

**Business Responsibility: Does Wealth Creation Suffice in a Globalized World
Political-Economy?**

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One of the major underlying economic philosophies of modern market-based economies is that through the creation of wealth, business organizations fulfil their responsibility to society. It is then the responsibility of the political institutions in particular societies to ensure that the wealth created by the activities of economic organizations is distributed in an equitable manner, as determined by the society working through those political institutions. This separation of the wealth-creating and the wealth-distributing functions of societies has been accepted economic philosophy since Adam Smith's critique of mercantilist economic thought in his 1776 political-economic theory, as developed in *An Inquiry Into the Nature and Causes of the Wealth of Nations*. However, many philosophers and political-economists today are questioning this separation, especially in the context of the globalization of the world economic system and its impact on political systems.

The current dialogue about whether politics and economics can be separated, even theoretically, in the modern era includes an argument derived from a philosophic viewpoint, grounded in classical economic theory, that the distribution of wealth created by economic organizations is just because it results from the operation of the natural law of the market. Under this philosophy, the economic organization would be acting unethically should it attempt to redistribute the wealth created by its transactions in a way counter to the distribution effected by the operation of the market itself. In some versions of this philosophy, even allowing political institutions to effect such redistribution would be unethical.

This paper accepts critiques of the natural law argument against redistribution of wealth created by economic organizations. We accept the view and take as an assumption, first, that due to market failures in real market economies, it is not always the case that created wealth is distributed in ways that an ideal market would have done. If such a gap between real and ideal market wealth distribution exists, and one accepts the neo-classical economic philosophy, it follows that societal institutions have an obligation to bring the real market distribution of wealth into accord with what the ideal market would have created.

Our second, and more controversial, position is that even when real and ideal market-determined wealth distributions have been aligned, economic organizations have an additional responsibility as members of both the political-economy of particular societies and of the world, to act in ways that help to achieve an equitable distribution of the wealth of the world. We are not suggesting that economic organizations ought to work with political institutions to develop redistributive policies that promote equity, although that is certainly one means of achieving an equitable distribution of wealth. Rather, we are arguing that, in their economic decision-making, economic organizations are obliged to consider the effects of the decisions on the distribution of wealth within societies and around the world. It is our belief that only by placing individual economic decisions in the context of societal and world political-economies can the economic organization act ethically.

This paper will present a brief overview of philosophic and economic theory and attempt a synthesis of seemingly contradictory thought in support of our assumption and our arguments, and relate these theories to Catholic social teaching. We will then suggest some decision-making principles derived from Catholic social teaching that can help practicing managers as they work to include considerations of wealth effects in their economic decisions. We will apply those principles to the case of fair trade and Starbucks coffee. The role of business in the creation of just societies and a just world political-economy cannot be denied. This paper focuses attention on the philosophic and religious justifications for an expanded role for business and the decision-making process that can help implement that role.

ECONOMIC THEORY AND PHILOSOPHY

Prior to Adam Smith's formulation of a theory of political economy based in individual action, wealth had been thought to accrue to nations in the form of treasure, to be held by heads of state. This mercantilist philosophy made economic activity a zero sum game in which a nation could only increase its wealth by taking it away from other nations. Smith, in his *Wealth of Nations* (1776), countered that philosophy with the idea that individuals, acting out of self-interest, were in the best position to increase wealth, which was defined not as treasure, but instead as the stock of goods and services available to the consuming public. Economic activity, far from being a zero sum game, could infinitely expand wealth for all. The market would bring individuals together where they would transact exchanges that would be mutually beneficial and the wealth of the nation would be increased. It was the natural working of the unbiased market that would regulate individual actions and ensure that the wealth of nations was enhanced. That meant, however, that the market should be left free for such exchanges without state interference, although the state would have a role to play in providing facilitating services to ensure the working of the free market (Smith, 1776). The market was to be separate from politics, for the benefit of the entire community. However, it was always to be recalled that economics is a tool to be used towards creation of a good society (Bassiry & Jones, 1993), and Adam Smith argued that because we are social beings, political and economic life could not be divided (Werhane, 1999).

In 1888, then-President of MIT Francis Walker wrote that political economy has as its subject matter wealth and the student of economics should "take care not to allow any purely political, ethical or social considerations to influence his investigations" (Walker, 1888: 1). This is close to saying that the pursuit of wealth is an end in itself rather than a tool for achieving some societal good. However, in recent years, some economists and political scientists have been critical of that perspective and instead are looking at the economy, or wealth, from a moral perspective, which sees the economy as embedded in the norms of the society rather than as autonomous from it (Booth, 1994; Etzioni, 1988, Katz, 1997). The modern autonomous, separate economy, in the moral economist's perspective, has escaped the control of the community (Booth, 1994; Polanyi, 1957).

Moral economists work from a tradition begun by Aristotle (*Nicomachean Ethics*), who said that wealth is an instrument only and must be judged upon the ends which it serves (Booth, 1994). Work from economists in the area of economic justice speaks to one of the ends that wealth might serve: social or economic justice—the moral criteria used to evaluate the distribution of wealth (Gewirth, 1985). For some, a rule such as "the distribution of objects among the individuals in society should maximize total wealth" (Posner, 1981: 60) is the "best" criterion, so that the distribution of wealth should be such that wealth itself is maximized. For others, the criteria should be enhancement of human life, human dignity, and human rights (Burdenski & Dunson, 1999), so that wealth should enhance compassion, which, for the National Council of Catholic Bishops, enables the good of altruistic regard for others (Economic Justice for All, 1986). And, according to Werhane, Adam Smith can be read to say that "markets work best in a political economy that enforces human rights, contractual agreements, and fair play—commutative justice (Werhane, 2000: 195).

We accept the moral economists' critique of the neoclassical economic position as it was articulated by Posner (1981). The pursuit of wealth for the sake of accruing wealth is not morally acceptable. Wealth and its pursuit is, we believe, an instrument in service of the end of a good society. Given this, the business firm, in its self-regarding activities to achieve profits, must actively look to the societal good. The firm itself is an instrument of wealth creation that must be used to achieve that societal end. We argue, then, that the firm must in its decisions actively address the issue of the wealth effects of its actions. The firm may not ethically rely only on its wealth creating effects to satisfy its moral imperative. It is not enough, for example, for a business firm to pay minimum wages to its workers if the minimum wage does not constitute a living wage. Lack of wealth puts one (individual, group, or nation) at a disadvantage in productivity and thus in subsequent wealth distribution (based partly on the information theoretic approach to economics, or the information paradigm, that relaxes the assumption of perfect information (Arrow, 1974; Stiglitz 1985), and on empirical cases (Hoff, 1996)), and also creates additional problems with ongoing poverty and the environment.

For Norman E. Bowie, who has articulated a Kantian theory of capitalism, business can and should play a positive role in building a moral world community (1998: 38). Wealth has moral value in that it is an instrument to provide individuals the independence needed to meet our material needs. A firm that is organized as a moral community will act such that the interests of each member of the community is equal to the interests of every other member of the community (Bowie, 1998: 46). Christensen & Kohls (1999) argued that an ethical business decision is one which takes into account every stakeholder in the proposed action. Building on these ideas, we conclude that a moral business organization will accord respect to each stakeholder in its decisions and will specifically include consideration of the stakeholder effects on both wealth creation and on wealth distribution in its actions. This conclusion is reminiscent of Aquinas, who believed that the primary principle of natural law and so the fundamental moral law is that "good ought to be pursued and evil avoided" (quoted in Velasquez & Brady, 1997: 87). The natural law is applicable to business organizations because for Aquinas, the natural law requires that property—even private property—must always serve the needs of the people (Velasquez & Brady, 1998: 88). Aquinas' natural law is a fundamental theoretical basis for Catholic social teaching today. It is to that subject that we turn next.

CATHOLIC SOCIAL TEACHING

Pope John Paul II wrote in *Centesimus Annus (CA)*, "In fact, the purpose of a business firm is not simply to make a profit, but is to be found in its very existence as a community of persons who in various ways are endeavoring to satisfy their basic needs and who for a particular group at the service of the whole society." There are several themes in Catholic social teaching that have direct application to the moral economic ideas about the place of the firm in society. The first and most foundational is the **dignity of the human person**. This has been a consistent theme in social encyclicals since Pope Leo XIII's *Rerum Novarum* in 1891 through the U.S. Bishops' Pastoral Letter: *Economic Justice for All* in 1986. This thematic foundation has led to the condemnation of any activity which uses human labor as an economic means only, and fails to provide for

human development. In Catholic social teaching human dignity does not lead to a doctrine of individualism. The principle of human dignity is the basis for membership in a community, the human family. (Byron, 1998)

Human dignity is foundational for a second theme, the principle of **solidarity**. Catholic social teaching "proclaims that we are our brothers' and sisters' keepers, wherever they live. We are one human family. Learning to practice the virtue of solidarity means learning that 'loving our neighbor' has global dimensions in an interdependent world" (Reflections, p. 5).

Solidarity leads to choices that promote and protect the **common good**, a third theme of CST. "The common good is understood as the social conditions that allow people to reach their full potential and to realize their human dignity." (Summary, p. 25) "[I]n an age of global interdependence, the principle of the common good points to the 'need for international structure that can promote the just development of the human family across regional and national lines.'" (Byron, 1998)

A fourth theme of importance for this discussion is the **preferential option for the poor**, a special obligation on the part of everyone to respond to the needs of the poor and vulnerable. (Catechism) John Paul says, "it will be necessary above all to abandon a mentality in which the poor as individuals and as peoples are considered a burden, as irksome intruders trying to consume what others have produced." (CA: 28) The church's love for the poor, which is essential for her and a part of her constant tradition, impels her to give attention to a world in which poverty is threatening to assume massive proportions in spite of technological and economic progress. Based on the principle of human dignity, this principle implies that all people should be able to participate fairly in the economic marketplace (Lazniak, 1999). Business alone cannot solve the tragedy of poverty, but business has a key role to play (Woodstock report).

A final theme is **worker dignity**. "Man works in order to provide for the needs of his family, his community, his nation, and ultimately all humanity. Moreover, he collaborates in the work of his fellow employees as well as in the work of suppliers, and in the customers use of good in a progressively expanding chain of solidarity. This theme promotes the view that workers rights have preeminence over other capital assets of the organization. Human work has inherent worth that requires protection. Workers have a claim to meaningful work, fair wages, and the right to join unions." (*Laborum Exercens* [LE]) Lazniak further derives from Catholic social teaching that managers have an ethical obligation to consider opportunities for significant employee input in organizational decisions, partial ownership in the enterprise, and opportunities for development for all workers. (1999).

These principles are particularly applicable to economic relations between nations of differing economic levels. Pope John Paul II reiterates that objectives from *Rerum Novarum* (RN) are still valid goals in Third World contexts. These include insuring that man's work and his very being are not be reduced to the level of a mere commodity, and they also include a sufficient wage for the support of the family, social insurance for old

age and unemployment, and adequate protection for the conditions of employment. (CA: 35)

"It is still possible today, as in the days of '*Rerum Novarum*,' to speak of inhuman exploitation. In spite the great changes that have taken place in the more advanced societies, the human inadequacies of capitalism and the resulting domination of things over people are far from disappearing. In fact, for the poor, to the lack of material goods has been added a lack of knowledge and training which prevents them from escaping their state of humiliating subjection." (CA: 33)

This is an important observation as it informs his later discussion of development. He points to the necessity of removing barriers which leave countries on the "margins of development" and to "provide all individuals and nations with the basic conditions which will enable them to share in development." Efforts are required by the entire international community. "Stronger nations must offer weaker ones opportunities for taking their place in international life, and the latter must learn how to use these opportunities by making the necessary efforts and sacrifices ... the improvement of workers' skills, and the training of competent business leaders who are conscious of their responsibilities. (CA: 35)

Although much of Catholic social teaching is directed toward the role of government, one element is the principle of subsidiarity which maintains that social challenges should be addressed at the lowest level of government or association that is efficient and effective. There are many aspects of wealth distribution that require action at the federal level and the level of international institutions, but there are activities which can and should take place at the level of corporations and industry associations. Pope Leo added to this a very demanding message: "Everyone should put his hand to the work which falls to his share, and that at once and straightway, lest the evil which is already so great become through delay absolutely beyond remedy." (RN)

Although the church has steadfastly affirmed the right to private property since Pope Leo's encyclical, and based this in large part on natural law as first described by Thomas Aquinas in the middle ages, it has likewise affirmed that the "use" of goods must be for the common good. The source of all property is the creative act of God, who gave the earth to the whole human race for its sustenance, without excluding or favoring anyone. This is the foundation of the principle of the Universal Destination of Human Goods (CA 30), also called the law of the common purpose of goods. (RN) "Man should not consider his material possessions as his own, but as common to all." (RN)

To summarize, Catholic social teaching is clear in demanding attention on the part of corporations to more than profits, and in fact point management in the direction of the Common Good, as its purpose for its existence, as do the modern moral economists. In the context of world poverty, those who have or control material goods have an obligation to use those to assist those in need. This is required by both the doctrine of solidarity and the preferential option for the poor. Development must be understood in the context of the modern world, providing the ability for all people to be self-sufficient,

and that requires the ability to contribute in today's technology-driven knowledge economies.

DECISION PRINCIPLES

What decision-making policies can we derive from the application of Catholic social teaching and moral economics ? We suggest the following.

Human and Worker Dignity.

All of our business transactions, both directly and indirectly, contribute to the personal development of the workers, businesspersons, suppliers, and consumers we affect. Personal development may be an improved economic situation, but must also be a contribution to the individual's freedom to exercise choices in pursuit of life goals, whether they are material, intellectual, relational, or spiritual.

The Common Good.

Our business transactions contribute to the development of the countries in which we operate. By development we refer to possession of the skills and tools to be self-sufficient. We also refer to opportunities for growth that are not just economic, but intellectual, cultural and spiritual.

Solidarity and Support of the Poor

Our business transactions contribute to justice. This is a justice in which all people, including future generations, share in the bounty of God's creation. In particular, by the way we conduct international business, we assist the poor in providing for themselves.

THE CASE OF STARBUCKS AND FAIR TRADE COFFEE

We will examine one example of positive corporate activity (supported by consumers and investors). This is presented as a model that might be used in other arenas as well. We will examine the Starbucks Coffee decision to offer Fair Trade coffee to its customers. We are not so much interested in the details of the decision, and what motivated Starbucks to move in this direction, as we are in the ethical questions and wealth effects surrounding this decision. We will apply the approaches of recent writings in the field of business ethics as well as the decision principles derived from Catholic social teaching and moral economics to these questions.

Most of you may be familiar with the concept of Fair Trade. When most of the customers' purchasing dollar goes to the retailer, the marketer, the wholesaler, and the speculator and very little goes to the laborer or the farmer, it is apparent that something is wrong with the mutual benefits of the exchanges, particularly when those who provide the product have earnings that do not even cover subsistence costs. The Fair Trade Federation says "Fair Trade Organizations bypass exploitative middlemen and work

directly with producers . . . cut costs and return a greater percentage of the retail price to the producers." The Fair Trade Federation also supports cooperative workplaces, consumer education toward purchasing fair trade products, environmental sustainability, financial and technical support, respect for cultural identity, and public accountability. There can be many benefits to Fair Trade, but we wish to focus specifically on wealth creation and distribution (Fair Trade Federation website).

A Fair Trade organization that has recently achieved a high profile is Equal Exchange, a pioneer in fair trade coffee and a major player in persuading Starbucks Coffee to offer fair trade coffee to its customers. Equal Exchange is an exceptional example of an organization that combines social values with business practices. By promoting the fair trade model in coffee and tea, including a guaranteed minimum price for coffee beans, they have done much to improve the lives of coffee growers throughout the world (www.equalexchange.com). One example of a successful producer partner is the UCIRI, Union of Indigenous Communities of the Isthmus Region, based in Oaxaca, Mexico. Its membership includes over 5,000 peasant farmers with farms averaging roughly 15 acres. The cooperative members' annual incomes have nearly doubled through the export relationship with Equal Exchange, and in addition the co-op helped create the region's only public busline, a hardware and farm supply center, healthcare services, cooperative corn mills, an agricultural extension and training program, accounting training, and the only secondary school in the region. The increased incomes have not only allowed the farmers to live better, they have made them more productive farmers.

Another example is PRODECOOP based in Esteli, Nicaragua. It was founded in 1993 and includes 69 cooperatives and over 2400 families. A typical farm is 7 to 11 acres growing corn, coffee, beans, and bananas. They have been able to support projects to build schools and healthcare centers, and training in administration and law. Increases in revenue have allowed members to pay bank debt (avoiding the loss of their land) invest in farm improvements, improve nutrition, and in some cases keep children in school longer than they could have otherwise (<http://transfairusa.org/why/benefits.html>).

Is the decision to use fair trade coffee an ethical decision, one a moral community would make? Is it ethical to agree to pay more than the market price? Is it an ethical requirement to use fair trade products when they are readily available?

Our position is that each opportunity for making business decisions which take into account factors other than efficiency must be examined on its own. However, we will also generalize that companies involved in the global economy have explicit and serious ethical obligations to improve the situation of those they work with. In the case of coffee, we conclude that using fair trade coffee is a moral obligation, to the extent that it is available.

The first question relates to the ethical permissibility of using criteria other than the self-interest of the firm in making these decisions. This is an easy question since a primary role of the study of ethics is to determine specifically when one has obligations to go beyond self-interest to meet obligations to specific stakeholders and to the community. It

is moral requirement to take into account all significant impacts of business decisions as well as profits. This moral requirement is based in moral economics and in Catholic social teaching.

In addition, several American writers on international business ethics have taken positions which can be applied to these questions. In *The Ethics of International Business* (1989), Donaldson sees a moral requirement to respect international rights. These include the right to subsistence. But Donaldson also maintains that corporations do not have the obligation to insure that human rights are respected by others, only that they do nothing to violate these rights themselves. It is not apparent that agreeing to purchase coffee from middlemen at the market price violates the rights of those who produce the coffee. It is also not clear that, for Donaldson, paying a low price is a violation of the human rights, and even if it were, it is not the responsibility of coffee companies to make sure their suppliers pay a fair price. Donaldson also maintains that practices which may not be permissible in a developed country may be permissible in a developing country when the critical factor is the level of economic development. If home country citizens would agree to the practice if faced with the same economic circumstances the practice is permissible in the developing country. (This seems to involve problems of ethnocentrism. See Kohls, 1991, Velasquez, 1995) In the case of Fair Trade coffee however, the question is whether there are obligations to provide special considerations (rather than relaxed social requirements) precisely because another country is at a lower level of economic development. Reliance on strictly market mechanisms may be morally permissible in the trade of commodities among developed countries; but this does not make it automatically permissible in trade with developing countries. Unfortunately, Donaldson's writing does not help us with this question.

DeGeorge provides a number of guidelines for multinational corporations (MNCs) when working in developing countries. Three of these seem to apply. They are never intentionally harming the citizens of the developing country, doing more good than harm for the host country, and contributing to the country's development. Each of these can be useful guidelines although they suffer from a great deal of ambiguity. It may be argued that they do not require the purchase of fair trade coffee. Purchasing coffee at depressed prices because of surpluses on the world market can be argued not to involve intentional harm, and to provide more good than harm. Whether it contributes to the country's development is a difficult question, which depends on how one defines development. DeGeorge recognizes that industrial development may not always be the appropriate model of development. He understands development in terms of a country becoming independent and self-sufficient. This does not mean that it provides for all of its own needs, but that it uses its "resources and the talents and labor of its people to sustain the population at an adequate standard of living." (1993, p. 50) Examples of contribution to development include MNCs sharing of knowledge, or technology, or helping to build infrastructure. It appears that DeGeorge is more demanding than Donaldson, but contributions to development could be very minimal and still meet DeGeorge's criteria. Any contribution will do, and while using Fair Trade products is permissible, it is far from obligatory.

While these American philosophers have provided good insights into what a firm organized as a moral community should do in exchanges in third world countries, they have not provided clear guidance in the case of Fair Trade coffee. Catholic social teaching, and the three decision principles we derived from the five themes in the teaching, may provide more specific advice. Without looking for specific teaching on fair wages and fair prices, we can attempt to apply these principles to the moral issues we are addressing in the case of Fair Trade Coffee through the ethical questions we asked earlier.

The principle of human dignity provides an approach that is much like Donaldson's. Respect for human dignity demands respect for human rights and worker rights. The increased wealth that will go to the workers will provide them with independence and the ability to aim for the virtues of prudence, moderation, courage, and justice. This would not be possible if "free trade" coffee were the minimum required, as "free trade" coffee does not provide a living wage to the worker.

The principle of the common good also allows for fair trade over free trade. By implementing fair trade, Starbucks is contributing to the development of the countries in which their coffee suppliers are located. The increased wealth has been used to support many community improvements, as shown in the examples above.

The principles of solidarity and support of the poor would advocate for fair trade coffee as well. The decision to pay above free market wages is a direct benefit to the poor and enables them to provide for themselves.

Fair Trade is a practice that seems consistent with Catholic social teaching. We have shown through a few examples how it improves the quality of life for workers, insures their ability to maintain ownership of private property, and helps farmers and those who depend on them to increase education, a requirement for development.

CONCLUSIONS

It is not obvious that Fair Trade practices are required by Catholic social teaching, but there are few alternatives which do an equal or better job of meeting its moral guidelines. Without apparent alternatives to compete with the Fair Trade approach, we conclude that where Fair Trade products are available, firms have an obligation to support the approach due to its contribution to changes in wealth distribution and to economic development.

We believe a similar analysis can be done for tough decisions like the payment of a fair wage, providing a safe workplace, openness to trade unions and maintaining the freedom of association which is a prerequisite to their formation. In fact, each of these areas is addressed in Catholic social teaching.

This paper has argued that the moral economics perspective that places the market economy well within the social norms of the community, combined with Catholic social teaching, can help business organizations respond to the increasing number and

complexity of ethical questions they are facing in the modern global economy. We believe, and we think we are supported in our belief by moral economics and Catholic social teaching, that business has a moral obligation to consider the effects of their decisions on the creation and distribution of wealth, not just in their home communities, but globally and including all stakeholders. We take as given that the market is embedded within the society and is subject to its norms, and that a fundamental value to which firms are subject by virtue of membership in society is that the firm must act to pursue good and avoid evil. Epstein tells us that Judaism imposes on the Jewish people an obligation to help bring about the perfection of the world (*tikkun olam*) (1999: 265). Pope John Paul II asks us to commit ourselves to the common good, "because we are all really responsible for all" (1988). For Puritan moralists, "wealth in service to the common good was what mattered morally" (Frey, 1998: 1577). From these varied religious traditions and from secular thinkers such as the moral economists, we find strong basis to say that firms are moral communities, with moral obligations and these obligations extend to ensuring that the actions of the firm do not worsen but improve the current condition of the very unequal distribution of wealth within societies and around the world.

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