and economic systems.

Different socioeconomic systems have different conceptualisations of the human condition as well as different positions regarding the fairness and justice of how wealth is produced and distributed.

Key terms

- ethical capitalism
- global financial crisis
- John Rawls
- libertarianism
- socialism

Learning objectives

After completing this chapter, students should be able to:

- define capitalism and identify four key features of a capitalist economic system
- understand the moral justifications for capitalism as an acceptable system
- understand some of the different perspectives on economic distribution as part of considering the moral implications of an economic system
- understand some of the theoretical and operational criticisms of capitalism
- understand the key features and criticisms of socialism as an economic system
- understand some of the key contemporary socioeconomic challenges facing Western capitalist society.

Lecture outline

Capitalism

- Capitalism is an economic system in which the major portion of production and distribution is in private hands, operating under what a profit or market system.
- It developed during the fifteenth and sixteenth centuries in Renaissance Europe. Prior to that business exchanges were typically mediated via the guild system.
- Over time, capitalism has taken different forms: mercantile capitalism, financial capitalism and globalised capitalism.

Key features of capitalism

- *Legal 'personhood' of companies:* Companies have rights and entitlements under the law, just as people do.
- *Profit motive:* Actions taken by a company are motivated by a desire to make a profit, and decisions are based upon the viability of their producing profit.
- *Competition:* Capitalism is competitive in nature. Companies compete against each other to attract customers and dominate markets. There is a belief in the self-regulating effect of competition.
- *Private property:* The ownership of goods, capital, profit, production and distribution systems is in the hands of private owners, separate from the state. Decisions concerning what to produce and how much to sell it for are made by private individuals rather than the state.

Moral justifications of capitalism

- *The natural right to property:* The fundamental moral defence of capitalism is the belief that people have a moral right to private property.
- *Adam Smith's concept of the 'invisible hand'* is the argument that the greatest good will result from the unfettered pursuit of self-interest.
- *Human nature and capitalism:* Capitalism views human beings as rational economic creatures that are naturally acquisitive, competitive and motivated by the pursuit of self-interest.

Rival principles of just economic distribution

- How the socioeconomic benefits and burdens should be distributed is part of the consideration of the moral implications of the system.
- A number of principles have been recommended as a basis for distribution: to each an equal share, to each according to individual need, to each according to personal effort, to each according to social contribution, and to each according to merit.
- No single principle seems to work in enough circumstances to be defended successfully as the sole principle of just economic distribution.

Utilitarianism and economic distribution

- Social well-being is the underlying principle of utilitarianism (i.e. which system brings the most good to society).
- *Worker participation* promotes the interests of the workers in decisions and wealth distribution as well as the well-being of the social group.
- *Greater equality of income* reduces income disparity and promotes equality and the greatest happiness of the greatest number.

The libertarian approach

- Justice and economic distribution are linked to the ideal of liberty, which allows for only a minimalist nation-state.
- *Nozick's theory of justice*: People are entitled to their holdings as long as they have acquired them fairly

Liberty, markets and property:

- The libertarian enthusiasm for an unrestricted market rests on the commitment to liberty over other values.
- For Libertarians, property rights grow out of a person's basic moral rights; non-libertarians view property rights as a function of the particular institutions of a given society.

Rawls and economic distribution

- Justice must be looked at in terms of fairness and the moral equality of people. It is characterised by hypothetical contract and two principles of justice.
- *Hypothetical-contract*: What would people choose as the fundamental principles to govern society if, hypothetically, we were to meet for this purpose in the original position. Operating under a 'veil of ignorance', individuals will likely adopt egalitarian principles (of justice) in order to ensure that they are at least no worse off than anyone else.
- Rawls argues that people in the original position will endorse two principles of justice:
 - Each person has equal rights to enjoy a common system of liberties.
 - Any inequalities may only occur if they are attached to positions of power (open to all). Such positions provide the greatest benefit to the least privileged.

Benefits and burdens

- There will be natural differences among human beings but there is nothing natural or inevitable about the weight attached by society to those differences. In other words, we cannot really claim moral credit for our special talents or even our virtuous character.

Criticisms of capitalism

Rational choice

- The assumption that people make economic decisions on a rational basis with full information is patently not true.

Inequality

- Critics point out that many moral problems are associated with the profound social and economic inequality that is a characteristic of capitalist economies.

Free marketplace

- Critics argue that competition is reduced in the free market and that unregulated marketplaces do not exist. The tendency of capitalism is to reduce competition through the development of monopolies and oligopolies.

Capitalism as exploitation and alienation

- Generating profit is only possible because workers are paid less than what the product of their labour is worth. Unfulfilling work creates alienation among workers.

Socialism

- Socialism has its roots in the industrialisation of Europe from the seventeenth century onwards.
- Socialism believes that people are naturally cooperative and place value upon community well-being

Key features of socialist economies

- *Communal ownership of production:* The ownership of goods, capital, profit, production and distribution systems is in the hands of the community. Decisions concerning what to produce and how to price it are made communally.
- *Centralised planning:* Economic decisions are made centrally either at a local, regional or state level.

Criticisms of socialism

- *Bureaucratic size:* The nature of centralised decision-making necessitates the presence of a large bureaucracy that is inefficient and wastes time.
- *Individual disincentive:* Motivation and productivity are discouraged by the lack of individual personal gain.
- *Alienation:* Socialism's tendency towards adopting capitalist modes of production produces similar levels of alienation.

Today's economic challenges

Capitalism faces several challenges, including:

- the decline of western manufacturing
- outsourced jobs
- western trade deficits
- changing attitudes towards work.

Tutorial

The suggested reading is Chapter 1 from *The Spirit Level: Why Greater Equality Makes Societies Stronger* by Richard Wilkinson and Kate Pickett, which argues that inequality plays a leading role in society's well-being.

The case studies 'The nature of capitalism and 'Catastrophe in Bangladesh' introduce some of the ethical issues that arise from operating in a capitalist system. The cases also act as a useful primer for the sorts of issues that will be discussed in detail in later chapters (e.g. consumption, marketing, privacy). It may be useful to return to these cases for further discussion later.

Class activities emanating from this case study may involve discussion groups, a debate, group work or role-play.

Discussion questions

- 1 What exactly is the nature of the economic system called capitalism? What are its underlying values, principles and economic philosophy? Do you agree with these values and principles? What has it accomplished, and what are its prospects for the future? Do you think initiatives such as Conscious Capitalism are needed? What real or perceived shortcomings relating to capitalism do you think are being addressed by these sorts of movements?
- 2 All of us have heard, or perhaps even used, expressions that treat a business organisation like a person, or at least like a separate and distinct entity: 'It's not in the company's interests ...', 'The company thinks that ...', 'From the company's viewpoint ...' and 'As far as the company is concerned ...' Such personifications are not mere lapses into the figurative, but they indicate a basic characteristic of capitalism: Capitalism permits the creation of companies or business organisations that exist separately from the people associated with them. Do you think this feature means that companies are now the most important organisations in the world today? Are companies more important than nation states? Discuss and argue why or why not.
- 3 Money is the lifeblood of the capitalist system, and companies and capitalists alike are motivated by a robust appetite for profit. Indeed, the profit motive implies and reflects a critical assumption about human nature: human beings are basically economic creatures who recognise and are motivated by their own economic interests. What do you think about this argument? Are we basically economic creatures? Or do we have other motives? Given that the profit motive is often considered a modern notion, is this an accurate reflection of how we should be motivated, even if we are economic creatures?
- 4 Defenders of capitalism have sought to justify their system based primarily on two arguments: (i) the moral right to property guarantees the legitimacy of capitalism, and (ii) the utilitarian-based economic theory of Adam Smith. Which position do you agree with or think is the strongest, and why? Discuss by examining both the arguments for and against capitalism in this chapter.

- 5 The concept of justice is fundamental to any discussion of how society ought to be organised, and questions of justice inevitably arise when one considers the unequal distribution of income and wealth in the USA, Australia, New Zealand and other societies. Can such disparities be justified? In this context, ask students two sets of questions:
 - Can you give examples of just societies? Can you give examples of unjust societies? Why are they unjust? What criteria do you use in determining whether a society is just or unjust?
 - Suppose that you were shipwrecked alone on an island with no hope of rescue. Given the fact that you are alone, can you be said to act either in a just or unjust manner? Is it possible for you to act morally (or immorally)?
- 6 Identify some examples of capitalism 'gone bad' such as large corporate scandals, failures or deceit (e.g. VW, Dick Smith). To what extent are these examples of individual failures (the 'bad apple' argument), or indicative of a more fundamental problem with the capitalist system (the 'bad barrel' argument)?
- 7 The end of this chapter examines some of the more specific socioeconomic challenges facing Australasia. These include the decline of manufacturing, the problems associated with the outsourcing of jobs, western trade deficits and changing attitudes towards work. Which of these challenges do you think is the most pressing and significant? What other challenges do you think face Australia and New Zealand?

Solutions to end-of-chapter questions

General comment

Many of the answers to these questions are subjective in nature. Consequently, students may answer in a variety of ways. Some guidance has been provided where possible to demonstrate how questions might be answered, but most questions are designed to encourage debate. Where students have been asked to apply theory, any number of theories might be applied (and could be applied differently depending upon the students' approaches). A few examples of how to apply theory have been provided for guidance. Ethical theory seldom presents us with black-and-white answers to problems. Sometimes we might favour a particular approach, but when we analyse a problem using that approach, we may end up with a resolution or answer that we feel instinctively is wrong. If this happens while completing the questions here, this presents a perfect opportunity to extend the discussion by referring to the limitations and criticisms of the theories (which are further discussed in chapter 2).

Review and discussion questions

- 1 Describe four key characteristics of capitalism and explain the benefits of a capitalist system.

Four key characteristics are:

- the existence of companies
- profit motive
- competition
- private property.

One claim that is discussed in the text is that a free and unrestrained market system, which exists under capitalism, is more efficient and more productive than any other possible system. Students could also be encouraged to discuss the four characteristics and relate them to possible benefits (e.g. competition, greater choice for consumers and cheaper prices).

- 2 Outline two moral justifications for capitalism. What do you see as the key strengths and weaknesses of each justification?

Common moral justification include:

- The natural right to property – people have a fundamental right to own things, and capitalism is simply the outcome of this right.
- Adam Smith and the Invisible Hand – when people are left to pursue their own interests they will unintentionally produce the greatest good for all, as if guided by an unseen force.
- Human nature – capitalism is an expression of humans as rational economic creatures who are naturally competitive and primarily motivated by self-interest.

The strengths and weakness identified will likely depend on the extent to which an individual believes in the justification i.e. that people are naturally acquisitive or they have a natural right to property.

- 3 Do you think that the criticisms of capitalism are warranted?

Responses will vary but should be defensible. Students might discuss issues such as child labour, monopolies, financial crises, consumerism and finite resources.

- 4 Can you defend libertarianism using ethical theory? How? Why or why not?

Encourage students to apply different theories to determine whether libertarianism can be defended. For a comprehensive discussion, examine the criticisms of the theories and consider whether these criticisms weaken the stance taken.

- 5 Describe John Rawls's idea of the original position. How does this idea lead to the two principles of justice?

The original position – a hypothetical situation in which people meet for the first time to choose the fundamental rules that would govern their society. In this hypothetical situation Rawls argues that people would draw up societal rules on the basis of two principles:

- Each person is to have an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberty for all.
- Social and economic inequalities are to satisfy two conditions. First, they are to be attached to positions and offices open to all under conditions of

fair equality of opportunity; and, second, they are to be to the greatest expected benefit of the least advantaged members of society.

6 What are the key features of socialism?

Key features of socialism are centralised planning and the communal ownership of production and its means.

Critical reflection

- 1 In this chapter's 'Ethics in Action' feature, co-founder of Conscious Capitalism John Mackey is quoted as saying, 'When businesses operate with higher purpose beyond profits and create value for all stakeholders, tradeoffs are largely eliminated, performance is elevated and the entire system flourishes. Everyone wins ... business is not a zero-sum game'. Do you agree with him? Why or why not?

Answers will vary but students should discuss their views with reference to theory. At a minimum students should be discussing their views in relation to the purpose and values of capitalism as they understand them.

- 2 Review the moral justification for, and criticisms of, capitalism. Examine your local media outlets to find three examples of justifications or criticisms of capitalism.

Encourage students to discuss their views and apply theory to defend their positions.

- 3 Imagine that two individuals have been given a task to test their ability to perform a job for which they are competing. The first individual does not exert himself and completes the task in an hour as he is healthy and he works quickly. The second person takes 10 minutes longer to complete the task but works to his full potential.
- Who has worked the harder? Who has been the most productive?
 - The first individual lives with his parents and has no bills to pay; the second has a wife and a child to support. Should this fact be taken into consideration? Why or why not?
 - Although the first individual completed the task quickly, the second person's work is of a slightly higher standard. Whose work is the most valuable to you?
 - Review the rival views of economic distribution discussed in this chapter and construct a list of criteria that would assist you in deciding which individual is the more deserving of the job.

Students will have different views. Encourage them to defend their views. For example, a student who argues that the person who worked to his full potential is more deserving might apply virtue theory and draw upon virtues such as pride (in one's work), integrity (to work as hard as you can for your employer) and diligence. In relation to principles of justice, "To each according to his effort" might be used to defend the student's position.

Solutions to Case Study 3.1 – The nature of capitalism

Case 3.1

The nature of capitalism: Farmers and complicated financial instruments

By Deborah Russell, Massey University, New Zealand

Farming is a complex business. Farmers must run their businesses while dealing with constant uncertainty caused by the weather, commodity prices on world markets, and the economic and political climate. Like all businesspeople, farmers look for ways to maximise their income, and minimise their expenditure, so that they can earn enough to sustain themselves and their families.

These days, farming is also a capital-intensive business. Farms that are large enough to generate enough income for a family can cost millions of dollars. In order to purchase and develop farms, most farmers borrow heavily from banks, so interest on loans becomes one of the largest expenses that a farmer must manage. Many farmers remain indebted throughout their working lives, only expecting to repay their debt when they sell their farms and retire. This means that managing the cost of borrowing is critical. If interest rates go up too much, then farmers can go bankrupt. Most farmers work closely with their bank manager and their accountant to manage their costs of borrowing. If a good deal comes along, then farmers often will take it.

In the years before the global financial crisis (GFC) of 2008–09, many banks had a surplus of money to invest. Banks engaged in extended advertising campaigns, showcasing their low interest rates and personalised client services. They assured potential borrowers that they had their customers' best interests at heart, because banking went best when their customers were doing well. They actively looked for people and businesses to lend money to, so that they could earn more income from interest and fees. Bank lending managers were often rewarded for their sales: The more lending they sold, the higher were their commissions and income.

As part of their ongoing push to increase their business, between 2005 and 2009 banks in New Zealand began to offer interest rate swaps to rural customers. Although swaps had been commonplace in big business for many years, this was a new type of finance product within the rural sector. Many farmers chose to enter these swaps agreements. As is standard practice with farming and other business, the loans from the banks were secured over property, typically the farm. Should the borrower fail to make the required interest payments, the farm could be sold by the bank so that it could recover its money.

In a swap agreement, the parties swap future interest streams. Borrowers swap their obligation to pay a floating interest rate for an obligation to pay a fixed interest rate, or vice versa. One of the advantages of swaps is that they enable a borrower to fix their interest costs for the lifetime of the agreement. This reduces fluctuations in expenses, which can make business planning and budgeting much easier.

Usually swaps are bought and sold between banks and large corporate and institutional customers, who have considerable resources and knowledge of financial instruments. This knowledge means that they are well placed to

understand how the instruments work, and what risks and obligations they are taking on.

Farmers who entered into interest rate swaps often did not have the background knowledge to assess the agreements they were making. They relied on the banks selling the finance products to explain the costs and benefits. This meant that banks' lending managers were both selling the finance products, and helping farmers to understand the benefits, risks and suitability of the products for each individual farmer's business.

Following the GFC, floating interest rates fell dramatically. A large gap opened up between the fixed interest rates set by the swaps agreements, and the floating rate. This meant that farmers who had entered into swaps agreements were locked into high costs. The only way farmers could reduce these costs was to break the agreement. However, doing this meant that they would incur high break fees, typically involving six-figure sums.⁶⁶

Some farmers claimed that this was in direct contrast to what they had been told. Although the high break fees had been included in the fine print of the agreements they had signed, farmers said that they had not been alerted to the fees, and that they had been told that their overall borrowing costs would be lower if they entered the agreements.

The unforeseen increase in borrowing costs created severe financial difficulty for many farmers. In some cases, the difficulties were so severe that farmers had to sell their farms, losing millions of dollars in investments.⁶⁷

At the same time, the fall in floating interest rates meant that the original agreements became 'high risk' agreements from the point of view of the banks.⁶⁸ This meant that the banks could impose higher interest rates on the borrowers. In some cases, under the conditions of the contracts, the banks were able to foreclose on the lending agreements. They were able to sell the property that was the security for the loan in the first place. As a result of this, some more farmers were forced off their land.

Following ongoing pressure from farming advocates, the Commerce Commission in New Zealand investigated the swaps arrangements.⁶⁹ In particular, it looked at whether the agreements had been misleadingly marketed. Following the investigation, out-of-court settlements were reached with several banks. The settlements typically included statements from the banks admitting that they had misrepresented the nature of the fees associated with the swaps agreements, and that their marketing was misleading or deceptive. One bank admitted that its conduct had been the cause of some of their customers entering into swaps agreements.

The banks made payments that were to be distributed among the farmers who had made complaints to the Commerce Commission. About NZ\$24 million was made available to farmers in total. The banks also made donations to various charitable trusts that assist farmers, such as the Dairy Women's Network and the Rural Support Trusts.

Farmers' advocates were disappointed by the amount of the settlements. One advocate argued that individual farmers had lost between \$2 million and \$4 million each. The compensation money received from the banks would be on average less than \$100 000 each, nowhere near the amount that had been lost.⁷⁰

Discussion questions

- 1 Banks are large institutions, with significant resources to draw on, whereas farming businesses are typically much smaller with fewer resources. Does this create a power imbalance? Does it matter?

One of the conditions for a free market to operate effectively is that all participants have good information, all participants have equal access to good information and all participants have equal standing in the marketplace.

The greater resources held by banks mean that they can be better informed. They can afford to pay experts to advise them, and they can employ people who understand complex financial instruments. This means that they have much better access to information, and that information is likely to be better than the information available to bank customers. This imbalance may not be a problem with respect to standard mortgage arrangements, but it could create significant difficulties with respect to complex financial instruments such as swaps. This gives the banks greater power.

Banks also have much greater asset backing than farmers. Banks typically hold billions of dollars' worth of assets. This means that if a deal goes sour, then the losses suffered by the bank may not be significant. However, if a deal goes wrong for a farmer, then the loss suffered usually can't be spread across a large business, and it may be sufficient to wipe out the farmer's business altogether. This means that there is considerably more risk for the farmer.

The greater power and lower risk for banks in comparison to farmers creates an imbalance in the market. This may lead to conditions in which the parties with less power can be exploited. In modern economics, institutions such as New Zealand's Commerce Commission are used to reduce the likelihood of such exploitation occurring.

2. When farmers entered in interest rate swaps agreements with banks, they signed contracts that set out all the details of the contract, including the fees they would have to pay in various circumstances. If they have signed a contract, can they then claim that they didn't know what the contract entailed? Had they really consented to the agreements?

Ordinarily, people who have signed a contract are deemed to have agreed to all the details of the contract, and it is assumed that they understand them all. Once farmers signed up to swaps agreements, then banks were entitled to assume that the farmers understood all the consequences of the agreements.

Many people sign agreements which they haven't read, or don't fully understand. For example, most people simply click the 'Agree' button when installing new software or apps without reading all the conditions set by the software and app developers. The people offering the software and apps are entitled to assume that they have an agreement with the end user.

In many cases, the agreement which people have signed, or clicked, is about a comparatively trivial matter. However financing agreements are usually not trivial. Banks were probably entitled to assume that farmers had researched the agreements, and that they fully understood them. That is, there had been genuine consent. In Kantian terms, the farmers had entered the

agreements as consenting adults. Part of treating adults as ends in themselves, and not merely as a means to an end, is ensuring that they take responsibility for their own actions.

3. Is rewarding a sales person with commissions likely to distort the advice that a salesperson gives? Is it better if everyone is given information about the commissions?

Rewarding sales people with commissions means that they may be more likely to discuss the advantages of the product they are offering, and they may be less likely to discuss any potential disadvantages. This can create problems if purchasers don't have access to other sources of advice about the product, or if they don't have access to sufficiently expert advisors in respect of complex products. The sales people may be motivated to maximise their own income, rather than making sure that their customers have the best possible information. Even if a sales person is not directly given a commission for each sale, if they are eligible for annual bonuses based on their performance, then they might be more likely to discuss only the advantages of the product they are selling.

Revealing the basis of a sales person's remuneration may mitigate the risk that the sales person oversells a product. The purchaser might then be more careful about entering into any agreement, or they might seek out more advice about the product.

4. Farmers were motivated to enter the swaps agreements because they thought they were getting a much better deal with fewer risks. The deals could have been described as 'too good to be true'. Should they have been more wary about the possible risks and returns? Is a person who gets a deal that is 'too good to be true' more responsible for their own losses if the deal goes sour?

People are usually motivated by earning more money, or paying a lower price. Usually, higher earnings are due to a higher underlying risk, and lower prices are due to lower quality products, or products that have a higher long term cost if they fail. This is a widely understood principle with respect to investments, and with respect to buying any products. Farmers could be expected to understand that the lower price they paid represented greater risks with respect to failure. Hence they could be deemed to be more responsible for the losses that they incurred.

Solutions to Case Study 3.2 – Catastrophe in Bangladesh

Case 3.2

Catastrophe in Bangladesh

Rana Plaza was a nondescript eight-storey building in a modest suburb of Dhaka, Bangladesh. Owned by Sohel Rana, a politically well-connected figure, it housed a bank and a few shops on its lower floors, but most of Rana Plaza was given over to five garment factories. They employed around 5000

people making clothes for companies in North America and Europe. In April 2013, cracks appeared in the building's structure. Building inspectors ordered Rana Plaza to be evacuated, after which the bank and the shops immediately closed – but not the garment factories. They ordered their employees to return to work the following day. On that fateful day, 24 April 2013, at around 9 a.m., Rana Plaza collapsed – 1129 garment workers were killed and around 2500 were injured. It was the deadliest garment factory disaster ever, and probably the most lethal accidental collapse of a building in modern history.⁷¹

In the aftermath, Sohel Rana and the owners of the five garment factories were arrested along with an engineer who was accused of having helped Rana to add three illegal storeys to the building. The Bangladesh High Court ordered the property seized and the assets of the factory owners frozen to ensure that the workers' salaries were paid. The Bangladesh government suspended the local mayor and several inspectors who were accused of negligence in renewing the licences of the garment factories. Families of the victims received some short-term assistance from the government, but workers who are too seriously injured to work are desperate, and in many families, children have had to go to work because their mothers are dead.

Since the disaster, there has been some soul searching in the West. Documents and remnants of apparel link the Rana Plaza factories to 25 European and US clothing brands or clothing retailers, including Walmart. That's not too surprising. Almost all the clothing that Americans and Europeans wear is manufactured in poor countries like Bangladesh. And no wonder. Although the minimum wage for garment workers in Bangladesh was recently doubled, it is still only \$38 per month. As a result, since 1998 clothing costs for American consumers have dropped 7–8 per cent, and corporate profits have been high. In this world of globalised capitalism, many people are asking, what are the responsibilities of companies and consumers to workers in faraway countries?

One monitoring group estimates that Bangladesh's 5000 factories could be elevated to Western safety standards for, on average, \$600 000. That would add up to \$3 billion. However, if that were spread over five years, it would add only about 10 cents to the factory price of each of the seven billion garments that Bangladesh sells every year to Western brands. Meanwhile, several prominent retailers and labour groups have joined forces to create an estimated \$40 million compensation fund to aid the victims of the Rana Plaza collapse. Among the retailers who have contributed to the fund are Bon Marché, El Corte Inglés, Primark and Loblaw, a Canadian company. 'Following the collapse,' says Robert Chant, a senior vice president at Loblaw, 'we came very quickly to the conclusion that compensation was not only a necessity for the survivors, but a responsibility for the many retailers sourcing from Rana Plaza.'

No American companies, however, have agreed to join the compensation efforts. Walmart, for example, denies that it has any responsibility, saying that the garments it sold were produced there without its knowledge by a Canadian contractor. And it is true that Western companies do not own developing-world garment factories like those in Rana Plaza, and they do not directly employ the workers who make the apparel they sell. Those workers work for companies that work for other companies that provide the garments to Western clothing companies and retailers.

Some experts believe that US companies are worried about possible legal liability or are afraid that they will appear hypocritical after denying that they were knowingly involved with the factories at Rana Plaza. Dan Rees of

the International Labour Organization believes that contributing to the fund would not lead to liability. 'At the moment, this effort needs support,' he says. 'It needs the backing of companies that were in Rana Plaza when it collapsed, that were there in the recent past before it collapsed, and that weren't there at all and want to show solidarity with the industry.'

While they may be dragging their feet on compensation, Western retailers have reacted to public outrage over Rana Plaza by launching a major push to improve safety at the Bangladeshi factories they do business with. Instead of joining forces, though, they have divided into two, sometimes feuding, camps. The largest – the Bangladesh Accord for Fire and Building Safety – has more than 150 members. The Accord includes 14 US companies, but most of its members are European. The other organisation – the Alliance for Bangladesh Worker Safety – comprises 26 companies, all of them US or Canadian. Both organisations are off to a good start, hiring inspectors and investigating factories in Bangladesh, but they argue about who is doing a better job. Fifteen American universities have sided with the Accord, telling the licensees who produce the sweatshirts and other clothing bearing their logos to join it rather than the Alliance. Some observers are bothered by the division of safety efforts, but Professor Dara O'Rourke, an expert on workplace monitoring at the University of California, Berkeley, believes that the Accord–Alliance competition has an upside. 'It's pushing both sides to raise the bar on what they are doing to improve safety,' she says.

Discussion questions

- 1 Are workers in overseas garment factories exploited? What are the moral pros and cons of outsourcing garment manufacturing to countries where workers are paid so little?

Answers and opinions will vary depending on the students' own views and assumptions about capitalism and its values and purpose. Students should be careful in the use of the term 'exploitation', i.e. are they using the term in the Marxist sense, or in a more lay sense? Students should be able to articulate why they believe (or not) this situation to be unjust or unfair anchored in reference to theories on economic distribution.

The list of 'pros and cons' should also reflect for whom and not just a generic list. That is, what is a 'pro' for one stakeholder may be a 'con' for other stakeholders. The list should also reflect the material from the chapter and previous chapters (e.g. duties, obligations and virtues, consequences and potential consequences, the nature of capitalism and its shortcomings, etc.).

- 2 Is outsourcing an inevitable feature of globalised capitalism? Are sweatshops? Do Americans gain more from sweatshops (in terms of cheaper products) than they lose (in terms of jobs)?

Responses should reflect the student's understanding of the logic of capitalism, its positive and negative consequences and the values it seems to embody. Students can be asked on an individual or collective basis to source evidence for an answer to the second part. Variants of the question can also be asked to make it relevant to the Australian or New Zealand context. Similarly, students can be asked to consider the question of if Bangladesh gains more from

allowing/encouraging sweatshops in their country than they would lose if the garment factories moved elsewhere?

- 3 American Apparel is a clothing manufacturer, distributor and retailer that does not outsource. It pays its workers, on average, over \$12 an hour. Could other US clothing companies do the same thing?

Rather than focus on a yes/no response, students should reflect on the economic, social and moral implications of such a course of action. How could the various normative theories of ethics be used to support an answer? Would such a choice be consistent with the logic of capitalism and just economic distribution?

- 4 Do companies have a responsibility to monitor the conduct of the companies that they do business with either directly (suppliers and contractors) or indirectly (subcontractors)? Do clothing companies have a responsibility to see that the people who ultimately make their clothes do so in safe working conditions? Do they have a responsibility to see that those people are paid a decent wage?

In developing their response, students can be encouraged to think back to the material on normative ethics (Chapter 2). What are the duties and obligations of companies to its various stakeholders? What are the consequences? What virtues are/are not displayed? Students can also be asked to adopt the position of a libertarian or a utilitarian to examine how each of those would shape an answer.

- 5 Do companies whose clothing was being made in Rana Plaza have an obligation to help the victims or their families? What about companies who have had clothing made there in the past, but not at the time of the collapse? Dan Rees suggests that even garment companies with no association with Rana Plaza should contribute out of solidarity with the industry. Explain why you agree or disagree with this.

As above.

- 6 In your view, are Western companies sincere about trying to improve factory safety, or is it just a public relations effort?

Answers will vary. Students should be encouraged to provide evidence for their response. For those who think it is just a PR effort – what would a 'sincere' effort look like; and what would it take to convince you that the response was sincere?

- 7 Do consumers who wear clothing produced in countries like Bangladesh bear some responsibility for the wages and conditions of workers there? Do they bear some responsibility for the Rana Plaza collapse? Many consumers know or at least suspect that the clothes they wear are made in developing-world sweatshops. Does this affect their moral responsibilities?

As in question 4, students should be encouraged to think about their own obligations and duties, and the virtues and consequences of their choices?

Follow up discussion could focus on why consumers feel detached or apathetic towards the conditions of production.

- 8 Many consumers say that they don't like having their clothes made by poor and exploited foreign workers. Would you pay more for clothing that is made in factories that meet your home country's safety standards? If so, how much more?

Once students have identified a quantum (if any), the focus should shift to what factors would act as the 'tipping point' and why.

- 9 What, if anything, should consumers do to make foreign factories safer? Can consumer pressure get American companies to improve the pay and working conditions of foreign factory workers?

As in question 2, students can be encouraged individually or collectively to find examples of the efficacy of consumer driven call for change.

Additional resources

Useful weblinks

The Australian Competition and Consumer Commission (ACCC)

Description: Australia's competition enforcement and regulatory agency

Location: <http://www.accc.gov.au>

The Commerce Commission

Description: The New Zealand equivalent to the ACCC

Location: <http://www.comcom.govt.nz>.

'Economics and Economic Justice' in the Stanford Encyclopedia of Philosophy

Description: A dictionary definition

Location: <http://plato.stanford.edu/entries/economic-justice>

John Stuart Mills' Utilitarianism, provided by Project Gutenberg

Description: A free, electronic version of the book

Location: <http://www.gutenberg.org/ebooks/11224>

Adam Smith's An Inquiry into the Nature and Causes of the Wealth of Nations provided by Project Gutenberg

Description: A free, electronic version of the book

Location: <http://www.gutenberg.org/ebooks/3300>

'Original Position' in the Stanford Encyclopedia of Philosophy

Description: A dictionary definition of one of John Rawls's key concepts.

Location: <http://plato.stanford.edu/entries/original-position>

Global policy watch

Description: Social and economic policy analysis from the United Nations

Location: <http://www.globalpolicy.org/soecon/index.htm>

Capitalism – Wikipedia, the free encyclopedia

Description: This link introduces a broad discussion of capitalism and its features. Students are encouraged to use this link as a springboard for further research.

Location: <http://en.wikipedia.org/wiki/Capitalism>

Adam Smith and the invisible hand

Description: A discussion of 'the invisible hand' and its implications for modern society.

Location: <http://plus.maths.org/content/os/issue14/features/smith/index>

The Protestant Ethic and the Spirit of Capitalism

Description: This link provides a review of Max Weber's work exploring the rise of capitalism in the West. Students are encouraged to use this link as a springboard for further research.

Location:

http://en.wikipedia.org/wiki/The_Protestant_Ethic_and_the_Spirit_of_Capitalism

Jesus Saves, Moses Lends, Muhammad Invests – The Global Mail

Description: The different perspectives on usury and its consequences for a capitalist system.

Location: <http://www.theglobalmail.org/feature/jesus-saves-moses-lends-muhammad-invests/297/>

A Theory of Justice – Wikipedia, the free encyclopedia

Description: This link provides a review of John Rawls's *A Theory of Justice*. Students are encouraged to use this link as a springboard for further research.

Location: http://en.wikipedia.org/wiki/A_Theory_of_Justice

Interactive – National Geographic Magazine

Description: Interactive map of wealth and population densities.

Location: <http://ngm.nationalgeographic.com/2011/03/age-of-man/map-interactive>.

Capitalism vs. Socialism

Description: A comparison between the capitalist and socialist models.

Location: <http://bizfinance.about.com/od/smallbusinessissues/qt/CapvsSoc.htm>

Libertarian websites in the USA (<http://www.libertarianism.com>), Australia (<http://blog.libertarian.org.au>) and New Zealand (<http://www.libertarianz.org.nz>)