

Environmental economics and business ethics: ends by themselves or instruments of profit?

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Introduction

Economy is embedded in society and society, in turn, is embedded in the natural environment. However, businesses frequently tend to operate for the sake of profit regardless of the social and environmental consequences. Companies often strive to externalise the social and environmental costs caused by their operations. As a result, external actors (the public, the natural environment, other companies, etc.) must bear the consequences of corporate environmental pollution and the resulting welfare losses.

Environmental economics holds that the environmental problematique¹ could and should be solved by economic means. Traditional environmental economic theory holds that environmental problems should be translated into economic (market) problems. This is to be done by defining environmental problems as “external costs” to be internalised, for example, by taxes or by applying cost-benefit analysis. Although this approach is useful in many cases, striving to transform environmental problems (and nearly all social phenomena) into economic problems is a wrong approach – insufficient at best and destructive at worst. Many spheres of life and, to a great extent, also the natural environment are not of economic nature. Therefore, regarding them purely as economic entities deprives them from their intrinsic value assigned them by God, the Creator. To be sustainable the economy must acknowledge that creation is not just about profits and dollars but, in the first place, beauty, dignity and value in themselves, which need not justify their existence on economic grounds.

The dominance of economics over nature

Today’s widespread approach is that more intensive economic growth and technical development will solve the majority of current problems ranging from extensive poverty to the global environmental crisis. As Czako ironically notes, “*the challenges of our time are economic by nature, the solutions alike, and their logical purpose is to transform the human community into an economic entity, since our era is the Era of the Economy*” (Czako, 1995, p. 18.). The present paper refers to this phenomenon as *economism*. As Röpke (1996) has put it, “economism is the irreparable passion that uplifts means to be ends and which thinks only of the bread but not of the other thing mentioned by the Gospel” (Röpke, 1996, p. 152)². According to the increasing number of warnings against economism, it is extremely dangerous that the economy³ will not remain within its own boundaries (i.e., allocation of goods and resources efficiently) but the market strives to conquer all spheres of life⁴. Instead of acknowledging that the economy is embedded in society, which, in turn, is embedded in the natural environment, the economy tries to reverse this order by regarding everything as

¹ By “environmental problematique” we refer to the whole array of environmental problems (from global climate change, through sea and soil pollution, to desertification and waste problems, etc.). The expression implies a very complex, interdependent set of problems, which varies in scale and space and by time.

² Remarkably, Röpke mentions economism together with materialism and utilitarianism.

³ By referring to the „economy” or “market”, it should be borne in mind that it is people who stand behind the economy (managers, politicians, academics, journalists, lobbyists, marketing professionals, etc.).

⁴ Cox (1999) provides a useful analysis of the market intruding all spheres of life.

marketable goods. In many cases even politics has become a hostage of the economy and society is often required to organise social institutions (health care, education, etc.) along the principles of efficiency and competitiveness regardless of other aspects of the common good such as equity. As a consequence, people and the natural environment are also regarded as just another set of resources to be exploited for the sake of short-term financial profit.

Nevertheless, this is not a new phenomenon. R.H. Tawney noted already in 1926: *„The most obvious facts are the most easily forgotten. Both the existing economic order and too many of the projects advanced for reconstructing it break down through their neglect of the truism that, since even quite common men have souls, no increase in material wealth will compensate them for arrangements which insult their self-respect and impair their freedom. A reasonable estimate of economic organisation must allow for the fact that, unless industry is to be paralysed by recurrent revolts on the part of outraged human nature, it must satisfy criteria which are not purely economic.“* (Tawney, 1926; emphasis added) Since, as a general tendency, the market strives to subjugate all spheres of life, morality also becomes an “economic phenomenon”. According to this approach, morality is necessary because (and insofar) it is economically useful. In other words, ethics is necessary because it is more worth to be moral than immoral. If you act in a morally right way, your customers will remain loyal to you, you will not have to pay fines, no lawsuits will be filed against your company and so forth. According to Christian logic, however, this is a perverse logic. Suffice to refer to the teachings of Jesus saying: *„when thou doest thine alms, do not sound a trumpet before thee, as the hypocrites do in the synagogues and in the streets, that they may have glory of men. Verily I say unto you, They have their reward. But when thou doest alms, let not thy left hand know what thy right hand doeth: That thine alms may be in secret: and thy Father which seeth in secret himself shall reward thee openly.“* (Mat. 6.2- 6.4).

Furthermore, an even more dangerous approach also has arisen on the ground of the abovementioned, perverted “morality”. E. F. Schumacher cites Lord Keynes who wrote in 1930: when everybody will be rich we shall *“once more value ends above means and prefer the good to the useful. But beware! ... The time for all this is not yet. For at least another hundred years we must pretend to ourselves and to every one that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight.“* Schumacher comments that *“In any case, the Keynesian message is clear enough: Beware! Ethical considerations are not merely irrelevant, they are an actual hindrance, ‘for foul is useful and fair is not.’ The time for fairness is not yet. The road to heaven is paved with bad intentions. ... but where is the rich society that says: ‘Halt! We have enough?’ There is none.“* (Schumacher, 1975; pp. 24-25). Thus, the only question is: once we have forgotten the true meaning of morality for some decades, shall we be able to remember it when “the time for fairness” has finally come?

The concept that “moral principles should be followed because it makes good business” might be welcome as a beneficial move from the Keynesian approach towards the right direction. However, this “better” position also forgets about the fact that ethics makes good business only under certain circumstances, i.e., where stringent regulations, effective law-enforcement, strong public scrutiny, NGOs and other factors *force* companies to act “morally” or at least to observe the law. Remove these conditions and acting “morally” will immediately turn uneconomical for businesses. In such cases it will make good economic sense to relocate environmentally harmful technologies to, or to produce harmful products in poor countries or to exploit workers. Economism denies the essence of morality by attributing

only *instrumental* value to it but no *intrinsic* value (i.e., a value in itself). According to this concept, “*moral rule is only a decoration, which may enter into force only, if there is no interest on the horizon. However, the very purpose of moral rules would be the judgement of conflicts of interests. Moral beings, heroes and saints can be recognised exactly because they stand up against their so-called interests to defend their own ideals and they are willing to take even the risk of getting pushed out of life, the risk of death*” (Czakó, 1995; pp. 167-168.; emphasis in original). Thus, the approach of “economic usefulness of ethics” confuses *consequences* with *motivations*. Certainly, ethics may *result* in greater loyalty of customers and higher profits but this is not the fundamental *reason* for acting morally.

By making a further step in the wrong direction our society has reached a situation in which all beings (including forests, rivers, landscapes, health services, education, public transport, and even people) must justify their own existence by economic argumentation. In other words, economics “*tends to absorb the whole of ethics and to take precedence over all other human considerations. ... The development of production and the acquisition of wealth have ... become the highest goals of the modern world in relation to which all other goals, no matter how much lip-service may still be paid to them, have come to take second place. The highest goals require no justification; all secondary goals have finally to justify themselves in terms of the service their attainment renders to the attainment of the highest*” (Schumacher, 1975; p. 69, 293). One of the tools of such economic justification is cost-benefit analysis.

Cost-benefit analysis and environmental protection

Cost-benefit analysis (CBA) is a methodological tool for considering, among other things, the direct and indirect costs and benefits of investments. The main goals of CBA are as follows:

- 1) to account for the direct financial and indirect (external) social and environmental benefits and costs of projects;
- 2) to compare projects by their “economic”⁵ aspects;
- 3) to facilitate the selection of financially, socially and environmentally optimal projects.

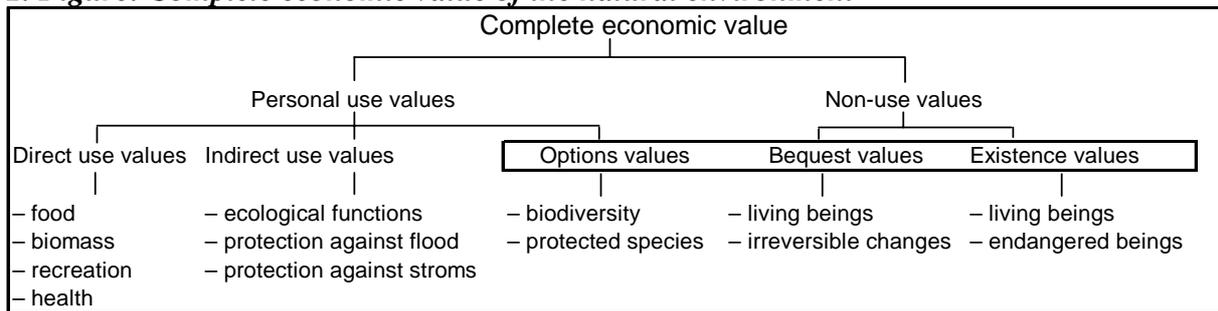
To facilitate the comparison of different types of impacts CBA assigns monetary values to the impacts. According to mainstream environmental economics, CBA should consider and monetarily assess the following environmental values:

- personal use values:
 - direct use values,
 - indirect use values,
 - options values;
- non-use values:
 - bequest values,
 - existence values,
 - options values.

⁵ It is revealing that in CBA „economic impacts” include not only financial but also *environmental* and *social* aspects.

The relationships of the environmental values are presented in Figure 1.

1. Figure: Complete economic value of the natural environment



Source: Kerekes (1998)

CBA can be a useful tool within certain ethical and methodological boundaries but it may turn to be harmful when applied outside of its sphere of competence. On Figure 1, by moving from personal use values towards non-use values the assignment of monetary values becomes more and more difficult. It seems obvious for everyday logic that, for example, the existence of an endangered species or a unique landscape should very carefully (or not at all) be evaluated in monetary terms. Somehow it feels bizarre to put a price tag on a whale claiming: this is the whale's value for the eco-system or for future generations of people. Yet, this is exactly what traditional CBA does. As opposed to this, Shashi (n.d.) represents a radically different position: „*First, ecosystems cannot be commoditized. Second, ecosystem capital satisfies differentiated needs, and, hence, gross substitution between different components of ecosystem capital or between ecosystem capital and man-made capital is not possible. Therefore, the rate of discount for ecosystem capital suggested on the basis of the framework is arbitrary. In the context of international security, choices of ecosystem capital are similar to the choices of military decisions. Similar to military decisions, ecosystem choices should be made without discounting and prices. The neo-classical framework does not have appropriate tools for such decision analyses, and other streams of economics, specifically post-Keynesian economics, may help assist decision-makers in analysing ecosystem choices without prices and discounting.*” (Shashi, n.d.).

At a practical level, experts carrying out CBA decide what is good for society and for the environment by using mathematical formulae and leaning on professional opinion. Thus, experts substitute a great deal of moral and esthetical considerations and public debate with a quantification method. Furthermore, at a theoretical level, the unquestioned application of CBA strengthens the prevalence of economism by pretending that non-marketable beings like landscapes, species, or human lives can (and should) be turned into market goods. Although, in principle, CBA acknowledges the existence of intrinsic value, in practice CBA denies those values by putting price tags virtually upon everything. As Schumacher (1975) notes, the “*logical absurdity [i.e., quantifying the unquantifiable], however, is not the greatest fault of the undertaking: what is worse, and destructive of civilisation, is the pretence that everything has a price*” (Schumacher, 1975; p. 293). In his book written more than thirty years ago Schumacher also notes that in economic thinking “*everything is equated with everything else. To equate things means to give them a price and thus to make them exchangeable. To the extent that economic thinking is based on the market, it takes the sacredness out of life, because there can be nothing sacred in something that has a price. Not surprisingly, therefore, if economic thinking pervades the whole of society, even simple non-economic values like beauty, health, or cleanliness can survive only if they prove to be ‘economic’*” (ibid., p. 45). This dangerous process is constantly strengthened by bureaucrats who require the application of CBA under all circumstances (like in the applications for financial

assistance in the European Union) and by experts carrying out CBA without questioning its capability to grasp reality. Linegar (2005) notes that “[present] society is less conscious of its roots and its direction. ... [It] operates on essentially pragmatic and empirical considerations: does it work, and how does it fit with our experience? ‘Computers,’ as a Russian scientist remarked recently, ‘know no morality, only mathematics’. This matter-of-fact approach stifles the voice of conscience just as the pragmatic (well it works this way, doesn’t it?) approach drowns the directives of principle. Cost-benefit analysis shows how foolish it is to waste time searching for one sheep when ninety-nine are safely in the fold. If increased profits are the highest good, then the farmer who pulled down his barns and built bigger ones was entirely right. Persuade myself that my unborn child is really part of my body and I can justify abortion on the same grounds as changing my hairstyle. The constant secular assumption is that there is nothing beyond the matter-of-fact; no one to whom we are responsible except ourselves.” (Linegar, 2005)

Another problem with CBA is that its experts are inclined to disregard the distribution of costs and net benefits among different stakeholders. What matters is maximising net benefit, i.e., the difference between benefits and costs. But which groups will bear the costs and the benefits? Do these two groups differ or do they overlap? If the latter, to what extent? Moreover, stakeholders of projects include also future generations. In CBA it is meant that their interests are accounted for by discounting. Related to discounting the following question arises: is it right that the generally applied discount rate is higher than zero? A positive discount rate means that the interests of future generations are regarded as less important than those of the present generation. Some economists even suggest a negative discount rate thereby assigning higher importance to future generations than to the present generation.

Political interests also support the prevalence of economism. Lohmann (1997) also notes, “[there are] efforts on the part of the state and other agencies ... toward widening cost-benefit analysis (CBA) in a way which suggests it can become a surrogate for at least some of the larger functions of practical reasoning. I’ve tried to suggest already some of the attractions this strategy might have – helping to shift accountability onto supposedly impersonal mechanisms, overcoming bureaucratic akrasia in a relatively open society during a time of crisis. But it holds out several more utopian promises as well. One – for officials who might genuinely believe in the usefulness of commensurating disparate alternatives – is to summarize complex choices in a formulaic way. Another is to reduce the attention that needs to be paid to income distribution. Still another is to transmute popular pressure and political debate and conflict into quieter, office-bound operations performed on fixed and agreed-upon preferences. Then there is CBA’s ability to suppress questions of who gains and who loses, who dreams up a project and who opposes it, making historically-embedded changes seem commensurable, as parts of a list to be summed rather than a story to be told” (Lohmann, 1997). Therefore, the precautionary principle should play a fundamental role in economic decisions. This principle “has much efficacy because it captures an underlying misgiving over the growing technicalities of environmental management at the expense of ethics and open dialogue; of environmental rights in the face of vulnerability; and of the manipulation of cost-benefit analysis by powerful vested interests supporting development.” (Jordan – O’Riordan, n.d.).

The simple calculation of the difference between benefits and costs implies that the distribution of benefits and costs (both in time and space) is unimportant. Furthermore, the simple “benefit minus cost” formula implicitly assumes that most types of environmental harm can be compensated for by financial transfers or technical achievements. These assumptions are obviously false. Certain elements of nature cannot be substituted by man-made goods – just as an ancient forest cannot be substituted by a golf-course covered by

quasi-artificial grass⁶. The existence of option values and existence values (see Figure 1) also suggest that certain elements of nature cannot be substituted by man-made capital.

CBA is a proper tool to assess certain parts of the economy, however, its limits should also be recognised so that the method will stay in its sphere of competence and used for the right purposes. CBA is not the only tool to assist social decision making. Table 1 gives a summary of certain participatory planning models⁷.

1. Table: Summary of participatory planning models

PARTICIPATORY PLANNING MODELS				
	TECHNOCRATIC/ COMPREHENSIVE	LIBERAL/ INCREMENTAL	RADICAL/ ADVOCACY	ECOFEMINIST BIOREGIONAL
CONCEPT OF COMMUNITY	A generalised public interest determined by experts	A market of individual interests and preferences	Under-represented groups threatened by development	Humans in complex social and ecological systems
FORM OF PARTICIPATION	Public consultation by experts	Consumer choice	Development of counter-plans and offers	Team design process
PLANNER'S KEY ROLE	Determine optimal solutions	Determine public preferences	Ensure equal access to decision making	Facilitate bioregional/global perspective
PROCESS	Scientific evaluation	Democratic representation	Law-based, adversarial	Collaborative
FAVOURED METHODS	Cost-benefit based methods, EIA, etc.	Voting analogues e.g. survey, participation	Educational and adversarial strategies	Self-help and empowerment
ETHICAL BASIS	Utilitarianism	Liberalism	Critical theory	Feminist/biocentric
KEY ROLE OF COMMUNITY	Input into scientific process	Input into pluralist process	Counter-plans, protest, obstruction	Self-determination
GOVERNMENT'S IDEAL ROLE	Weigh expertise and other policies	Balance competing interests	Distribute wealth; arbitrate	Meet basic needs; facilitate
PROJECT INITIATOR	Private or public developer	Private or public developer	Private or public developer	Community self-reliance
PHILOSOPHICAL AIM	Rationality	Procedural justice	Distributive justice	Justice; well-being

⁶ This is illustrated, for example, by the current controversial case of Verespatak (Romania) surrounded by widespread international protest. The beautiful landscape would disappear forever as a result of establishing a goldmine and an enormous sludge storage basin. The project would destroy 2 settlements, 5 mountains, 10 churches, 12 graveyards, 958 farms, and a unique national heritage (i.e., antique Roman underground mining facilities, which are part of UNESCO's World Heritage). The mine would use cyanide technology similar to the technology that caused an environmental disaster in neighbouring countries in 2000 when a similar, huge sludge storage basin in Romania was accidentally demolished by heavy rainfall. The sludge ended up in the River Tisza and the very high cyanide content of the sludge killed almost all life forms in the Hungarian section of the river. (Through time life has appeared again and the river has regenerated itself.) The currently planned new project would involve a sludge basin forty times bigger than the one collapsed in 2000.

⁷ Of course, the different models of Table 1 do not necessarily exclude each another in decision making. For example, governments may have to perform all four tasks in the four different columns. As for the project initiator, the ideal case is when the community itself determines what should be done, however, sometimes the principle of subsidiarity may require that a higher hierarchical level makes the decision.

PARTICIPATORY PLANNING MODELS				
	TECHNOCRATIC/ COMPREHENSIVE	LIBERAL/ INCREMENTAL	RADICAL/ ADVOCACY	ECOFEMINIST BIOREGIONAL
COMPETING VALUES	Majority wins	Balance of interests; trade-offs	Equal opportunity; fair game rules	Design for many parameters
PREFERRED REFORMS	Transparency of decision making	Deregulation and less government	More community power and autonomy	Systems change

Source: Birkeland (1999)

Christians should seek ways of more realistic assessment of the environment besides trying to monetise almost all of its elements through CBA. Even if monetisation is applied, its limitations should be revealed, for example, that monetary values should not be assigned to everything. Numbers are useful tools to compare different options but the importance of numbers should not be overestimated. Important non-monetary aspects may also exist by which options should be compared. As seen above, approaches other than CBA are also available to acknowledge and handle qualitative differences. In seeking different ways of analysis “*Christian should avoid double standards, and show integrity – in prayer, in obeying the Bible rather than just hearing it, in actions rather than simply intellectual belief, in control of the behaviour and speech, in avoiding social or economic injustice*” (Linegar, 2005). The following section highlights some of the ecclesiastical documents aiding this search for the whole (not just monetary) value of the natural environment.

Catholic documents on the environment

The importance of preserving the environment and the responsibility of man for creation are emphasised by a great number of official Catholic documents including *Gaudium et spes*, *Octogesima adveniens*, *De iustitia in mundo*, *Laborem exercens*, *Sollicitudo rei socialis*, *Message for the 1990 World Day of Peace*, *Centesimus annus*, etc., and by other ecumenical documents, for example, *Joint statement of Pope John Paul II and Patriarch Bartholomeos of Constantinople on environmental ethics*; *Charta Oecumenica*, etc.

Catholic social teaching confirms that the natural environment has a value in itself (intrinsic value) besides its instrumental value and the dominion of man over creation is bounded, i.e., man cannot do anything with creation since he is responsible for it. „*The preservation and love of nature is not a secondary, utilitarian commandment but, like the praise of God, man’s primary mission on this Earth*” (Jávor, 2006). Following *Lumen gentium*, *Gaudium et spes* also notes: “*For by the very circumstance of their having been created, all things are endowed with their own stability, truth, goodness, proper laws and order. Man must respect these as he isolates them by the appropriate methods of the individual sciences or arts. Therefore if methodical investigation within every branch of learning is carried out in a genuinely scientific manner and in accord with moral norms, it never truly conflicts with faith, for earthly matters and the concerns of faith derive from the same God. ... Indeed whoever labors to penetrate the secrets of reality with a humble and steady mind, even though he is unaware of the fact, is nevertheless being led by the hand of God, who holds all things in existence, and gives them their identity.*” (GS #36; emphasis added).

Centesimus annus explains the reasons for environmental destruction: „*At the root of the senseless destruction of the natural environment lies an anthropological error, which*

unfortunately is widespread in our day. Man, who discovers his capacity to transform and in a certain sense create the world through his own work, forgets that this is always based on God's prior and original gift of the things that are. Man thinks that he can make arbitrary use of the earth, subjecting it without restraint to his will, as though it did not have its own requisites and a prior God-given purpose, which man can indeed develop but must not betray. Instead of carrying out his role as a co-operator with God in the work of creation, man sets himself up in place of God and thus ends up provoking a rebellion on the part of nature, which is more tyrannized than governed by him.” (CA #37). The moral character of economic activity is highlighted by Pope John Paul II, among other things, in Sollicitudo rei socialis: “One can certainly speak of ‘selfishness’ and of ‘shortsightedness’, of ‘mistaken political calculations’ and ‘imprudent economic decisions’. And in each of these evaluations one hears an echo of an ethical and moral nature. Man’s condition is such that a more profound analysis of individuals’ actions and omissions cannot be achieved without implying, in one way or another, judgments or references of an ethical nature.” The Pope adds in Centesimus annus: “even the decision to invest in one place rather than another, in one productive sector rather than another, is always a moral and cultural choice” (CA #36; emphasis added).

Charta Oecumenica signed by the presidents of the Conference of European Churches and the Council of European Bishops’ Conferences in 2001 also warns: „*Believing in the love of the Creator God, we give thanks for the gift of creation and the great value and beauty of nature. However, we are appalled to see natural resources being exploited without regard for their intrinsic value or consideration of their limits, and without regard for the well-being of future generations*” (Charta Oecumenica, Ch. 9; emphasis added).

The list of Christian reflections to the ecological crisis and the responsibility of mankind could be continued. Suffice to say, as seen above, „*The official documents of the Catholic church clearly formulate the position of the church and the tasks of the believers in handling the environmental crisis. According to [the Church], the world created by God is good and man is invited to be a responsible steward of the world. The current ecological crisis stems from man’s self-sufficiency and his alienation from the divine invitation. Participation in the solution of the problems is a responsibility that no believers may refuse*” (Jávor, 2006).

The application of moral principles in corporate environmental behaviour

A particular sphere where mankind’s alienation from creation is clearly traceable is corporate environmental behaviour. Consequently, by today it has been widely recognised that a holistic view and not just a monetary valuation of the natural environment is necessary in business activity to ensure the protection of creation. Promising initiatives include, among other things, moving from end-of pipe solutions towards pollution prevention (P2). P2 combines economic and environmental benefits by fostering preventive environmental measures, for example, the application of new technologies, good house-keeping, etc. Nevertheless, often P2 also remains within the economic paradigm basically resulting in today’s global environmental crisis. As mentioned above, this paradigm is based upon the following implicit premises:

- “all problems of society (environmental or other) are fundamentally economic and therefore they must be expressed in economic terms, otherwise society will be unable to solve them;
- as a consequence, all social and environmental problems are to be solved by economic means;

- economic goals are superior to all other societal goals; in other words, in order to be justifiable, all problems should be subordinated to economic goals” (Baranyi, 2003).

The abovementioned economic paradigm prevents society from recognizing the genuine (i.e., ethical) nature of environmental and social problems. Thus, all efforts to solve those problems will remain particular at the best and destructive at the worst. A socially and environmentally sustainable corporate culture should not be built only on profit motives but also, and fundamentally, on serving the true purpose of businesses, i.e., the common good. Common good includes not only satisfying the direct needs of people (food, shelter, etc.) but also the preservation of the natural environment, which provides the fundamental preconditions for human life both in material and spiritual terms (by providing leisure opportunities, esthetical experiences etc.). To this end, not only *goal-rationality*⁸ but also *value-rationality* (or a deontological approach) is necessary in decision making. In other words, actions should be carried out because they are morally good not only because they make profit (or they should be carried out despite they are unprofitable). Moral beings are characterised exactly by their capability (i.e., willingness) to deny themselves and their narrow self-interests for the sake of some greater good. The very meaning of morals is to help to opt for the good in ambiguous situations. If morals fail to do so they are only a „decoration on nothing”. The core of ethics is that its instrumental value is inseparable from its intrinsic value. Due to this intrinsic value, morals cannot be reduced to a mere means of profit maximisation. If one protects the environment only for profit or to avoid punishment his motivation will be insufficient at best and destructive at worst. In such cases the action’s main motivation remains self-interest and environmental protection will not be an “organic” action (i.e., stemming from one’s own conviction) but it will be forced upon the actors. Thus, actors are not encouraged to become more ethical through time (moral development) but only to maximise their private benefits or to fulfil outside expectations. This approach towards environmental protection may turn to be destructive; if regulations turn to be less stringent or public scrutiny becomes weaker, businesses will be inclined to apply environmentally harmful technologies, to produce harmful products, or to foster environmentally harmful consumer cultures in different countries. If the true meaning of morals remains fuzzy for, or even regarded as ridiculous by, decision makers, they may easily cheat themselves and fall in the same pitfall as apparently Lawrence Summers, former President of Harvard University, former Treasury Secretary of the USA and former chief economist of the World Bank. *“In December 1991, while at the World Bank, Summers signed a memo written by staff economist Lant Pritchett which argued among other things (according to its author; the full memo is not public) that free trade would not necessarily benefit the environment in developing countries. An ‘ironic aside’ made an argument that, in fact, the developed countries ought to be exporting more pollution to those developing countries. This aside was leaked to the media as a serious, standalone memo, and a public outcry ensued.”* (http://en.wikipedia.org/wiki/Lawrence_Summers#World_Bank_Pollution_Memo). Later on Summers claimed that his “ironic aside” had been misunderstood by the public. In fact, reading the infamous memo one cannot be sure whether it is just a bad joke or a serious, horrible suggestion (see below).

⁸ Goal-rationality and value-rationality are the concepts applied by Weber (1968).

The Memo

DATE: December 12, 1991
TO: Distribution
FR: Lawrence H. Summers
Subject: GEP

‘Dirty’ Industries: Just between you and me, shouldn't the World Bank be encouraging MORE migration of the dirty industries to the LDCs [Less Developed Countries]? I can think of three reasons:

1) The measurements of the costs of health impairing pollution depends on the foregone earnings from increased morbidity and mortality. From this point of view a given amount of health impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages. I think the economic logic behind dumping a load of toxic waste in the lowest wage country is impeccable and we should face up to that.

2) The costs of pollution are likely to be non-linear as the initial increments of pollution probably have very low cost. I've always thought that under-populated countries in Africa are vastly UNDER-polluted, their air quality is probably vastly inefficiently low compared to Los Angeles or Mexico City. Only the lamentable facts that so much pollution is generated by non-tradable industries (transport, electrical generation) and that the unit transport costs of solid waste are so high prevent world welfare enhancing trade in air pollution and waste.

3) The demand for a clean environment for aesthetic and health reasons is likely to have very high income elasticity. The concern over an agent that causes a one in a million change in the odds of prostrate cancer is obviously going to be much higher in a country where people survive to get prostrate cancer than in a country where under 5 mortality is 200 per thousand. Also, much of the concern over industrial atmosphere discharge is about visibility impairing particulates. These discharges may have very little direct health impact. Clearly trade in goods that embody aesthetic pollution concerns could be welfare enhancing. While production is mobile the consumption of pretty air is a non-tradable.

The problem with the arguments against all of these proposals for more pollution in LDCs (intrinsic rights to certain goods, moral reasons, social concerns, lack of adequate markets, etc.) could be turned around and used more or less effectively against every Bank proposal for liberalization.⁹ (<http://www.whirledbank.org/ourwords/summers.html>)

The importance of personal moral values

The importance of the existence or lack of personal ethical principles and practice is demonstrated by the above infamous memo. It is often told that financial motivations and outside institutional control are sufficient to persuade (or force) businesses to operate in an environmentally sound manner. This approach forgets the importance of the personal moral values of managers and other employees. Certainly, many obstacles hinder corporate decision makers in supporting the economic goals of their companies and, at the same time, acting in an ethical manner. The dangers include, among other things, environmental problems being translated by managers into “safe and understandable” business terminology. As a result, the

⁹ “After the memo became public in February 1992, Brazil’s then-Secretary of the Environment Jose Lutzenburger wrote back to Summers: ‘Your reasoning is perfectly logical but totally insane... Your thoughts [provide] a concrete example of the unbelievable alienation, reductionist thinking, social ruthlessness and the arrogant ignorance of many conventional ‘economists’ concerning the nature of the world we live in... If the World Bank keeps you as vice president it will lose all credibility. To me it would confirm what I often said... the best thing that could happen would be for the Bank to disappear.’ Sadly, Mr. Lutzenburger was fired shortly after writing this letter.

Mr. Summers, on the other hand, was appointed the U.S. Treasury Secretary on July 2nd, 1999, and served through the remainder of the Clinton Administration. Afterwards, he was named president of Harvard University.” (<http://www.whirledbank.org/ourwords/summers.html>)

solution of environmental problems will be regarded as cost savings at best but the higher meaning of creation will remain overshadowed. This approach may lead to incremental environmental improvements, such as end-of-pipe measures but not to a holistic set of environmental measures. The latter would involve all company activities from waste minimisation by alternative products, through the adoption of different technologies to recycling. Holistic approaches are necessary because the solution to the environmental problem needs integrated and preventive measures instead of isolated and reactive steps. Managers therefore need to develop their capacity to engage in dialogue with various stakeholders and to communicate and understand various interests. Such dialogues would enable managers to examine the overall impact of their organisations and to acknowledge other viewpoints that differ from business perspectives.

Referring to Fineman (1996), Pataki (1999) notes that “moral disengagement” is another danger for managers. Managers may be tempted not to consider the ethical aspects of the environmental problems caused by their organisations. Moral disengagement may include, among other things, the following factors:

- downplaying the environmental risks of business operation;
- following “the consumer knows best” attitude, thus hiding from personal responsibility as managers;
- regarding environmentalists as “too emotional and irrational” and “incapable of a dialogue” and, thus, refusal of talking to environmentalists.

As a solution, managers’ capacity to understand other stakeholders should be strengthened. This includes, among other things, the abandonment of ethical disengagement and the embracement of a commitment to understanding “outsiders.”

For real environmental development at the organisational level also “double-loop learning” should be fostered in addition to “single-loop learning” (Bakacsi /1996/ referring to Argyris-Schön /1978/). Single-loop learning is a response to inside and outside impacts affecting the organisations with the goal of sustaining and strengthening the existing system. Double-loop learning, on the other hand, strives to solve problems by changing the organisations’ existing goals, norms and values. In the environmental field, single-loop learning means, for example, learning to exploit the existing production methods more efficiently. This is an incrementalist approach aiming to solve environmental problems by continuously improving corporate environmental performance, for example, by fostering eco-efficiency. Double-loop learning, however, continuously revises not only the tools but also the goals of organisations. In other words, organisations exercising double-loop learning ask themselves not only *how* things should be done but also *what kind* of things should be done, i.e., what should be the goals of the organisations. Questioning the fundamentals of organisational philosophies is essential to facilitate cultural change and to help ethical considerations play an important role in corporate decisions. To facilitate this development not just managers but ethical leaders are needed. Leaders are organisational “pioneers,” initiators of strategic changes, and actors with high self-efficacy and strong commitment to certain important cases. Managers, however, are operators of the system instead of transformers of the firm. Ethical leaders adjust their actions to ethical principles and not the other way round. Of course, managers should also be ethical just as other members of the company.

Another danger for the ethical decision making of business people is that managers are tempted to hide behind corporate decision-making bodies or the legal personality of the firm. Thus, instead of taking personal responsibility for their actions managers claim that the organisation as such is responsible for all decisions. In reality, however, group decisions are based on personal decisions, on group members' insight and conscience. This is true, even though other group members may exert significant pressure, thus making it difficult to make responsible individual decisions.

Certainly, one could ask the question whether it is possible to speak about the "responsibility of organisations"? In their seminal paper Goodpaster and Matthews (1982) suggested that, since goals, economic values, strategies, and other similar personal attributes can often be applied to corporations, the function of conscience could be extended in a similar vein. Other authors argue that ethical characteristics, including responsibility, may be attributed only to individuals and they cannot be applied to organisations. Yet other authors claim some but not all ethical functions can be attributed to organisations. In my opinion conscience is characteristic only of individual actors (although at the organisational level organisational culture may play a similar – but not the same – role as conscience). Although corporate decisions are often influenced by strong group pressure, even such decisions are ultimately based on the individual decisions of the group members. Fundamentally, it is not the group but its members who decide. This becomes particularly explicit, for example, in the case of court sentences or parliamentary resolutions where the result is a "corporate" decision which is ultimately based on individual, clearly identifiable "voters". Why should the matter be different in the case of businesses? Just because an organisation has legal personality the matter will not be different. Moreover, not all businesses have legal personality, which reveals the relevance of personal responsibility even more strongly. Related to this, when analysing corporate decisions from a moral point of view we must also refer to the phenomenon of the *structures of sin*, which are "*rooted in personal sin, and thus always linked to the concrete acts of individuals who introduce these structures, consolidate them and make them difficult to remove. And thus they grow stronger, spread, and become the source of other sins, and so influence people's behavior*" (Sollicitudo rei socialis #36). Naturally, the enforcement of corporate responsibility is also necessary but the enforcement should also include the personal accountability of employees.

At the organisational level, structures and cultures tend to strengthen themselves. Organisational culture is a system of basic assumptions, beliefs, values, and norms shared by organisational members. Culture defines, for example, what is regarded as a value by the organisation. With the help of commonly held assumptions, beliefs, values, and norms members define themselves in the organisational context and define their environment. Commonly held beliefs and respected values create an atmosphere that supports those actions that fit that cultural system and "punishes" actions that are not in line with the system. Both ethically good and bad structures tend to strengthen and regenerate themselves (cf. the structures of sin). In the analysis of such self-regenerating structures it is useful to refer to another fundamental document of Catholic social thought, Sollicitudo rei socialis: "*One can certainly speak of 'selfishness' and of 'shortsightedness', of 'mistaken political calculations' and 'imprudent economic decisions'. And in each of these evaluations one hears an echo of an ethical and moral nature. Man's condition is such that a more profound analysis of individuals' actions and omissions cannot be achieved without implying, in one way or another, judgments or references of an ethical nature.... Not to observe [the 'second tablet' of the Ten Commandments] is to offend God and hurt one's neighbor, and to introduce into the world influences and obstacles which go far beyond the actions and brief life span of an*

individual. ... *This general analysis, which is religious in nature, can be supplemented by a number of particular considerations to demonstrate that among the actions and attitudes opposed to the will of God, the good of neighbor and the 'structures' created by them, two are very typical: on the one hand, the all-consuming desire for profit, and on the other, the thirst for power, with the intention of imposing one's will upon others. In order to characterize better each of these attitudes, one can add the expression: 'at any price'. In other words, we are faced with the absolutizing of human attitudes with all its possible consequences. Since these attitudes can exist independently of each other, they can be separated; however in today's world both are indissolubly united, with one or the other predominating. Obviously, not only individuals fall victim to this double attitude of sin; nations and blocs can do so too. And this favors even more the introduction of the 'structures of sin' of which I have spoken. If certain forms of modern 'imperialism' were considered in the light of these moral criteria, we would see that hidden behind certain decisions, apparently inspired only by economics or politics, are real forms of idolatry: of money, ideology, class, technology"* (ibid. #36-37; emphasis added).

Certainly, not only nations and blocs can fall victim to the desire for profit and the thirst for power but also businesses. Therefore, it is extremely important for ethical leaders to initiate and to support systemic changes for the development of ethical corporate structures. As mentioned earlier, ultimately, organisational actions result from individual decisions; therefore corporations, as organisations, have no conscience (this statement does not deny synergy in organisations). However, organisations can and should provide a framework to support right ethical decisions of its members. The framework is provided by corporate structure and organisational culture.

The corporate playing field is strongly influenced by the surrounding economic and legal system. As Korten (1998) has put it, financial institutions as proprietors of corporations demand that corporate managers define their own task purely as short-term profit maximisation. Managers not satisfying that demand risk the buy-out of their corporation or their removal from their managerial positions by large shareholders. The market, Korten adds, does not care about how corporations increase their profits. In many cases corporations reply to the pressure of financial institutions by destroying the natural environment which is the base of human civilisation. As pointed out above, in the business world ethical decision making is a complex, multidimensional phenomenon that has to be aligned with economic considerations. In addition, the intention to make ethically right decisions is hindered by many different obstacles. To overcome the obstacles economic decision makers should consider some guiding principles. One of those principles is that, although people and the natural environment are often made the means of the economy, the primary mission of companies is not profit but the efficient fulfilment of the needs of individuals and the community. In other words, analogously to Jesus' statement in Mar. 2.27, the economy was made for man, and not man for the economy. Environmental protection should also be regarded within this framework; environmental protection based on economic interests is necessary but insufficient to solve the overall problem of environmental degradation.

The economic goals of companies should be determined by considering ethical aspects. The morality of organisational members and the way in which organisational structures and cultures support (or hinder) ethically right actions continuously interact and shape one another. Morality is important both at the personal level and at the level of organisational structure and culture; therefore, strengthening only one of those components is insufficient. At the macroeconomic level both the illusions that "the invisible hand of the

market will put it right” and “legislation and government know how to solve the problem” should be avoided. Both market and government are important but insufficient; the market alone will not encourage ethical decisions and the law is incapable to reflect all spheres of life, let alone to force everybody to act morally right. Real ethical corporate decisions should stem from the morality of organisational members, from ethically right organisational structures and cultures, and, of course, from market and governmental pressure.

To establish an ecologically and socially sustainable economy, besides financial considerations, other aspects (ethical arguments) should also play an important part in economic decisions. In a better economic system an essential element should be small, personally committed, and locally owned enterprises, as opposed to large and impersonal corporations having little or no local commitment. This development would have the following advantages (Baranyi, 2003):

- personal contacts with the local community are strengthened;
- employment of local people is supported;
- company commitment to the interests of the local community is strengthened;
- the probability of exploiting local people and local resources then moving the plant to another place is decreased; and
- unlike impersonal and absentee proprietors and management, local enterprises are easier for local communities to hold accountable.

Conclusion

The environmental problematique is a very complex, interdependent set of problems deeply rooted in the prevalence of materialism and of the structures of sin, particularly the desire for profit and the thirst for power. Thus, the environmental problematique is also directly linked to the social injustice and tensions all over the world. According to Schumacher (1975), *“there is now enough evidence to demonstrate that the statement [of Keynes] is false in a very direct, practical sense. If human vices such as greed and envy are systematically cultivated, the inevitable result is nothing less than a collapse of intelligence. A man driven by greed or envy loses the power of seeing things as they really are, of seeing things in their roundness and wholeness, and his very successes become failures. ...In short, we can say today that man is far too clever to be able to survive without wisdom. ... The assertion that ‘foul is useful and fair is not’ is the antithesis of wisdom. The hope that the pursuit of goodness and virtue can be postponed until we have attained universal prosperity and that by the single-minded pursuit of wealth, without bothering our heads about spiritual and moral questions, we could establish peace on earth, is an unrealistic, unscientific, and irrational hope. The exclusion of wisdom from economics, science, and technology was something which we could perhaps get away with for a little while, as long as we were relatively unsuccessful; but now that we have become very successful, the problem of spiritual and moral truth moves into the central position”* (Schumacher, 1975; pp. 31-33.; emphasis added).

For the solution of the problematique not only cleverness but also wisdom, i.e., the knowledge of truth and the way it is achieved, is needed. Practical cleverness based on wisdom is the only way not to *“try and cure a disease by intensifying its causes. [Wisdom] can be found only inside oneself. To be able to find it, one has first to liberate oneself from such masters as greed and envy. The stillness following liberation – even only momentary – produces the insights of wisdom which are obtainable in no other way”* (ibid, p. 38). From a

Christian perspective it must be added that the ultimate source of wisdom is God. Wisdom is obtainable because God liberates us from greed and envy and because in silence God can call us.

Taking both ethical and economic considerations into account in business decisions is indeed possible by using ethical criteria to choose the *set of possible alternatives*. Moral principles should serve as a screening tool to decide what may and may not be done by companies from a moral point of view. Only after the morally possible set of actions have been identified (on the basis of value-rationality) should the goal-rational approach be applied, i.e., what tools are optimal to achieve the selected goals. In other words, first, the question of “what” then the question of “how” should be answered. Catholic social thought provides well-founded values (respect for creation, solidarity, responsibility for the poor, the imperative to avoid the structures of sin, etc.) and orientation to answer both questions.

As regards environmental economics, it should be based much more on moral grounds. Similarly, business ethics should be an end by itself instead of being a mere instrument of profit. Based on ethical considerations, the current methods of economic assessment of the natural environment should be applied more carefully. CBA is a useful tool to calculate a subset of environmental values but CBA is incapable to assess the entire value of nature. It is a must that, as a first step, the methodological limits of CBA are highlighted in CBAs so that nobody will believe that measuring the immeasurable is possible. Changes should be fostered also at the European Commission and other high-rank public decision-making bodies so that public investment projects will not be assessed and compared solely on the basis of net present value and internal rate of return. One must be very careful since if we persuade our generation that the value of all beings can be measured solely by money, the next generation may take this position nearly as an axiom. In such a disastrous scenario, as Cox (1999) has put it, we would end up in a situation when “*every thing in what used to be called creation becomes a commodity [and] human beings begin to look at one another, and at themselves, in a funny way, and they see colored price tags*”. Christians have the “map” and the “compass” to avoid such a situation.

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