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CONTRACTARIAN BUSINESS ETHICS: A RATIONAL MORALITY APPROACH

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Abstract: Contractarian business ethics approaches are dominated by the application of Rawlsian premises to practical, business-related issues, where moral principles serve as constraints on firm behavior and its attempts to maximize profit. A contractarian theory of business ethics that is based on rationality addresses the tension between moral premises and self-interested profit maximization by showing that moral principles can be the outcome of rational interactions. In the present paper, I examine the extent to which rational morality can reinforce business ethics by incorporating moral considerations in the corporation's profit maximization functions, and thus strengthen the argument for business ethics as complimentary, not constraining, to business operations. The sole responsibility of a business is indeed to maximize its profits.

Keywords: *rational morality, contractarianism, business ethics*

1. INTRODUCTION

This paper aims to show that a rational morality theory for business ethics is methodologically and conceptually more appropriate than commonly used approaches that rely on Rawlsian premises and egalitarian outcomes. The Rawlsian influence is especially pronounced when it comes to characterizing individual behavior in mainstream business ethics. The proposed business ethics paradigm that is based on rational morality reconciles the tension between ethical behavior and the profit-making nature of corporations and economic agents. This tension stems from the differences between the two theoretical paradigms, Rawls's theory of justice which relies on presuppositions about individuals' moral sense, and economic theory which relies on assumptions of self-interest and mutual unconcern.

In this framework, Friedman's (1970) argument that business responsibilities are limited to profit maximization can be supported. Friedman was speaking perhaps empirically and describing what he thought should be the nature of firm behavior in the real world. However, Friedman's argument is also based on implicitly normative premises. His argument depends on economic theory assumptions about rational agency, which allows for predictive accuracy but it is not meant to be descriptively accurate. As such, firm behavior in economic theory contradicts its actual behavior; economic theory makes an unrealistic and oversimplifying assumption to be able to create theoretical models. Therefore, firms ought to behave rationally for economic theory; this 'ought' does not have ethical implications as in ethical theory, but it is still normative in nature.

The conflict between the nature of firms and business ethics is similar to the conflict between self-interest and morality, one of the foundational issues in moral philosophy. In economic theory firms must behave selfishly – an economic agent's primary objective is the generation of profit by definition. As such, a firm's priority is not ethical, or socially responsible behavior. This is a fundamental assumption in economic theory, which is not meant to describe the real world but rather to establish a theoretical framework that leads to successful predictions in the economic marketplace. Hence, the theoretical framework of the current argument is normative and theoretical rather than descriptive and empirical (Donaldson and Dunfee, 1999).

Mainstream business ethics, influenced by Rawlsian approaches to ethics and justice, calls for constraints on profit maximizing behavior thus conflicting with economic theory. For example, the argument against a business that pollutes the environment cannot be based on economic theory as long as the said business maximizes its profits. Business ethics argues for constraints on the firm's behavior that will affect its profitability. However, a morality-based argument that constrains profit maximization is problematic because a firm is by definition a profit-maximizing organization. A rationality-based moral theory is more powerful as it can be applied in the economic marketplace without contradicting the nature of firms. In this sense, a theory of rational morality that is based on rationality and mutual unconcern (Vallentyne, 1989) is more appropriate to address business ethics.

The basis for the current argument is moral contractarianism, where the social contract is used as a mechanism for deriving rules of morality and justice. The idea of a contract is especially powerful and relevant to market interactions and business ethics. The foundations of economic thinking are also contractarian as they rely on rational agency, mutual benefit, and agreement, methodologically and theoretically. Economics here is understood methodologically as the discipline that studies rational choice theory and social interactions in an environment of scarce resources, not empirically as the study of the economy (Chang, 2014). Morality is understood in the present argument as any action, behavior, or circumstance that promotes social as opposed to exclusively individual benefit. As such, it is very close to Pareto optimality whereby all individuals within a society are better off, without anyone becoming worse off (Cudd, 1996). In a narrower sense, and more in line with the contractarian thinking followed in the current paper, morality refers to a code of behavior that is agreed upon by all reasonable agents within a society (Gert and Gert, 2020). The current argument builds on Rawlsian ethical theory and the Integrative Social Contract Theory and offers an approach to business ethics that is more soundly linked to rational agency and self-interest.

2. RAWLSIAN BUSINESS ETHICS

Rawls's account of justice has been the most widely used in business ethics, despite it being mostly cited, rather than applied in detail (Néron, 2015). Rawlsian theory's framework and egalitarian outcomes have had the greatest influence on the theoretical premises and ideal outcomes in business ethics. For Rawls reasonable agents will agree on principles of justice. His theory is contractarian in that the just outcome is the result of agreement among individuals. However, assuming reasonableness is problematic for business ethics because business ethics addresses economic behavior which relies on rationality. The tension between reasonable and rational behavior is never convincingly addressed in mainstream business ethics. Rawls's is a liberal theory of justice, allowing for disagreement and compromise; "because reasonable citizens are reasonable, they are unwilling to impose their own comprehensive doctrines on others" (Wenar, 2021). However, markets, where firms operate, are not liberal and open to compromise when it comes to making profit. Citizens and firms are fundamentally different and as a result, the theory examining their behavior cannot rely on the same premises.

There has been significant work in the literature examining the feasibility of applying Rawlsian principles to business ethics and the possibility of amending the principles of *A Theory of Justice* to address business world interactions. Singer (2015) accepts that Rawlsian ideas are useful to situate business ethics, but he argues that "Rawls's methods and principles to the ethical and governmental dimension of the corporation" (ibid: 2) cannot be applied to the field of business ethics. For Singer, "corporations are not subjects of a political conception of justice" (ibid: 20). The corporation as a voluntary association of individuals is fundamentally different from social and political institutions; as a result, firms exist outside the basic structure as presented in *A Theory of Justice* (Rawls, 2005).

Néron (2015) argues that Rawls's egalitarian theory of justice falls short of being able to analyze and provide normative guidelines for moral behavior in the corporate and business realm. He acknowledges the "obvious tensions between the standard egalitarian commitments of justice" (Néron, 2015: 94) and market unequal outcomes. Néron's argument also relies on egalitarian premises but instead, he focuses on relational as opposed to distributional justice. As such, his contribution follows the Rawlsian tradition of business ethics whilst proposing relational justice as a way to address the shortcomings of egalitarian business ethics.

Similarly, Norman (2015) starting from the fact that "liberal egalitarians have had very little to say about rules and regulations for such markets" (ibid: 29) shows how economic theory and sociology can enrich Rawls's theory of justice when applied to businesses. For Norman, Rawls's *A Theory of Justice* does not explicitly address the issues of justice that concern firms, employers, and employees; "political philosophers cannot possibly evaluate the justice of political-economic systems without finally opening the 'black box' of the business firm" (Norman, 2015: 31).

Most of the recent approaches to business ethics share a Rawlsian starting point and egalitarian ideals in attempting to examine or apply some of the premises of Rawls's theory to business ethics (Heath et al., 2010; Hsieh, 2008; Moriarty, 2005; O'Neill, 2008), or explain why this is not possible as is the case with Singer (2015). As such, these approaches start from assumptions about human nature that contradict the core assumptions of economic theory. As a result, their sensible conclusion is that profit-maximizing behavior lies outside the basic structure, or that amendments are needed in order to apply Rawlsian principles to the corporation (Norman, 2015).

Binmore (1994) further explored the social contract theory in the context of rational agency and bargaining. Their work significantly promotes the argument for a moral contract that does not rely on moral premises. However, their argument is also Ralwsian assuming a morally-biased starting point; individuals are assumed to have a sense of fairness. This is perhaps a plausible assumption but the account proposed here is stronger in that it starts from stricter assumptions about the absence of a moral sense.

The present argument highlights how moral contractarianism based on the premises of self-interest and instrumental rationality is better equipped to examine market interactions and business ethics. Rawlsian inspired business ethics calls for constraints on rational maximization; on the contrary, the proposed account argues for a rationality-based morality. Moreover, most contemporary justice theorists argue for justice in the context of an ideal observer that in practice is transformed into state intervention and regulation. Rational morality as presented in *Morals by Agreement* (Gauthier, 1986) (*MbA*), does not require intervention or enforcement by a third party for justice to be achieved. Therefore, it can be applied to business interactions in the non-ideal free market. Business ethics that relies on rational morality will not have to act as a constraint on profit maximization as in Rawlsian business ethics, but rather allows for a morality encompassing profit maximization.

The principles of justice that apply generally in society, also apply to profit-seeking organizations, and thus there is no need for a moral contract specifically tailored to business ethics (Heath et al., 2010). The focus here is on examining how the moral social contract is applied to marketplace interactions by corporations, employers and employees, and consumers (French, 1979). In this respect, business ethics is a sub-discipline of moral philosophy (Moriarty, 2005).

Business ethics is about the “evaluation, justification, or critique of all of the following: market systems; the regulation of markets and firms; the self-regulation of firms, and the activities for businesses or the individuals working for, or interacting with businesses” (Heath et al., 2010: 428). As such, there is a clear link between rational contractarianism and business ethics in that they both accept the importance of maximization and assume self-interested agents as well as absence of third party enforcement. In any case, Rawls’s emphasis on reason and social institutions cannot as satisfactorily account for the actions of mutually unconcerned agents, as is the case in *MbA* and rational morality. Rationality rather than reason explains profit maximization.

3. WHY CONTRACTARIAN BUSINESS ETHICS?

There is a need for business ethics and there are several schools of thought that address business ethics. However, contractarian ethics is the most appropriate branch of ethics for business ethics because of the shared assumptions of maximizing behavior for both individuals and firms.

The social contract refers to a social arrangement that is based on implicit or explicit agreement for mutual benefit. In political philosophy, the agreement is more often seen as one between the people and the state, or among the people in order to justify the state. Moral contractarianism is broader as it addresses issues of moral and social behavior, not politics specifically. Hence, contractarianism can be seen as a general method to derive mutually beneficial principles from social interaction. The force of the contract lies in the fact that contractors voluntarily enter it and have incentives to comply with the agreement. Even in the case of classical political contractarianism as introduced by Hobbes, the Leviathan is the result of common agreement among rational agents whose aim is to further their interests, without concern for others (Hobbes, 1976). “The persuasive power of such an argument hinges on the insight that a state *without* normative regulations is undesirable” (Luetge, 2013: 632). Similarly, a society without moral norms is undesirable as a “war of all against all” inhibits rational maximization.

Specifically, with business ethics, the social contract can take many forms. It can be an agreement among agents in the economic marketplace, between individuals or companies and the economic aspect of the state, businesses, and consumers, and businesses and employees (Marcoux, 2008). On the contrary, the argument put forward here is that the social contract is primarily a method to derive moral rules for society as a whole, and as such, it applies to all institutions and individuals within the given society including profit-making businesses. The social contract that regulates behavior in the business world has to entail rules for relationships within companies, interactions between companies, and also the relationship between consumers and companies. These rules must be in accordance with the rules of the general social contract, without contradicting the theoretical premises of the existence of profit-making organizations, namely profit maximization as described by economic theory.

Business studies is intrinsically linked to economic thought as the two fields share the notion of utility maximization as the basic assumption for human motivation. Also, both economics and business examine economic interactions and the behavior of economic agents who aim to maximize profit. Economics is to an extent a contractarian discipline as it is based on agreement for mutual benefit. This is clear in *An Inquiry into the Nature and Causes of the Wealth of Nations* (Smith, 2014) where economic interaction is seen as a means to maximize social welfare, as well as reach individual maximization goals. The former is achieved through the latter, which is seen as the outcome of mutually beneficial agreements. The contractarian interpretation of economic thought is also clear in contemporary economics where rational maximization and interactions between economic agents are the cornerstones of economic theory. The links and similarities between economics and contract theory have been examined and highlighted before (Buchanan, 1975).

Rational individuals engage in interactions aiming to maximize their individual utility and although they do not consider others' utility, coercion would violate the rational agency assumption; an agent who is coerced into adopting a certain strategy cannot be said to be rational because rational agency requires that one decides one's goals and aims (Hargreaves–Heap, 1989). The contract metaphor is uniquely powerful in political and moral philosophy as its only requirement is that agents want to do well; should this requirement be fulfilled, moral and political norms are established to the benefit of all. In economics, the supply and demand model, given the assumption of individual rationality, is an equally powerful mechanism that ensures mutual benefit for interlocutors.

Both economic theory and social contract theory argue that self-interested agents who interact can reach mutually beneficial, socially optimal outcomes (Wells, 2013). As such, it is not strange that business ethicists have used the contract as a heuristic and justificatory device for marketplace ethics. Donaldson and Dunfee (Donaldson and Dunfee, 1994) proposed the Integrative Social Contract Theory (ISCT) as a way to reconcile empirical with normative business ethics. Ultimately they offer a successful and innovative framework for contractarian business ethics, whose normative aspect is based on Rawlsian, and ultimately and implicitly egalitarian moral philosophy. The paper's argument builds on ISCT sharing a lot of its premises but approaches rational agency differently.

4. INTEGRATIVE SOCIAL CONTRACT THEORY

ISCT entails two types of contracts: "macro" hypothetical contracts that dictate moral norms and "micro" contracts that determine actual behavior (Donaldson and Dunfee, 1999). The two are interdependent and complement each other; micro-contracts are informed by the ethical moral norms of the macro-contract and apply these norms to the local, practical level. So ISCT considers both the abstract contract and the subsequent moral rules, and the practical applications of these rules in everyday issues such as business transactions. Donaldson and Dunfee's theory contributes to the social contract theory tradition as well as to business ethics. ISCT proposes a social contract for business that is Rawlsian at its core but with some differences in its assumptions of agency. Contractors are rational and aware of their preferences, but similarly to Rawls's framework, ignorant of their economic circumstances once the contract is established. As such, the economic theory assumption of rational agency, which entails complete information, cannot be incorporated into ISCT.

Moreover, ISCT assumes that "contractors do not come to the table entirely bereft of moral principles" (ibid: 27). Thus, ISCT relies on the premise that individuals are naturally ethical, or at least that they have an understanding of morality, in terms of both their moral outlook and their economic behavior. Allowing for rational agents to be "constrained by bounded moral rationality" (ibid: 28) addresses the issue of compliance only to an extent; moral agents will comply with the terms of a given agreement but rational agents will not. Compliance is a problem for all rationality-based contractarian theories but in the case of ISCT, it is aggravated by the assumption of bounded rational agency and the context of economic transactions. There is no clear answer in ISCT as to whether the moral part of agency is adequate to ensure compliance, or whether the rational side of the person wins.

The assumption of bounded moral agency is problematic on two further accounts. Firstly, it requires economic actors to have a type of moral baseline, whereas in economic theory agents are assumed to be a-moral. Secondly, this baseline is common among interlocutors so that they can reach a moral agreement. The problem here is that economics and business are universal in that they are based on objective, formal principles of rationality and utility maximization, whereas this is not the case with morality, especially when we are talking about descriptive morality, practical applications, and the real world. The assumption of bounded moral rationality is similar to bounded rationality but with the added premise that individuals behave under ethical constraints, which play a role in their decision-making process. Donaldson and Dunfee assume that agents have some moral considerations while allowing for a modified version of rational agency. Both of these premises are problematic for economic interactions where agents are assumed to be self-interested, mutually unconcerned, utility maximizers.

There are two lines of criticism for ISCT in the literature. One is about the dynamic nature of moral norms, particularly in the business world (Dunfee, 2006) and the second one is about the vagueness and theoretical approach to moral behavior, which does not allow for straightforward applications (Heath, 2009; Wempe, 2008). It seems that these are almost generic criticisms that can be raised against all philosophical theories that examine practical issues and applied ethics. The practical application of moral philosophy has always been a problem and this line of criticism has more to do with the ambitious scope of ISCT rather than its theoretical coherence. Similarly, the dynamics of social life can be a problem with most theories examining society, although this is perhaps more easily addressed through theories that consider social conventions, evolving norms, and evolutionary dynamics, which have also been suggested in the context of social contract theory (Young, 2001; Skyrms, 2004). However, it seems that the main weakness of ISCT is its Rawlsian premises and the subsequent incompatibility with economic activity, and therefore, with business ethics. Starting from an assumption that agents have a moral capacity, it becomes more likely, if not certain, that the outcome of their interactions will be ethical.

ISCT assumes rational agency as well as a capacity for moral behavior. This is problematic for business ethics, because managers, corporations, and, perhaps to a lesser extent consumers, do not take into account moral norms and ethics when making decisions in the marketplace. This is especially true theoretically when we examine economic behavior, in which case all economic actors are assumed to be self-regarding maximizers. It is also true in practice; in the real world, a company does not and is not expected to behave ethically, because if it does not maximize it goes out of business and cannot exist. A company can make ethical decisions, but only once it has fulfilled its primary objective, the generation of profit. Similarly, consumers, more often than not, buy goods that offer the best value for money. Hence, ethical norms may play a role in economic decision-making, but only secondarily. The economic agent, in this case, might have a moral sense, as described in ISCT, but this may be one of the factors that influence the agent's decision-making process, which is defined by self-interest.

5. MORALS BY AGREEMENT FOR BUSINESS ETHICS

The reliance of contractarian ethics on Rawlsian approaches to ethics and morals is problematic for business ethics theories, given that business is based on economic thinking, and consequently, profit maximization and self-interest. Business ethics literature assumes that agents are reasonable, have limited knowledge, and, critically, that they have a moral character. This is in conflict with economic assumptions of agency that require mutual unconcern. Rational agency and rational interactions uniquely offer "the view from nowhere" (Nagel, 1989), irrespectively of cultural, emotional, or other prejudices. This is particularly true in the business world, where profit maximization is the primary if not the single motivation for action. Also, it is especially useful in the increasingly internationalized business world. The result of internationalization is that moral and social norms are rarely commonly known and accepted. For this very reason, rationality as the basis for morality and ethics is particularly relevant and useful today, in addition to being part of economic theory that dictates business behavior.

Some of the most influential work on contractarian business ethics relies on assumptions of pre-existing moral norms; "(...) successful economic communities require (...) a foundation of ethical behavior. At a minimum, business done efficiently often requires a certain level of trustworthiness" (Donaldson and Dunfee, 33). This approach is problematic for two reasons. Firstly, it is in conflict with economic theory assumptions of rational agency. Secondly, it does not address practical issues of corporations and individuals maximizing irrespective of pre-existing ethical considerations and moral norms. Certainly, not all corporations behave unethically as a routine. However, the present argument aims to address the instances of unethical behavior just like theories of rational morality assume a lack of moral agency. Starting from amoral premises to build an ethical theory can lead to a stronger theory as it addresses individuals and organizations irrespectively of their pre-existing moral character.

Morals by Agreement proposes a contractarian theory of morality that relies on self-interested agents, thus deriving morality from rationality. For Gauthier, justice is the result of rational interaction and morality coincides with rationality given a set of conditions. This is perhaps a restrictive approach to justice, but it is necessary if we start from assumptions of rational agency. Gauthier's approach allows linking economic thinking, which is the basis of business operations, with moral behavior and ethics and as such, is a better fit for market interactions, given that firms' primary responsibility is to make a profit (Friedman, 1970; Broome, 1999).

The following paragraphs offer a brief overview of the contractarian theory of moral rationality as presented in *MbA*. In doing so, conceptual links are drawn with business ethics approaches in order to highlight why Gauthier's theory is a more appropriate mechanism to examine and argue for normative business ethics than the prevalent Rawlsian approach.

5.1. RATIONAL MORALITY: FROM A MORAL FREE SPACE TO A MORALLY FREE ZONE

Morals by Agreement introduces a theory of justice based on rational agency, which is what makes it relevant to business ethics. This theory is developed by introducing a number of conditions that qualify rational agency.

The argument starts with a morally free zone. This is an ideal market defined by private ownership and consumption, absence of externalities, and market certainty; a state of moral anarchy where moral rules are not needed. As such, there is no need for moral constraints on rational maximization, nor can there be a moral assessment of behavior (Hausman, 1989). The ideal market as a morally free zone contrasts interestingly with the notion of a "moral free space" (Donaldson and Dunfee, 1999: 83), which is assumed to be an area where moral norms develop within higher order constraints. The vital difference between the two is that Gauthier's morally free zone does not require or assume moral agency, whereas the moral free space starts from and interacts with existing moral norms.

A theoretical model of business ethics would require nothing more than the premises of an ideal free market as a starting point since the ideal free market is a place of moral anarchy. Companies interacting within an ideal market would reach an optimal equilibrium thus addressing ethical considerations. Similarly, relationships within companies and between employees and employers would be determined by the principles of the ideal free market, reaching an equilibrium that satisfies conditions of normativity and efficiency. The ideal market and the subsequent morally free zone "show that there would be a morally free zone in ideal interaction" (Gauthier, 1986: 93), where it is possible to have an impartial society, without constraints on maximization and coercion. Economic interactions in the ideal market lead to social optimality. Should optimality be shown to also be moral, we can have a framework for morality in economic theory and therefore, a framework for business ethics that only requires agents and corporations to maximize profit.

Scarcity in non-ideal markets makes bargaining and cooperation essential. Cooperation multiplies individual factor endowments and creates a surplus that would not be available otherwise. In turn, the existence of surplus creates a need for its distribution and therefore, bargaining. Bargaining between rational agents leads to a mutually accepted division of the cooperative surplus. The optimal outcome is one where the magnitude of the concession required by each bargainer is a minimum (ibid). Each agent compares the concession she makes at the bargaining table with the concessions others make and only accepts the agreement if she feels the difference between these concessions is not too great. In other words, the maximum concession one is prepared to make is the minimum of all alternative concessions (ibid). This is the definition called Minimax Relative Concession. The concept moves the focus of bargaining from individual rationality to the bargaining outcome, making bargaining the vehicle in which rational utility maximization coincides with impartiality. The implication is that rational interlocutors will only agree on a mutually beneficial bargaining outcome. Thus, in rational morality there is a constraint on rational behavior but as opposed to alternative theories of business ethics, this constraint is derived from rational, not ethical premises (ibid).

The ideal market model shows how morality is redundant in a perfectly rational world; even in the case of scarcity and market failures, rational interaction reaches an optimal equilibrium without moral constraints. Bargaining, just like rational agency and market competition, complements business operations. Given an ideal market, interactions, and bargaining, businesses and economic agents are only required to act rationally to reach optimal outcomes. Hence, provided that corporations have similar bargaining power and want to maximize, the outcome of their interactions is optimal. However, this is not usually the case for interactions between consumers and corporations, or employees and employers. The original factor endowments can and usually do instantiate impartiality. Impartiality or injustice at the beginning of interactions will be transferred to the bargaining outcome. A coercive or unequal starting bargaining position may lead to an equilibrium that is similarly coercive or unequal, despite the existence of rational agency and the possibility of bargaining. A mechanism is then needed to ensure that bargaining starts from a non-coercive, impartial position that is rationally acceptable. This mechanism in Gauthier's theory is called the 'Lockean Proviso', according to which "appropriation is unobjectionable if what remains is more than others could use or appropriate" (van der Vossen, 2021: 183). The original factor endowment distribution must be impartial, and the initial bargaining position non-coercive, for an impartial bargaining outcome to be reached. If one is being taken advantage of or coerced, then one has no reason to comply with any agreement made. Furthermore, the Lockean Proviso demands that no one benefits by worsening another's situation; it "prohibits worsening the situation of another person, except to avoid worsening one's own through interactions with that person" (ibid: 205).

The requirement for the Proviso has direct implications for market interactions between parties of significant power inequalities, such as the interaction between a consumer and a corporation. In the market, interactions can be said to take place between the body of consumers and corporations and as such, ensure a similar factor endowment distribution, not between a single consumer and a corporation. A mechanism such as the Lockean Proviso may be seen as a moral constraint on rational maximization, which is also the criticism against Rawlsian approaches to business ethics. However, the difference lies in the fact the Proviso does not require rational agents to alter their strategies or behavior, nor does it make any assumptions about their moral character. Rather, it is merely an assumption about the original factor endowment that is essential for rational maximizers to reach social optimality. The only assumption that is not always in line with rational agency, is the need for interactions. The proposed argument relies on the assumption that interactions do indeed take place and that power discrepancies are not extreme. This is not problematic in most cases of business ethics; a corporation, no matter how big, needs individual consumers. At the same time when a small group of consumers reacts to a corporation's practice, that would mean that a utility maximizing corporation can avoid all interactions and ignore all complaints. Ultimately, if there are rational interactions, within the environment of rational morality then they will also be moral. If there are no interactions at all, there can be no discussion about rationality or morality anyway.

Constrained maximization is added to the framework of rationality and bargaining described so far to ensure rational compliance. Constraining one's maximization, not maximizing, is rational given that others also constrain their maximization. Constrained maximization yields optimal outcomes while maximizing individual utility within a given environment. An interaction between constrained maximizers yields higher utility for the individuals by comparison to straightforward maximization, while at the same time leading to a socially optimal outcome. Hobbes's Leviathan forces individuals to keep their agreements. On the contrary, constrained maximization is voluntary rational compliance. A constrained maximizer chooses a strategy that does not strictly maximize her utility as maximization takes place within a society of similarly disposed agents and thus, over time and repeated interactions. This enables her to participate in future interactions with constrained maximizers, which increases the overall benefit (ibid). A constrained maximizer cooperates as long as she expects others to constrain their maximization as well and as long as she expects that her behavior will create a higher cooperative surplus. In other words, constrained maximization is a strategy of conditional cooperation. In addition, it is a rational strategy; an agent who constrains her maximization is still rational but "reasons in a different way" (ibid: 170). Put differently, a constrained maximizer is willing to compromise with less than full utility maximization in a given instance, provided that the rational agents she interacts with are willing to do the same, thus maximizing their utility, within the constraints of strategic, social interaction.

Finally, the Archimedean Point is introduced in *MbA* as a position from which a rational individual can be impartial about the social arrangements that will be the result of the social contract: "The Archimedean point is one from which a rational individual may exert the force needed to govern the moral realm" (ibid: 234). Unlike Rawls's original position (2005) and Donaldson and Dunfee's assumptions about economic ignorance (1999), the person at the Archimedean Point is a rational actor with full knowledge of possible capabilities and preferences; "freed not from her individuality but from the content of any particular kind of individuality" (Gauthier, 1986: 233). She is not aware of her position in society, which makes her impartial and unbiased. She has no way of knowing how her choice of an ideal social structure will affect her personal situation and this puts her in a position to decide impartially about the optimal social arrangement. The introduction of an objective point of view is used to show that an impartial observer will make choices that are in accordance with those made by rational agents.

Ideal observers of the type of the Rawlsian veil of ignorance, including the assumptions made in the Integrative Social Contracts Theory (Donaldson and Dunfee, 1999) imply the existence of impartiality outside the social realm and are disconnected from individual rationality. The agent at the Archimedean Point is not restricted by idealistic assumptions to the same extent as in other models of ideal observers such as those proposed by Sidgwick (2012) and Rawls (2005). This means that the overall argument that is based on the choices made at the Archimedean Point can be integrated more easily into a normative theory of social behavior, where the basic assumption of and motivation for human action is self-interest. Donaldson and Dunfee's approach to agency behind the veil of ignorance is definitely much closer to business ethics and economic interaction requirements than Rawls's. In this respect, assuming that agents are ignorant only about their economic situation, Integrative Social Contract Theory is similar to Gauthier's Archimedean Point, if we consider that the starting point is the Rawlsian veil of ignorance. However, Gauthier's approach allows for economic agents to make decisions, and as a result, is more appropriate to examine the business behavior of these agents.

The conditions discussed in this section provide the circumstances for justice and also the definition of morality in the context of rational morality. At the same time, they can be criticized for smuggling non-rational components in a theory of rational morality. This might be true to an extent since the qualifications discussed here muddle rational agency. However, they are an improvement on previous qualifications of rational agency by Rawls and Donaldson and Dunfee, as they require less morality. Moreover, the account of rational morality presented here does not interfere with the assumption that economic agents are primarily, if not exclusively, rational and self-interested. Rational morality as argued for in *MbA* may not be the perfect solution for a theory of business ethics in terms of its rational premises, but it is an improvement by comparison to previous paradigms.

6. RATIONAL MORALITY IN BUSINESS ETHICS

Rational agents choose to interact with similarly disposed agents, participate in cooperative groups and maximize over time instead of immediately. As such, the suggested account of rational morality is based on an understanding of rational agency that considers one's social environment. In this respect, rational agency in *MbA* is conceptually close to accounts of bounded rationality, similar to the one used by Donaldson and Dunfee, and it can easily be seen in the light of micro and macro contracts.

The critical difference between *MbA* and ISCT is that despite any modifications to assumptions about rational agency, *MbA* does not allow for moral considerations as opposed to ISCT. *MbA* expands the circle of morality by arguing from a self-interest point of view, thus allowing for individuals and corporations with and without a moral predisposition to be included. The argument for a business ethics, the possibility of profit-orientated businesses behaving ethically cannot entail assumptions of ethical motivation because then it is in conflict with the fundamental assumptions of economic behavior and profit maximization. This is even more applicable when thinking about organizations rather than individuals. If a firm were assumed to have moral sense, who in the firm will be held morally accountable? By assuming that a firm has no moral capacity, issues of collective moral accountability are bypassed. Further assuming that firms only have rational capacity is in line with mainstream economic theory; rational firms, maximize profits.

Theories of ethics are concerned with ethical individual action and motivation for ethical behavior, as well as with examining the content and nature of what we call ethics. Business ethics is different in that it focuses on businesses and economic agents. As such, a comprehensive ethical theory that assumes moral character, such as Rawls's, cannot be easily applied to the field of business ethics. Similarly, the business ethics theory proposed by Donaldson and Dunfee, although an improvement from mainstream Rawlsian ethics, is problematic because it makes assumptions about individuals' moral nature. Rational morality contractarianism bypasses these problems because morality is derived from rationality and therefore, economic agents behave morally without assuming a moral starting point or moral constraints.

Business ethics has to be able to offer a resolution to the tension between individual rationality, morality, and corporate responsibility, or else the theory is too weak to address issues of ethics in profit-making organizations. Morality usually calls for respecting established moral norms and rules whereas corporate responsibility, broadly understood, requires profit maximization. Rational morality allows for such reconciliation by arguing, similar to Friedman, that economic agents and corporations cannot have moral considerations, or have moral incentives. However, that is not to say necessarily that the outcome of their rational, utility maximizing behavior cannot be moral. Maximizing profits is the primary responsibility of a business; if there is a social responsibility for profit-making organizations then this can only be fulfilled once profit has been realized and hence, Friedman sets the problem of business ethics in the right context. If we are to argue that a firm has other aims than maximizing profits, then we commit a logical fallacy since by definition a firm is a for-profit organization. For Friedman, just like for Gauthier, a private business operates in a morally-free zone; moral considerations are not applicable or relevant.

A market is morally free because economic agents, including profit making organizations, interact with the sole aim to maximize profit, reaching an optimal equilibrium. Given that economic theory assumptions about ideal competition hold, there are no externalities, market failures, or coercion and as a result, the equilibrium reached is mutually beneficial and Pareto optimal. In the ideal market "[t]here are no values, no 'social' responsibilities in any sense other than the shared values and responsibilities of individuals" (Friedman 1970: 6). In this understanding, morality within the market is redundant. This does not have to mean that economic actors are immoral, but that moral considerations cannot be part of the decision-making process of a utility maximizing agent. Gauthier offers the theoretical background to Friedman's practical approach to business ethics, thus linking ideal with non-ideal theory (Thompson, 2020; Wenar, 2021). This theoretical framework, described in section 5.1, relaxes the theoretical framework of economic theory accepting the need for joint strategy and the absence of extreme power inequalities through the Lockean proviso. As such the theoretical framework in *MbA* offers a more plausible account of human behavior than mainstream economic theory. As a result, the proposed theoretical framework incorporates rational, self-interested behavior and moral outcomes thus leading to a plausible account of business ethics.

Economic theory does not include morality because it does not need to in order to reach an optimal, mutually beneficial outcome. The ideal market as a morally free zone is a tautology from an economic theory perspective. The issue here is not about the morality of market activities but that there cannot be such an argument as a result of the definition of economic agents. The argument in the current paper incorporates morality into economic theory and subsequently, business behavior, and as a result, it bypasses the problem of constraining rational maximization for ethical reasons.

The idea of a perfectly competitive market as a morally free zone is only one of the components required to establish a just society. Just like in Friedman's account, the emphasis is not on a society-wide arrangement but on the economic marketplace exclusively. As such, in the theoretical realm, Gauthier's approach to markets is similar to Friedman's in that they both assume ideal markets, and moral anarchy; economic markets, and subsequently businesses and business ethics, must be morally free. However, ideal markets do not exist in reality, and therefore bargaining is required to distribute scarce resources. Gauthier, unlike Friedman, is putting forward an argument for justice, starting from an ideal market but introducing real-life considerations such as selfishness. Moreover, Gauthier's argument, unlike the arguments by business ethicists, is not limited to the idealized economic marketplace because of the underlying agency assumptions: individuals are self-interested, not moral. In non-ideal markets, there are externalities and market failures and as a result, there is competition and bargaining over scarce resources which favors those with greater power or original factor endowments.

One can object in that we see a violation of these principles daily, either in cases of monopolies or oligopolies where businesses do not operate at equilibrium as defined by economic theory for ideal markets or in employees underpaying their employers. The rational morality answer to that is twofold. Firstly, rational morality makes an argument for a business ethics that both relies on and assumes rationality; therefore, irrational behavior in the economic marketplace cannot be addressed by a rational choice theory. The rationality morality theory provides a clear framework for rational agents to maximize: an underpaid employee must look for a different job. Secondly and related to the first point, violation of the rational principles of a contract would lead to the agreement collapsing in due course. Violating its rational principles can only mean that interlocutors do not maximize, in absence of coercion. The reason for the collapse is not the unethical behavior of one party but the rational expectations of all interlocutors. Firms whose products are overpriced or of bad quality will, sooner or later, be driven out of the market, just like employers who underpay their employees. The argument is based on rationality and to a certain extent is an elaborate economic theory argument, not an ethics one. However, the outcome is ethical. Moreover, the rational morality approach to business ethics does not require a social planner or enforcer; rational parties are expected to reach a sustainable agreement fulfilling rational premises. In that, it is similar to the anarchic nature of the ideal economy, where an equilibrium is reached as a result of rational interactions.

For business ethics, constrained maximization implies that customers should only interact with companies whose behavior is in line with the principles of constrained maximization. So in a more realistic setting, if a company has been known to make good quality products at reasonable prices, and a consumer cares about these characteristics then the consumer will be ready to buy from the said company. Similarly, job-seekers prefer companies with a good reputation and, at the same time, it is reasonable to assume that employers want to have a good reputation among job seekers. Reputation in this context is similar to disposition translucency; they are both mechanisms for one to predict interlocutors' future behavior and establish equilibria of constrained maximization that lead to profit maximization for private firms, within the constraints of strategic interactions.

Constrained maximization in this context is not exclusively limited to cooperative behavior in prisoner's dilemma games, but rather it includes all behavior that one deems acceptable. Thus, if one is interested in the ethical sourcing of agricultural produce, one is more like to engage in repeated interactions with a company that does so, constraining her maximization in that she pays a higher price. Similarly, if one is mostly interested in low-priced goods, she has reasons to constrain her maximization by traveling further to purchase these goods. It becomes clear then that constraining maximization does not presuppose a moral code, as it might as well lead to equilibria between straight-forward maximizers, or immoral agents. In a society where most individuals are disposed to be non-cooperators, the social equilibrium is bound to be non-cooperative.

Business ethics is meant to be applied to the economic marketplace and a moral theory whose roots lie in economic theory and mutual unconcern is better suited to realistically and plausibly address issues of morality and ethics in business, as it does not need to assume a non-economic motivation.

7. CONCLUSION

The current argument does not assume that profit-making organizations do not commonly behave immorally. However, it does assert that they sometimes do and that there is a need for an ethical theory that addresses immoral behavior of businesses, even if that is rare. As such, the frequency of immoral behavior is not a central issue here. The proposed rational morality argument wishes to expand the circle of morality to include even those organizations or individuals who have no moral sense. This leads to a more inclusive business ethics theory, which seems to be missing, especially when we consider the business practices that lead to the financial crisis of 2009, violations of confidentiality by companies selling their customers' private data, or even finer ethical issues such as the gender pay gap and race discrimination in the UK.

The concepts of a business or corporation and a rational or moral agent have been used interchangeably, ignoring issues of collective agency. For the present paper, agency coincides with economic agency, whether this includes collective entities such as businesses, corporations, or other profit-making organizations, or individuals such as consumers, employees, and employers or managers. As such, issues relating to collective agency and morality have been ignored. The implication is that the moral contract applies equally to interactions within companies as well as interactions between companies and other collective or individual agents. Collective agency is especially interesting in the context of rational morality and business ethics but it is beyond the aims of this paper.

Agents, including businesses, have been shown to maximize given social restrictions, namely the existence of other similarly disposed agents. The argument proposed is not exclusively based on rational or economic premises. However, this is more of a first step away from Rawlsian morality in business ethics rather than a complete economic morality theory. Business ethics that rely on principles of rational morality are more easily and comprehensively associated with business practices in general, and profit maximization specifically. Rational morality not only allows, but it requires profit maximization, and as such it does not operate as constraint on maximization; as a result, there is no need for a fundamental change in the nature of an economic agent.

For business ethics, a company has obligations, ethical and otherwise, towards stakeholders and society. The paper argued that the best way to identify and examine these responsibilities and retrieve their moral premises is a theory of moral contractarianism that relies on rational agency and mutual unconcern. Highlighting the links between rationality and morality, and even more, showing how it is possible to derive morality out of rationality, makes it easier to identify the ethical obligations of a profit-seeking organization or individual. In addition, it makes it easier to examine the distinction between ethical and economic responsibilities and addresses Friedman's maxim that for-profit organizations cannot have ethical responsibilities. A rational morality theory of justice shows that firms' ethical responsibilities are derived from their economic responsibilities.

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