VISUAL 4.1
SELF-INTEREST VS. SOCIAL GOOD

PART A

In recent years, some people have developed the impression that immoral behavior exists only among individuals in the private, for-profit sector. This impression was reinforced by the failures of two major corporations.

- Enron Corporation was an energy-trading company. Using questionable accounting practices, it manipulated its earnings to disguise large losses. Its bankruptcy in 2001 was a major corporate failure brought about by fraudulent practices.
- Global Crossing is a major telecommunications company. It filed for bankruptcy in 2002 amid accusations that company executives made personal fortunes while shareholders lost billions of dollars.

PART B

Question: Are leaders in government and the nonprofit sector immune to immoral behavior?

PART C

Answer: Unfortunately, no. Moral failures exist among leaders in business, government and the nonprofit sector:

- In 2005, 17 Chicago government officials were under indictment for corruption in a truck-hiring program and for gross abuses in the city's contracts for minority and women-owned businesses.
- In 2005, 52 Florida government workers were arrested for selling thousands of commercial driver's licenses to illegal drivers.
- In 2006, federal officials alleged that 14 employees and others associated with the Red Cross stole donations intended for victims of Hurricane Katrina. Officials charged 49 suspects in the theft of about $200,000.
- In 2006, the financial manager of the Salvation Army in New Jersey was charged with embezzling more than $385,000 from the organization between 1995 and 2002.

Moral: No sector of society is immune from human failings. Improving the moral character of people in all walks of life makes society work better.

VISUAL 4.2
THE MARKETS AND ADAM SMITH'S INVISIBLE HAND

PART A

Many people are skeptical of market systems. They fear markets may foster values that are harmful to society such as

- discrimination.
- dishonesty.
- excessive competition.

PART B

Question: Many economists view markets differently. They say that markets generally contribute to the social good, not evil. Can you think of reasons why markets might serve the interests of society?

PART C

Answer: Within a basic system of justice, competition forces businesspeople to consider the interests of others if they are to succeed. A business cannot make a profit if it ignores the desires of consumers, who make up 70 percent of the economy.

This concept is brought home by a famous quote from Adam Smith, considered the founder of economics:

[Every individual] neither intends to promote the public interest, nor knows how much he is promoting it . . . . [H]e intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention." (Adam Smith, *The Wealth of Nations*, eds. R.H. Campbell and A.S. Skinner, Indianapolis: Liberty Press, 1981 [1776], 456)

VISUAL 4.3
THE ECONOMICS OF DISCRIMINATION

PART A

You are the manager of the Bigger Box Discount Store, and you want to hire a new worker in the food-service department to manage the popcorn concession.

- You will pay the worker a wage of $10.00 an hour.
- You charge consumers $1.20 for a bag of popcorn. After deducting the cost of the popcorn, you will have $1.00 left over to pay the worker and earn a profit.
- The new worker must make and sell an average of 10 bags an hour for the popcorn concession to break even.

PART B

Question: You have two candidates for the job: Which candidate will you hire and why?

- A man the same race and age as you who can make and sell eight bags of popcorn an hour
- An older woman whose ethnic background is clearly different from yours and who can make and sell 20 bags of popcorn an hour

PART C

Answer: If your goal is to maximize profits, you will accomplish this by hiring the worker who makes and sells 20 bags an hour. To the profit-motivated manager, it is profit — not race, age or gender — that provides a basis for decision making. In general, businesses run for profit have an incentive to hire the most productive workers regardless of race, gender, age or religion.

PART D

Government faces no consideration of profit when it makes hiring decisions.

VISUAL 4.4
MARKETS AND RACIAL DISCRIMINATION

Markets cannot solve all of society's problems, including rampant discrimination. Sometimes, however, the profit motive can lead businesses to play a role in creating new opportunities for the disadvantaged.

For example, between 1874 and 1964 various state and local laws in Southern states required segregation of the races. During this "Jim Crow" era, almost all public places including schools and transportation systems were required to maintain separate facilities for whites and blacks. But Southern streetcar owners early in the 20th century refused to discriminate against African Americans because discrimination reduced their profits.

One manager complained that Jim Crow segregation laws increased costs because the laws required the company to "haul around a good deal of empty space that is assigned to colored people and not available to both races."

African Americans boycotted streetcar lines that obeyed the laws and discriminated against them. Some African Americans formed competing horse-drawn carriage companies.

In Augusta, Savannah, Atlanta, Mobile and Jacksonville streetcar companies refused to enforce segregation laws for as long as 15 years after the laws were passed.

But one by one, the companies succumbed as government pressure for segregation grew and began to outweigh the costs imposed by the penalty on profits.

In 1954, the U.S. Supreme Court declared in *Brown v. Board of Education* that segregation in public schools was unconstitutional. Other segregation laws were repealed with passage of the Civil Rights Act of 1964.

Source: Jennifer Roback, "The Political Economy of Segregation: The case of segregated streetcars," *Journal of Economic History*, 56, no. 4 (December 1986): 893-917, as adapted in "Discrimination" by Linda Gorman in *The Fortune Encyclopedia of Economics*, edited by David R. Henderson (New York: Warner Books, 1993).

VISUAL 4.5
LIMITATIONS OF MARKETS

Competitive markets can provide incentives that work against discrimination. However, markets have sometimes contributed to discrimination:

American professional baseball was once characterized by rigid racial segregation. Some owners hired only white players because of long-standing racial prejudice. Other owners feared fans would react negatively at the box office if they hired nonwhite players, so discrimination existed for economic reasons.

Nonmarket factors also influence people's behavior: Some business owners may value their social status more than profits. These owners might condone racial or gender discrimination even if discrimination reduces their profits.

Moral norms and values are influenced by many institutions:

- competitive markets
- families
- religions
- schools
- voluntary organizations