# Rational Choice I

**Part 2 of a Video Tutorial on Business Ethics**
Available on YouTube and iTunes University

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Lightly Edited Transcript with Slides

## Introduction

Welcome to Session 2 of this tutorial in business ethics. In the first session we had a look at why we have ethics, and we tried to get past some myths and misconceptions about the field. Today we're going to start the serious business of developing a framework for making ethical choices and analyzing ethical issues. This has two parts. In the first part I'm going to show you a condition for making rational choices, and in the second part I'll show you two additional conditions.

Here's the outline for today. I'll start by saying a little bit about rational choice and give some caveats. Then we are going to move into the main material, and finally wrap up with a case study involving someone who's looking for a job.

Let me remind you that ethics is about making the right decision. It doesn't judge whether you are a good person. It simply gives us some advice as to how to live in a reasonable way and get along with each other.

I'm going to make a case that neglecting the interests of others is illogical and irrational, but not because it will necessarily hurt us in the long run. It may, but there's something inherently illogical about not caring about others. This may seem hard to believe, but let's see why it's true.

I'm going to present to you three conditions that an ethical and rational choice must satisfy: have a

**Rational choice**

- Necessary conditions for rational choice:
  - Have a consistent rationale.
  - Be consistent with your goals.
  - Be consistent with who you are.

Logical Consistency Report



**Caveats**

- These conditions don't mean much until you start applying them.
  - It's like physics class.
  - You have to do the exercises.

$$\oint \mathbf{E} \cdot d\mathbf{A} = q / \varepsilon_0$$

$$\oint \mathbf{B} \cdot d\mathbf{A} = 0$$

$$\oint \mathbf{E} \cdot d\mathbf{S} = -d\Phi_{\mathbf{B}} / dt$$

$$\oint \mathbf{B} \cdot d\mathbf{S} = \mu_0 i + \mu_0 \varepsilon_0 d\Phi_{\mathbf{E}} / dt$$

consistent rationale, be consistent with your goals, and be consistent with who you are. I want to emphasize that these aren't going to mean much to you until we actually start applying them. It's like a physics course. You can stare at equations like these on the slide, which are Maxwell's equations, and even if you know mathematics, they won't mean much to you until you start working the problems. In a physics or chemistry course, you spend most of your time working the problems. It's the same in ethics.
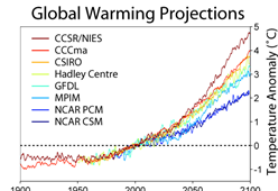
**Some Caveats**

I have to warn you that there's no quick answer in ethics. You can't push a button and get the right ethical answer, nor can you do this in any field. We have this strange schizophrenic approach to ethics: either we say there's no right and wrong, that ethics is a matter of opinion or personal values, or we say the opposite and want an instant answer. We can't have it either way. There *is* right and wrong, and it *is* possible to approach issues objectively. On the other hand, we have to work at it. Of course, there are controversial issues in ethics. People often disagree. Yet people disagree in every field. That doesn't mean that there's no right or wrong. It just means the questions are hard. Ethics is hard, harder than mathematics. I know, because I do mathematics, too. You just have to be patient with yourself, because it takes time to learn this stuff and get good at it.

You may have taken an ethics course that presents frameworks for making a decision. Usually they



**Caveats**

- There are no instant answers.
  - As in any other field.
  - Training and experience are necessary.
    - You don't learn differential equations in a 20 minute session.

$$\frac{\partial N}{\partial t} = (b-d)N + \frac{c}{3\sigma}\left[\frac{\partial^2 N}{\partial x^2} + \frac{\partial^2 N}{\partial y^2} + \frac{\partial^2 N}{\partial z^2}\right] + \sqrt{(b+d)N}\frac{\partial^4 \widetilde{W}(t,x,y,z)}{\partial t \partial z \partial y \partial x}$$
$$- \frac{\partial}{\partial x}\left[\sqrt{J_x}\frac{\partial^3 W(t,y,z;x)}{\partial z \partial y \partial t}\right] + \frac{\partial}{\partial x}\left[\sqrt{J_x}\frac{\partial^3 \widetilde{W}(t,y,z;x)}{\partial z \partial y \partial t}\right]$$
$$- \frac{\partial}{\partial y}\left[\sqrt{J_y}\frac{\partial^3 W^*(t,x,z;y)}{\partial z \partial x \partial t}\right] + \frac{\partial}{\partial y}\left[\sqrt{J_y}\frac{\partial^3 \widetilde{W}^*(t,x,z;y)}{\partial z \partial x \partial t}\right]$$
$$- \frac{\partial}{\partial z}\left[\sqrt{J_z}\frac{\partial^3 W^{**}(t,x,y;z)}{\partial y \partial x \partial t}\right] + \frac{\partial}{\partial z}\left[\sqrt{J_z}\frac{\partial^3 \widetilde{W}^{**}(t,z,y;z)}{\partial y \partial x \partial t}\right], \quad (3.32)$$



**Caveats**

- There is controversy in every field.
- This doesn't mean there is no right or wrong.
  - There are good arguments and bad ones.

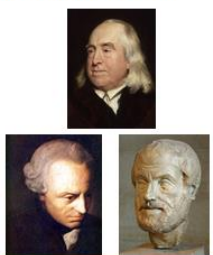Global Warming Projections

- CCSR/NIES
- CCCma
- CSIRO
- Hadley Centre
- GFDL
- MPIM
- NCAR PCM
- NCAR CSM



**Caveats**

- This is not a choice of different "frameworks."
  - Deontological
  - Consequentialist
  - Virtue ethics
- It is a single framework.
  - An ethical choice must meet multiple consistency tests.

are deontological, consequentialist, and virtue ethics. You're going to hear something like that in a few minutes from me, but what I'm not doing here is to present you three different frameworks for you to choose from, like a cafeteria menu. That's just not satisfying, because you can pick the one you like. These are not three different frameworks; they are three different kinds of test you have to apply to a choice to make sure that the choice is logical. It has to pass all three tests. So I am presenting to you one framework; otherwise, it's just not much good.

## The Generalization Test

The first condition for making a reasonable choice is to have a consistent rationale. To explain this, I'm going to begin with a premise: when we act, when we do something, we do it for a reason. There's a reason behind our actions. It may not be a good reason, but there must be a reason. That's what makes it an action. There's also a corollary: if certain reasons justify an action for me, they justify the same action for anyone to whom the reasons apply. Otherwise, they're not reasons.



Have a consistent rationale



**Basic idea**
- Basic premise: we always act for a **reason**.
  - Every action has a rationale.
- **Corollary:** If a reason justifies an action for **me**, it justifies the same action for **anyone** to whom the reasons apply.



**Basic idea**
- I steal a watch because I would like to have it.
- If this is sufficient reason for me, it is sufficient reason for anyone.
  - If not, then perhaps it is because some people think they will get caught.
  - Then part of my reason is that I don't think I will get caught.
    - Let's assume the security at this shop is relaxed.



**Generalization test**
- So my reasons for stealing the watch are:
  - I want the watch.
  - I don't think I will get caught.
- Then I am deciding that all who want a watch and don't think they will get caught should steal one.

Let me explain what I mean by that. Suppose that I walk into a department store and see a display of watches. The new watches are not under glass; they're not protected; there's no alarm; there's no security guard standing around. So I decide that I'd like to have one of those watches. I just walk by the display and put one in my pocket. Why did I do that? Because I'd like to have a new watch. If that's a good reason for me to take a watch, then it's a

good reason for anyone who wants a new watch to take one. I'm deciding that anyone who wants a new watch should take it.

Now you might object that some people would be reluctant to take a watch because they might get caught. Actually, one of my reasons for taking the watch is that I'm not going to get caught. I actually have two reasons. I'd like to have a new watch, and I'm looking around: there are no security cameras, no security guards, and no alarm at the door. I'm saying that anyone who walks into a department store, would like to have a new watch, and can take one without getting caught, should do so. Either these are reasons, or they're not. If they're reasons, then they're reasons for anyone to whom they apply. I am deciding for anyone who walks in the store: if those two reasons apply, take the watch.

Now suppose that everyone in fact does what I recommend. Everyone who wants a new watch, and can get away with taking one, does so. People are walking into Macy's Department Store and taking watches. What's going to happen? The store is going to put the watches under glass, install an alarm, have a security camera, and it will no longer be possible to get away with stealing them. In other words, I am *not* deciding that other people should take a watch when they can get away with it, because if they do what I recommend, I won't be able to do it myself. My reasons will no longer apply, because I'll no longer be able to get away with taking the watch.



So I'm saying, yes, these are good reasons to take a watch – you want it, and you can get away with it – but I'm also saying no, no, they aren't good reasons, either. I wouldn't have other people acting on these reasons, because if they did, the reasons wouldn't apply any more. They wouldn't even apply to me. That's inconsistent! Make up your mind. Are they good reasons, or not? Which is it? It's both. They are good reasons and not good reasons. That's contradictory. There's something inconsistent there.





I'm not saying that people will in fact come in to steal watches. I'm not predicting what people will do. I'm only saying that if they did steal, I wouldn't be able to do it myself. The reasons for

my action are inconsistent with the assumption that other people act on the same reasons. This is called the *generalization test*. It says that the reasons for an action have to be consistent with the assumption that others who have the same reasons act the same way, and that's not true in the case of stealing a watch. That's our first test.

**Cheating and Free Riding**

What's wrong with cheating on exams? I have often asked my students this. I've been teaching for many years – I won't say how many – and I have found that students can almost never articulate what's wrong with cheating on exams. They say they might not get away with it, they might not be qualified for their job, and so forth. But is this why cheating is wrong?

Let's look at the reasons you might cheat on an exam. Maybe because you can get away with it, and secondly, and you'll get a good grade and that job you want. So there are two reasons. Of course, most of the people in the class may have these same reasons. Most of the people in the class want good grades and a good job. Suppose they act on those reasons, so that everyone cheats. They all get A-plus. Everyone in the school is getting A-plus, and when a would-be employer looks at the transcripts, all the grades from applicants are A-plus, A-plus, A-plus. So what's the grade worth? Nothing. It'll no longer get you the good job.

Cheating works only if other people don't do it. Yet they have the same reasons to do it that you have. That's why it's not generalizable. The reasons for cheating are not consistent with the assumption that everyone who has the same reasons acts the same way. So cheating fails the generalization test.

There are a couple of corollaries of the generalization principle, or different ways to put it. One is that you should avoid an action that, when generally adopted, would undermine a practice it presupposes. For example, if cheating were practiced generally, it would undermine the grading system.

Another is the free rider principle, which is a special case. If you've visited cities in northern

Europe like Amsterdam or Copenhagen, you may know that when you get on the bus, they don't check if you have a ticket. It works on the honor system. You are expected to buy a ticket and be honest about it. So you can get on the bus without a ticket and probably get away with it. This is called free riding. Why do you do it? To get a free ride. But suppose everyone who wants a free ride, and can get away with it, boards the bus without a ticket. The bus system would go bankrupt. It wouldn't be able to afford this, and it would start checking tickets. So free riding doesn't generalize. That's why it's not ethical.

Another way to put this is that you should avoid action that, if generally adopted, would defeat the purpose of the action, such as cheating.

**Identifying the Reasons**

You have to be a bit careful about what your reasons are. Let's suppose, for example, that Gertrude Grosvenor walks into a department store. She sees those new watches and says, "I'd like to have a new watch, I can get away with stealing it, and as a third reason, I'm doing this because my name is Gertrude Grosvenor. I happen to be the only person the U.S. with the name Gertrude Grosvenor. So this generalizes perfectly well. If everyone who wants a new watch, can get away with stealing it, and whose name is Gertrude Grosvenor steals a watch, I'll still be able to do it myself, because I'm the only one with that name. Doesn't that pass the test?"

It passes the test, but her name is not part of her reason for stealing. She has to get the reason right. There are actually two problems: the name is not *her* reason, and it's not even *a* reason. It's not her reason because: Suppose that, just before walking into Macy's, she gets a call from her mom, and her mom said, "Gertrude, I was just digging around in the attic and found your birth certificate. It turns out that your legal name is actually Genevieve. It's not Gertrude. You're really Genevieve Grosvenor." So is Genevieve going to say, "Darn, I can't steal that watch, because my name is not Gertrude"? No, she's not going to say that. Her name is not the reason. It has to be her reason. In fact, it has to be *a* reason. Your name really has nothing to do with whether you are going to steal something, at least in most cases. It has to be a rationale that has something to do with the action, and then you apply the test to those reasons.

How do we tell what are the reasons for an action? They have to be necessary and sufficient for the action. That's the criterion. For example, in the case of Gertrude, her name was not necessary for her stealing the watch; it really wasn't relevant. On the other hand, we have to put in all the sufficient reasons: the fact that she wants the watch and can get away with stealing it. So the reason is the set of necessary and sufficient conditions under which you would perform the act. We call this the *scope* of the action. The scope of the action is the set of circumstances under which you would perform it. It's the scope, or the set of reasons, to which you apply the generalization test I'm talking about. This will get a little tricky when we get down to real cases. Nonetheless we have to do it.

**What is the real reason?**

- The reasons must be necessary and sufficient.
  - "I am Gertrude Grosvenor" isn't **necessary**.
    - She would steal the watch if her name were different.
  - "I can get away with stealing a watch" isn't **sufficient**.
    - I must also want the watch.
- The **scope** of the action must be correctly identified.

**Jennifer's Job**

Let me wrap up with Jennifer's dilemma. Jennifer is looking for a job. She's been interviewing and learns about an attractive opening in New York City, at Glamour Finance. It's exactly the right job for her. She has all the right skills. The firm is enthusiastic and wants to hire her. Unfortunately, shortly after her interview, there's a global credit freeze, and the firm stops all hiring. They say, "Jennifer, I'm sorry, we just can't offer you job right now." Meanwhile, she receives another offer or two, and it's getting late in the semester. Her classmates are bragging about their good jobs and are saying, "Jennifer, where's your job?" Her parents are calling her up to say, "Jennifer, do you know how much tuition cost we had to pay to send you to that school? We want to see a job." So the pressure is building, and finally she gives in and takes a job at a consulting firm in Cleveland, Ohio.

A few weeks later, Jennifer gets a phone call from the bank in New York City, and they say, "Jennifer, guess what! We got this great taxpayer-funded bailout, and we're hiring now.

**Jennifer's job**

- While interviewing for jobs, business student Jennifer learns about an attractive opening.
  - Glamour Finance Inc. in New York City.
  - The job is perfect for her.
  - The firm is enthusiastic about her.
  - Shortly after her interview, there is a global credit freeze.

**Jennifer's job**

- Meanwhile Jennifer receives other, less attractive offers.
  - Her classmates are bragging about their jobs.
  - Her parents are asking questions.
  - She accepts a job with Midwest Consulting in Cleveland, Ohio.

It's wonderful! So come on up to New York and sign the papers." Jennifer says, "Uh, let me get back to you on that."

She has a dilemma. She's already signed with one firm, weeks ago. They're expecting her to show up for the first day of work. She has an agreement, a contract. On the other hand, she really wants this job in New York, and her friends are pushing her. They say, "Jennifer, don't worry about it. What are they going to do? Just take the job in New York and go ahead with your career."



Is that ethical? Let's have a look at it. I can tell you that most of my students want this to come out a certain way, and you can probably guess what way that is. But not all; if I take a poll of the class, there are people on both sides of the issue. What I'm going to do is to apply the test I just talked about and see how it comes out.

We have to look at Jennifer's reasons. Why does she want to break her current contract and go to New York? She wants a better job; that's her reason. Suppose everyone who can get a better job by breaking their current contract does so. It becomes universal practice. Whenever you find it convenient to break an employment contract, you just blow it off. Now what? The contracts wouldn't mean anything. People blow them off whenever they want to. Why should a company promise you a job, when they know that as soon as you get a feeler from someone else, you're going to forget about this company? Why should they bother with you, if you're not going to bother with them? There wouldn't be any employment contracts any more. If we break contracts whenever we want to, we lose the whole point of having contracts.



Jennifer wants a contract from the bank in New York City. She doesn't want to show up on the first day at work and find that the job's not there. She wants them to promise her a job, and she wants that job to be there when she shows up. However, when the company in Cleveland is ready to start *her* employment, they want her to be there as well – but she's going to blow that off. So you see the problem. If everyone is going to blow it off, no one would bother with agreements and contracts. They wouldn't mean anything. So it's not generalizable. Jennifer wouldn't be able to fulfill her purposes if everyone did the same thing.

If you think about it, the reason we have agreements and contracts is that we keep them when we don't want to keep them. If we only keep agreement so when want to, we don't need agreements. We just do what we want, and everything's fine.

Jennifer might say – and my students say this – if you read the contract, there's an escape clause in there. You can give notice that you're going to leave, there are options to turn down the job for a penalty, or maybe there's some kind of employment-at-will language in the contract. That is, the contract doesn't actually promise employment, but only promises a salary if you are employed. So maybe Jennifer can slip out of this legally. Does that work?

The problem is that there is more than a legal contract involved. There is a job market going on here. A job market is a practice in which people say "I'm going to offer you a job," and they mean it, and other people say, "I'm going to take that job rather than this one," and they mean it. Suppose people didn't mean it. Suppose people could change their mind anytime, after they signed. Then they wouldn't have a job market any more.



It's like an auction. Suppose I am the auctioneer and take some bids. When I take the last bid, I say, "Going once, going twice, sold!" But someone out there says, "Hey, wait a minute. I'd like to bid, too." I respond, "OK, I'll take one more bid, just one more. Sold!" When I go home that night, I get a phone call: "I was at the auction today, and I'd like to bid, too." I say, "OK, I'll take one more bid."

This auction is not going to work, because you never know when you've bought the merchandise. The auction is never over. At some point, when you say "I'm buying it," you have to mean it, and when I say, "I'm selling it to you," I have to mean it, or the auction will break down.

It's the same for a job market. At some point, when you say, "I'm hiring you," or "I'm working for you," you have to mean it, or the whole thing will break down, and you won't have a job

market any more. Jennifer will show up on the first day at work in New York City, and they'll say, "Jennifer, I hope you read your contract. It says XYZ. We don't have a job for you." Jennifer says, "Now wait a minute! You told me I have a job! I rented an apartment, I moved my husband here, and you're telling me the job's not here?" They respond, "Jennifer, just read the contract." There's something wrong here. What's wrong is that if everyone does this, the whole practice breaks down. It no longer means anything to have a job market.

How long did Jennifer promise to work for the firm in Cleveland? The rest of her life? No, of course not, but longer than zero; longer than two days. She promised to work for them for the time being, just as they promised to employ her for the time being. Suppose she goes to work and, after two days, they say, "Jennifer, we don't like you, and we're going to hire someone else." Now if she's not doing the job, that's fine. But if she's doing the job, and they simply change their mind after two days, there's something wrong there. Likewise, Jennifer promised to work for them at least for a while, which is longer than two days. The promise may be vague, but it's nonetheless a promise.



**Jennifer's job**

- How long must Jennifer work for Midwest?
  - For **the time being**.
  - Similarly, Midwest promised to employ Jennifer for the time being.
  - Accepting a job means, "I have decided which job to take."
  - Hiring someone means, "We have decided whom to hire."

Suppose Jennifer goes to Cleveland and talks to them about this. In Cleveland, they say, "You know, Jennifer, we understand you want this job in New York City, and as it happens, we found another candidate for our position who would actually work out better for us that you would. So let's just call the whole thing off." Jennifer says, "Great." Is that OK? Does that generalize? Sure. Let's think about it. Suppose you have a contract and you decide, by mutual agreement, to nullify the contract. Suppose everyone does this. Whenever people have a mutual agreement to get rid of a contract, they do so. Does that undermine the practice of agreements and contracts? Of course not. We do that already, and it works fine.

So if there's mutual agreement, fine, Jennifer can go to New York. But it has to be mutual agreement. Cleveland must really be willing to let her go. If they simply say, "Well, Jennifer, we see we're going to lose you anyway, so go ahead," that's not mutual agreement.



**Jennifer's job**

- Suppose Midwest agrees to **release** Jennifer from her contract.
  - Perhaps they found someone else they like better.
  - Or they would rather not hire someone who wants to work somewhere else.
  - Nullifying contracts by **mutual agreement** is generalizable.
  - But Midwest must **voluntarily** release Jennifer form the contract.



**Jennifer's job**

- But suppose Jennifer can make a much more valuable contribution at Glamour.
  - Can this override the generalization test?
  - We will come back to this.

One final consideration. Suppose Jennifer reasons: "If I work in Cleveland, that job just isn't right for me, I'm not motivated, the customers aren't going to be satisfied. But in New York City, the job is perfect for me, I'm going to make the company successful and please the customers. So people are going to be a lot better off, including me, if I take the job I want. Doesn't that count for something? Doesn't that matter in ethics? Don't you ethics guys think about that?" Yes, we do. It's called utilitarianism, and we'll talk about that in the next session, which is Part II of Rational Choice. See you then.



**Next**

Rational Choice, Part II.