

*Review*

## **Social Business, Business as if People Mattered: Variations on a Theme by Schumacher (1973)**

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**Abstract:** Economic growth is promoted as the solution to enhance the standard of living of the third of the world’s population living below the poverty line. Such growth, as measured by Gross Domestic Product (GDP), is unsustainable and predicated on increased production/consumption without sufficient consideration of what is consumed by whom. In essence this is because GDP is a mechanistic measure of quantity that ignores individual human welfare or quality-of-life. To rectify this, affluent consumers need to learn that materialism and selfish self-interest are unsustainable, whereas enlightened self-interest, as assumed by Adam Smith when promoting capitalism and free markets, will benefit everyone. “Social Business” and marketing are proposed as practices that will facilitate this transformation.

**Keywords:** economic growth; sustainability; self-interest; capitalism and “social business”

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### **1. Introduction**

As the Founding Editor of the relatively new (2011) journal *Social Business*, an invitation to contribute to this Special Issue on the theme “Challenges for Marketers in Sustainable Production and Consumption” is most welcome for at least two reasons. First, it offers the opportunity to increase awareness of the journal and its objectives and, second, it provides a platform for an argument that while marketing is often cast as the villain of the piece, responsible for promoting materialism and unsustainable consumption, it is also the discipline that has the greatest potential to encourage sustainability.

Recent years have seen a growing recognition that materialism and overconsumption have resulted in unsustainable growth that is depleting the world’s non-renewable resources, largely at the expense of

the poor with around a third of the world's population living below the poverty line. It is also compromising the welfare of future generations.

Business, and especially "Big Business", represented by major multinational corporations (MNCs), is frequently seen as being responsible for this state of affairs. While it is acknowledged that business must accept some of the blame, it is believed that this is greatly exaggerated. Further, given that in 2010 the world's largest 1000 companies earned \$32 trillion, employed 67 million people directly and accounted for 49% of the world market, it is clear that any solution to economic and social problems must depend heavily on their involvement. Indeed, we would go further and argue that only business has the skills, resources and global reach to initiate and maintain a drive towards sustainability and an overall improvement in human welfare.

In support of this argument we look first at the issues of scarcity and sustainability that need to be reconciled in order to achieve this goal. Our review suggests that scarcity has been a challenge for human ingenuity since time immemorial. It was not until the Enlightenment, beginning in the mid-seventeenth century, that scientific discovery enabled the technological and sociological revolutions through which people became better able to exercise control over nature and the environment. This ability precipitated a major shift in the Dominant Social Paradigm (DSP) from an emphasis on theology to the new discipline of economics with a focus on consumption and the pursuit of economic growth to make this possible.

At the heart of this transformation were two foundational premises spelt out by Adam Smith in his *Wealth of Nations* [1]. First, human behaviour is motivated by self-interest and, second, this is best served through the exchange of goods and services in free markets. A review of these premises indicates that interpretation of the assumptions underlying them became distorted with the passage of time as the result of efforts to make economics more "scientific" which, essentially, eliminated the consideration of human behaviour so as to make analysis more tractable to "objective", quantitative methods. While the macro objective was to improve human welfare through the pursuit of economic growth, there appears to have been an implicit assumption that this would be to the overall benefit of the various segments of the overall population. Then as now, increases in wealth associated with increased output were distributed differentially with greater rewards accruing to those with capital to invest and/or scarcer skills, while the unskilled had to accept the price their labour could command in a free market. Poverty was and is endemic and social/political policy has emphasised the need to re-distribute wealth to ensure a minimum standard of living for all by a variety of means but, ultimately, these are all based on a policy of economic growth so as to increase the size of the economic pie. In consequence, the market ceased to be governed by moral principles and materialism replaced it.

From the 1960s on there has been growing concern about the impact of materialism on both the environment and human welfare, accompanied by calls to factor these concerns into economic analysis and policy making. However, for this to be effective it will be necessary to transform the behaviour of affluent consumers by making them aware of the negative consequences of materialism and the need for sustainable consumption. In other words, to appeal to the individual's enlightened self-interest as assumed by Adam Smith [1], as opposed to selfish self-interest fuelled by incentives to consume more in pursuit of increased output as a measure of economic growth.

Given that business (and marketing) are seen to have been effective and responsible for stimulating consumption in pursuit of materialism, we propose that they may well suggest the techniques and

practices necessary to promote alternative lifestyles with an emphasis measured by well-being rather than material consumption.

## 2. Scarcity and Sustainability

Since the dawn of civilisation scarcity has been an issue of primary concern for humankind and remains so today. Recently, however, efforts to overcome scarcity by means of economic growth have created an equally important concern for the sustainability of efforts to eliminate poverty and increase human welfare. Paradoxically, by seeking to improve human welfare we are threatening to destroy it.

The root cause of this problem is a rapid growth of the world's population, which is projected to rise from seven billion in 2014 to nine billion in 2050. The threat of overpopulation is not a new one. As long ago as 1798 Thomas Malthus predicted that the world's resources could only sustain a finite population and asserted that when this number was reached the forces of disease, famine or war would restore equilibrium between demand and supply. While history has confirmed that these forces have, indeed, impacted on population growth it has nonetheless grown inexorably and continues to do so. With growing evidence of the environmental damage caused by the current population, over a third of whom subsist below the poverty line, it is clear that urgent action is required to mitigate the situation.

Modern concerns with sustainability began to develop in the 1960s as a reaction to the excessive materialism of the 1950s that followed the recessionary 1930s and the austerity of the 1940s and World War II. Within the rubric of "consumerism" two main themes emerged. First, damage to the natural environment epitomised by Rachel Carson's *Silent Spring* [2] and, second, exploitation of individuals, both employees and customers, by large corporations in the pursuit of greater profit. This second theme was central to Ralph Nader's "*Unsafe at any speed*" [3] in which he criticised General Motors for selling defective cars of poor quality due to cost-cutting.

The issue of global sustainability was the subject of a report published by the Club of Rome [4] and drew attention to the fact that at current levels of consumption, known reserves of many non-renewable resources could be exhausted by the end of the century. This concern was effectively brought to the attention of the general public some years later by the publication of EF Schumacher's book *Small is Beautiful: A Study of Economics as if People Mattered* [5]. The basic theme of Schumacher's argument is introduced in Chapter 1 "The Problem of Production".

Then, as now, there was a prevailing optimism that "the problem of production" had been solved so that human ingenuity and technological innovation could and would create a sufficient supply of goods and services to ensure universal human welfare. More than forty years later it is painfully clear that this is not the case with almost half of the world population living on or below the poverty line. Worse still, it has become increasingly apparent that the Panglossian belief that we have solved the production problem was based on a fallacy in which the perceived solution-increase productivity and economic growth-was actually exacerbating the problem it was claimed to solve.

Essentially, Schumacher identified the root cause of the paradox as a failure "to distinguish between income and capital where this distinction matters most" [5] (p. 11). In short, a failure to account properly for irreplaceable capital represented by natural resources that we take for granted—earth, air, energy and water. In addition, "One reason for overlooking this vital fact is that we are estranged from reality and inclined to treat as valueless everything that we have not made ourselves" [5] (p. 11).

The notion of scarce resources is central to the discipline of Economics, but it was not until after the Second World War that the potential for overuse and the exhaustion of certain finite resources represented by “Spaceship Earth” began to be recognised explicitly and factored into public policy and decision-making. When Malthus had predicted in his “Essay on the Principles of Population” [6] that a rapidly expanding population would overtake the means of sustaining it this was based on the observation that population increased geometrically, whereas growth in production increased arithmetically, with the result that equilibrium could only be achieved as a result of disease, famine, or war. This was certainly not a new insight as Adam Smith in his *Wealth of Nations* [1] had observed that, “Every species of animals naturally multiplies in proportion to the means of their subsistence, and no species can ever multiply beyond it.”

While Malthus [6] could not foresee that human ingenuity and technological innovation would greatly increase productivity beyond the arithmetic progression that had characterised agrarian production, this was merely to defer an inevitable outcome implicit in Smith’s earlier observation. As a result, as Schumacher [5] pointed out, mankind was consuming three categories of irreplaceable capital as if they were income-fossil fuels, nature’s ability to adapt to and recover from abuse, and what he calls ‘human substance’ by which he meant the satisfaction of human needs and wants.

An “exploratory calculation” (prediction being impossible) of the consumption of fossil fuels from 1966 (known) to 2000 (projected) indicated an enormous expansion by a factor of more than four. But, while consumption by the poor was expected to increase almost fivefold, consumption by the rich would more than double to 9.64 tons per head coal equivalent which is almost seven times as much as the 1.43 tons used by the poor who accounted for 77% of the total population (pp. 20–21) Schumacher [5] also noted that even if such an increase in the consumption of energy were possible, for example by substituting nuclear energy, “there would be a problem of thermal pollution on quite a different scale from anything encountered hitherto” for which, “there is no plausible solution” [5] (p. 23).

Based on his analysis Schumacher [5] observed: “An attitude to life which seeks fulfilment in the single-minded pursuit of wealth-in short materialism-does not fit into this world, because it contains within itself no limiting principle, while the environment in which it is placed is strictly limited” [5] (p. 23).

In turn, this ‘single-minded’ preoccupation was seen as being driven by economic policy that excluded ethical and spiritual considerations from its attempts to measure the human quality of “satisfaction” as a purely objective and quantifiable metric. In making this point Schumacher [5] cited Keynes whose analysis of recession had led him to advocate increased consumption and economic growth as the solution while acknowledging that this precluded a “return to some of the more sure and certain principles of religion and traditional virtue-that avarice is a vice, that the exaction of usury is a misdemeanour, and the love of money is detestable” [5] (p. 24). Further, according to Keynes [7] “Economic progress... is obtainable only if we employ those powerful human drives of selfishness, which religion and traditional wisdom universally call upon us to resist” which prompts Schumacher to comment “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” [5] (p. 26). To avoid this, Schumacher recommends that we should seek to re-humanise production through a process of downsizing manufacturing and encouraging small-scale operations which engage people in creative work and relationships that are “the true foundations of society” [5] (p. 30).

However, the main impetus for the current concern with social business occurred in 1987 when the United Nations published a report of the World Commission on Environment and Development, *Our Common Future*, usually referred to as the Brundtland report after its chairperson [8]. The report contains a comprehensive analysis of global concerns together with an agenda for future action as reflected in the following quotation [8]:

“The satisfaction of human needs and aspirations is the major objective of development. Sustainable development requires meeting the basic needs of all and extending to all the opportunity to satisfy their aspirations for a better life. To achieve this it will be necessary to satisfy a number of critical objectives including:

- reviving growth;
- changing the quality of growth;
- meeting essential needs for jobs, food, energy, water, and sanitation;
- ensuring a sustainable level of population;
- conserving and enhancing the resource base;
- reorienting technology and managing risk; and
- merging environment and economics in decision making”.

#### *Brundtland Report 1987*

Since the publication of the Brundtland report in 1987 [8] drew attention to the need for sustainable development, a series of influential publications have reinforced the message and highlighted the paradoxical position of marketing as both a perceived cause of and solution to the problem. On the one hand marketing is seen as fostering materialism and conspicuous consumption in which the rich become increasingly better off, but often at the expense of the poor who become increasingly worse off. Opponents of this view would argue that marketing helps determine what utilisation of scarce resources will result in the greatest overall satisfaction and so helps to solve the central economic problem of optimising the value added from the resources available. This is the primary concern of the discipline of economics. In other words, its major focus is analysing the nature of scarcity and in proposing solutions to alleviate the condition.

Modern economics owes its origins to the ideas promoted by a number of (mainly Scottish) moral philosophers in the mid-18th-century. Foremost among these was Adam Smith, who is widely recognised as the father of modern capitalism and the concept of ‘free markets’ guided by an ‘invisible hand’. This notion is the dominant model or paradigm for the majority of national economies today and has a major influence on the political process that determines how we live.

Following the financial crisis of 2008, and the global recession which followed, capitalism, and the economic thinking behind it, has been subject to much adverse criticism. In our view, much of this criticism is misguided based upon a misinterpretation of the original thinking that proposed free markets and competition would best achieve the objective of “maximising satisfaction”. Ultimately, satisfaction is the aggregate of the satisfaction experienced by everyone and is the basic measure of what is collectively described as “human welfare”.

According to economic theory, the additional satisfaction gained from the acquisition of another, marginal, unit of input or consumption declines. From this it follows that if we aggregate the individual satisfaction experienced by every member of the world's population, then the overall satisfaction experienced by that population would increase if wealth were re-distributed between the rich and poor as the latter would gain greater value from any increase in their consumption than that available to the former. And the force that prevents this from occurring is generally identified as "self-interest".

### 3. Self-Interest: Needs and Wants

The notion of "self-interest" was central to Adam Smith's conceptualisation of the market economy and has a major place in later re-conceptualisations of the nature of economics [1]. In our view, later conceptualisations of what has come to be identified as neo-classical economics lost sight of the underlying assumptions on which Smith's theory was predicated.

Before the Industrial Revolution of the mid-Eighteenth century, most exchange was characterised by a close relationship between buyer and seller. Exchange was mainly negotiated either in the market or on the premises of the producer/merchant. In the case of purchases made in the open market, the assumption of the English common law was that the onus rested with the buyer to ensure that the bargain was to their satisfaction, giving rise to the principle of *caveat emptor* or "let the buyer beware". However, such markets were subject to supervision and regulation by civic authorities, e.g., weights and measures, leaving it to the buyer to decide how much they were prepared to pay for a given product. Similarly, trades and crafts were subject to the standards and regulations of the guilds to which they belonged.

The Industrial Revolution was to change all this. Mass production led to the creation of mass markets and a physical and psychological separation between buyer and seller. Nonetheless, Adam Smith and his contemporaries believed that the benefits of this enormous increase in supply would be to the advantage of the individual through the operation of the market and the 'invisible hand' of free competition [1]. They also believed that this would occur because individuals would act in their own self-interest but it was assumed that this would be 'enlightened' in the sense that exchange would be to the mutual benefit of both parties – a win-win outcome. In my view this lies at the very heart of social business and my own discipline of marketing that I have defined as being concerned with "the creation and maintenance of mutually satisfying exchange relationships" [9] (p. 4).

Although Smith was not the first moral philosopher to analyse the implications of a factory-based economy and the Industrial Revolution it initiated, he is generally recognised as the father of modern economic theory. (In fact, Smith was the student of Francis Hutcheson at the University of Glasgow and developed many of his ideas. As always, precise attribution is difficult.) Adam Smith is best known for his *Wealth of Nations* published in 1776 but many of his supporters and critics seem unaware of the fact that this was a follow-up to his much earlier *Theory of Moral Sentiments* [1,10]. However, it is reasonable to assume that both his students and contemporaries were more than familiar with this work and interpreted the later book in terms of the philosophical principles spelt out in the earlier volume. Thus, in the later book Smith asserts "Consumption is the sole end and purpose of production" but sees no need to make any further reference to this axiom, presumably because his earlier work dwelt in great detail on the nature of man and self-interest. Indeed, the *Theory of Moral Sentiments* opens with the statement [10]:

“Howsoever selfish Man may supposed to be, there are evidently some principles in his nature which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it” [10] (p. 9). Clearly, man can distinguish between good and evil and will take into account the welfare of others in his own behaviour and actions.

In my view there is no conflict between this position and that of the most frequently quoted passage from *Wealth of Nations* [1]:

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow citizens”.

Of course, individuals are motivated by their self-interest and that of those closest to them but there is a world of difference between selfish self-interest and enlightened or mutual self-interest of the kind promoted by Smith in *Theory of Moral Sentiments* where he stated [10]:

“All the members of human societies stand in need of each other’s assistance, and likewise are exposed to mutual injury. Where the necessary assistance is reciprocally afforded from love, from gratitude, from friendship, and esteem, the society flourishes and is happy” (p. 14).

Unlike critics of Smith, I do not see him substituting a new doctrine of self-interest for the moral principles spelt out in his earlier work. In other words, Smith’s notion of self-interest is one mediated by moral principles and a concern for others. Further, if selfish individuals seek to ignore these moral principles a higher authority should enforce them by laws and regulation.

With hindsight it has become clear that Smith’s conception of competition became distorted from the original notion of monopolistic competition, under which no single supplier can exercise more than limited control over the market, to the view that advocates the survival of the fittest and the ultimate elimination of competitors—what has become known as “Anglo Saxon” capitalism. This version of capitalism is epitomised by the American and UK economies and the Friedmanite doctrine that competition between sellers must be encouraged by any means permissible within the law. And it was this form of capitalism which was advocated during the Cold War as the antidote to the evils of communism.

The fall of the Berlin Wall, and the collapse of communism that accompanied it, brought into sharp relief criticisms of the Anglo Saxon version of capitalism and the need for what Galbraith [11] called “countervailing power” to moderate the unrestricted pursuit of self-interest by “big business”. Such a system is to be found in the Germanic-Alpine version of capitalism that emerged in the mid-19th century under which the state intervenes in the interests of the individual citizens through a system of regulation—a true social democracy based on “social business”.

In a powerful “thought piece” published in the *Times* on 12 December 2011 the U.K.’s Chief Rabbi, Lord Sacks [12] posed the question “Has Europe lost its soul to the markets?” The theme of this rhetorical question, prompted by discussions between the political leaders of Europe on how to save the euro and the European Union, was that it was timely “for religious leaders to do likewise” in order to “help Europe to recover its soul”. In answer to the question what religion might have to do with economics, or

spirituality with financial institutions, he asserts that the market economy has religious roots and emerged in a Europe saturated with Judeo-Christian values, but that these values have become lost and differ radically from the ideas of 18th century thinkers like Adam Smith, who is commonly regarded as the founding father of modern economics. Lord Sacks observes [12]:

“Instead of seeing the system as Adam Smith did, as a means of directing self-interest to the common good, it can become a means of empowering self-interest to the detriment of the common good. Instead of the market been framed by moral principles, it comes to substitute for moral principle. If you can buy it, negotiate it, earn it and afford it, then you are entitled to it—as the advertisers’ say—because you’re worth it. The market ceases to be merely a system and becomes an ideology in its own right.”

However, in the pursuit of a “scientific” explanation of human choice behaviour in the marketplace, successive generations of academic economists found it necessary to suppress the existence of subjectivity so that they could adopt the idea of the ‘rational man’ who made decisions based solely on objective criteria amenable to quantification and mathematical modelling—a truly ‘scientific’ approach. While this invested economic analysis and prediction with a veneer of accuracy and authority, seized upon by policy makers and governments, it failed to capture the reality of human behaviour and, in effect, eliminated this from consideration. Doubtless Schumacher had this in mind in the subtitle of his book, namely, “Economics as if people mattered” [5], a sentiment that was reflected in increased interest at the time in a subfield generically identified as “humanistic economics” which prompted the publication of a book of this title by Mark Lutz and Kenneth Lux [13]. In a Foreword to this Amitai Etzioni wrote [13]:

“Neoclassical economics, and the paradigm that underlies it, have been criticised to perfection. No part has been left unscathed. The paradigm has been shown to be extremely unrealistic in its assumptions, especially its notions of a rational, self-centred individual, and of the existence of a self-regulating market. It has also been shown to be tied to a particular ideology, that of laissez-faire conservatism” [13] (p. vii).

Lutz and Lux’s book is a challenge to this paradigm and their “paradigm of humanistic economics builds on Maslow’s and other humanistic psychologies and on the concept of human needs” [13] (p. vii). Their approach is founded on what they term the dual-self that recognises that everyone has “both a nobler and a more debased element” [13] (p. vii). Basic needs are universal but culture may determine how these needs are interpreted and pursued.

Lutz and Lux attack economic imperialism and what they see as the “marketisation of society”. “Economics imperialism is a tendency of economists to explain non-economic behaviour in their own terms” [13] (p. viii). The authors prefer psychological explanations and argue for regulation of marketing practices.

Finally, Etzioni observes that “... the authors return to the tradition of the original political economics. They treat the economy as part and parcel of the society, the way it is more effectively treated” [13] (p. viii).

#### 4. Human Behaviour and the “Dual-Self”

In the view of Lutz and Lux [13], Maslow’s hierarchy captures the nature of Humanism in that it recognises how humans develop and mature and progress towards the goal of self-actualisation which reflects each individual’s ideal of the person they would like to be.

In his original conceptualisation Maslow [14] identified five levels in his hierarchy. To begin with there are Physiological needs that are essential for survival followed by Safety, Social (“Love”), and Esteem with the highest level identified as Self-actualisation. It was proposed that lower order needs have to be satisfied before one can move up the hierarchy to Self-actualisation. The qualities of the self-actualised person tend towards creativity and spontaneity “rather than impulsive and self-centred. They are non-power seeking; they tend to recognise the worth and value of others; their attitudes are highly democratic rather than authoritarian; they prefer decentralised organisation structures; and they prefer cooperative rather than competitive relationships with others” [14] (p. 13).

The notion of a hierarchy in the sense of “ordering according to relative importance” is to be found in the works of Plato and Adam Smith and many others. However, as modern economics evolved in the nineteenth century, Jevons was to make a distinction that “de-humanised” (my word) the discipline [15]. Paradoxically, but according to Lutz and Lux [13], the concept of objective needs was displaced with the notion of demand that is based on subjective wants as expressed through purchase behaviour. While social esteem may be facilitated by wealth, self-esteem is internalised and cannot be bought. Excellence and achievement may be rewarded with material wealth “... But it is the pursuit of money, instead of the pursuit of excellence and fulfilment, that is the problem for human development” [13] (p. 15).

While Maslow’s original conceptualisation of the Hierarchy of Needs is familiar to students of business [14], less attention has been given to his later work in the 1960s in which he acknowledged the problem of a linear progression from physiological needs to self-actualisation as the latter state could be achieved at any time, e.g., the person who sacrifices their life for a cause [16]. It was this recognition that led Maslow to distinguish between basic deficiency needs and the *growth* of self-actualisation needs (anchored by material needs at one end and spiritual needs at the other). Hence, the notion of the dual-self and the conflict between what they describe as Higher Self Growth Needs and Lower Self Deficiency Needs as illustrated in the following Table 1.

**Table 1.** “Some basic characteristics of the dual-self” [13] (p. 17).

Higher Self Growth Needs	Lower Self Deficiency Needs
Self-actualisation	Ego-aggrandisement
Truth seeking	Self-interest seeking
Reasonable	Rational (economic)
Principled behaviour	Instrumental behaviour
Altruism and love	Selfishness
Objective	Subjective
Transpersonal	Personal (individual)

Lutz and Lux accept that there is a need to moderate the mechanistic/reductionist interpretation of self-interest and recognise that there may be a state of ‘mutual interest’ which is the essence of my own definition of marketing [13]. In turn, mutual self-interest may be considered as lying somewhere on a

continuum anchored by selfish self-interest at one end and enlightened self-interest at the other. Further, based on a broadly-based overview of various surveys into attitudes towards human welfare and sustainability, my personal view is that the distribution of attitudes and behaviour approximates the parameters of a normal distribution, *i.e.*, 68.27% will lie within one standard deviation of the mean and 95.45% within two standard deviations, *i.e.*, around 50% of respondents to surveys indicate that they are concerned about sustainability and willing to moderate their behaviour to improve it. The challenge therefore is to promote the benefits of mutual self-interest to those with a tendency toward selfish self-interest while reinforcing the attitudes of those with a tendency towards enlightened self-interest.

The challenge then, as now, was summarised by Lutz and Lux as being [13]:

“We need an economics we can live with, one that is able to weigh the benefits and *costs* of individualistic competition, the cost and *benefits* of social cooperation” [13] (p. 77).

Uncertainty about the future undoubtedly motivates people to accept an immediate and certain benefit (the survival instinct) rather than defer gratification in expectation of a greater future benefit. Lutz and Lux use the local bookstore as an example [13]. With the opening of a discount outlet in the out-of-town shopping mall people opt for lower present prices without appreciating that the loss of custom will put the local bookstore out of business and with it the loss of all the value-added services that it offered attuned to the needs of its local market. As Oscar Wilde observed, “A cynic (for which read an economist) is someone who knows the price of everything and the value of nothing” [17] (p. 60).

The failure of markets to achieve long run optimum outcomes is attributed to failures in cooperation as exemplified by the prisoners dilemma first articulated in 1950. If, despite any prior agreement, one prisoner confesses he will be set free whereas the other will be imprisoned for many years. If both confess they will receive a reduced but severe sentence. However, if neither confesses their captors will have to release both for a lack of evidence. Cooperation always results in a better net outcome than occurs if one decides to act in their own selfish self-interest and benefit from the so-called “free-rider” effect. (Of course, if both attempt to do this both will be punished severely). “In contrast, the refusal to free ride, is what cooperation is all about. It is intrinsically linked to self-denial, not self-interest. Ironically, in order to realise the self-interested outcome one has to let go of self-interest” [13] (p. 81). But, by observing the Golden Rule, neither will confess and will be rewarded with a “minimal stay in prison” [13] (p. 82). In other words, selfish self-interest only works if no one else is involved-where they are it will not.

Lutz and Lux then illustrate the point by comparing two GM factories manufacturing Ford Escorts, one in the UK and one in Germany [13]. German workers enjoy cooperative industrial relations and get paid \$13.50 per hour, whereas the British workers, adopting antagonistic practices, only receive \$8.25. However, the UK plant “produces only two thirds in terms of output with about 25% more labour input”. In Germany they produce one car for 21 man-hours; in England it takes 40 man-hours and it costs \$1000 more per car. The decision to close the UK plant is easy to understand.

Couched in terms of the prisoner’s dilemma “The mutually cooperative outcome is not within the reach of self-interested parties” [13] (p. 84) whereas trust in the other party and collaboration pays off handsomely. What is needed is a redefinition of self-interest, what I term “enlightened”.

In the twentieth century, some economists began to deny the charge that economics was concerned primarily with self-interest and argued that this notion should be replaced with one of rational behaviour. As Lutz and Lux comment “This is taken simply to mean that he or she will seek their more preferred

outcomes rather than their less preferred” [13] (p. 90). They continue to note that ‘rationality’ has positive connotations and is more acceptable than “self-interest”.

However, economists define ‘rational’ differently from its everyday meaning of ‘reasonable’ “because for the economist the word rational strictly means logical application of means to attain particular ends, regardless of what these ends are” [13] (p. 91). By this token the Train Robbers acted rationally. In other words the choice of ends, which had dominated early perceptions of rational behaviour, had been dropped.

It is tautological to state that every consumer acts rationally in terms of their perception of what separately and collectively will give them the greatest satisfaction as the notion of satisfaction is particular to that individual. It follows that, while we might argue that fruit and vegetables are preferable to Coca-Cola and potato crisps we will have to change many people’s perceptions and then their behaviour if we want them to adopt a healthier diet. “What we do “rationally” is by definition necessarily self-interested. It cannot be otherwise; there is no more contrast class, no non-self-interest” [13] (p. 94).

However, Lutz and Lux continue to examine economic rationality as ‘psychologically empty’ on the grounds that “Instead of truly deciding or choosing between alternative ends and actions he [economic or rational man] merely calculates and determines with mathematical precision which one yields a higher value” [13] (p. 95).

Even if one assumes that one had perfect information, or could be bothered to try and acquire it, all decisions must depend on the selective perception of the decision-maker and incorporate qualitative considerations. It is this that prompts Lutz and Lux to argue that we must “make room for ethics and morality in Economic Man” [13] (p. 96). This is the essence of humanistic economics which I would argue was what Smith had in mind originally and is a view that could easily be accommodated if we distinguish between selfish, and enlightened mutual self-interest-what Lutz and Lux referred to as the “dual-self”:

“Rationality, whether selfish or not, is about a single-self, the interests and purposes of that self. .... In contrast, humanistic economics clearly recognises that economic orthodoxy ends up denying the possibility of an inner conflict of interest, a conflict between two incommensurable interests, one of the self-ego, the other of the higher (and more ideal) self” [13] (p. 96).

As an abstract discipline economics excludes the notions of fairness and justice from its analysis “to be fair in economic terms seems to mean to be irrational and vice versa” [13] (p. 105). Fortunately, for most others it does not and the Law uses the notion of a Reasonable Man in making judgements where “reasonable” means taking into account other considerations than pure self-interest.

The dual-self is evident in Maslow’s conceptualisation of human needs which mirrors classical thought “... both East and West, until Hobbes and Hume changed the story in 18th-century England” [14] (p. 107). It is also central to the philosophy of Immanuel Kant and his distinction between Phenomenal Man concerned with deficiency needs and the noumenal self that has the power of free will and the ability to use reason to distinguish between right and wrong. Phenomenal Man is concerned with first-order preferences but noumenal man takes into account second-order preferences and moderates his behaviour accordingly. “I would like to smoke but it is bad for my health so I will not”.

What distinguishes man from other forms of life is a capacity for self-reflection and the feeling of self-awareness or self-consciousness. It is this that is the basis of the dual-self and the ability to override purely rational economic analysis.

Lutz and Lux discuss the notion of a conflict of interest as one that refers to “an ethical conflict relating incompatible goals *within* a single actor” [13] (p. 117), *i.e.*, the economic, one-self model cannot accommodate this. They then discuss the principles of security and fairness as means of raising individuals’ willingness to act for mutual rather than personal interest. They define fairness as “non-exploitation” [13] (p. 122) and see “security as a primary catalyst for overcoming self-interested animal instincts and opening the way for a more socially responsible disposition” [13] (p. 124).

Lifetime tenure for judges and university professors enables them “to refrain from maximisation and pursue excellence” [13] (p. 125). Economics adopts definitions that do not reflect the real nature of choice so that it can quantify maximisation whereas humanistic (real world) economics accept that “Real choice is qualitative, not quantitative” [13] (p. 126).

At the time of writing (the 1980s) Lutz and Lux commented: “it is interesting that an increasing number of economists talk about such concepts as enlightened self-interest (implying an unenlightened self-interest), and self-interest *versus* community interest, but do not yet realise that this means a dual self...” [13] (p. 126).

## 5. Behavioural Economics or Marketing?

It was also at this time that the sub-field of “behavioural economics” began to emerge with an emphasis on the influence of human behaviour on consumer decision-making and choice. To some extent I believe that this was prompted academically by the threat posed to Economics Departments in universities by the rapid growth of business studies and, especially, the discipline of Marketing.

Following the establishment of Graduate Business Schools in the UK in the mid-1960s there was an increased demand for undergraduate degrees and, by the mid-1970s, they had been established in many of the newer universities and were widely available in the Polytechnic sector under the aegis of the CNAA. Initially, most business degrees included a course in economics but, with the introduction of marketing into the curriculum, an increasing number of students opted for this on the grounds that it offered access to a variety of well-paid careers in business whereas economists were in much less demand. While macro-economics had and continues to have a major role in policy formulation and strategic decision-making, micro-economics, with its emphasis on ‘rational’ decision-making in commercial markets, was seen as being much less relevant.

While there is no universally agreed definition of ‘marketing’, it is generally accepted that marketing is concerned with the exchange of goods and services in free markets between organisations and/or individuals which they perceive to be to their mutual benefit. While behavioural economics belatedly recognises the importance of factoring in an understanding of human behaviour to economic analysis and decision-making, it is my contention that the synthetic discipline of marketing had already accomplished this. (As I have explained elsewhere, in this context ‘synthetic’ is taken to mean “the process or result of building up separate elements, especially ideas, into a connected whole, especially into a theory or system” [18]. On these grounds I would also argue that marketing should be regarded in the same light as other professional and synthetic disciplines such as architecture, engineering and

medicine in that it combines insights from more abstract singular disciplines into a holistic explanation on which to base effective practice.)

In the real world, of course, one party to an exchange may possess an advantage over the other but, in the absence of duress and in a ‘fair’ market, the less advantaged party can always refuse to enter into an exchange if they think that the benefit gained is less than the value that they would have to forego to secure that benefit. That said, it is also recognised that one party to an exchange may be better informed about some or other aspect of it than the other and so be able to secure a greater return than would have been possible had the other party access to the same information. To mitigate against this, laws and regulatory bodies have been created which set standards and measure performance to ensure that these are complied with.

It is clear that these propositions underpin Adam Smith’s concept of a free market guided by an “invisible hand” in which individuals would be able to improve their welfare by abandoning the mediaeval concept of self-sufficiency. By adopting the principles of task specialisation and the division of Labour, productivity, and hence economic growth, would be increased; always provided that individuals would be able to exchange the fruits of their labour and specialised output for other needed goods and services in the marketplace. Further, in recognising the dangers of selfish self-interest, Smith advocated appropriate regulation to contain it. However, as we have seen, as the discipline of economics evolved it moved away from the uncertain and sometimes unpredictable human behaviour of the parties to exchange, to replace this with an abstract notion of the rational, economic man who would always act according to the mechanistic principles that were assumed to govern their actions.

Since time immemorial the challenge facing humankind, and the problem that economics seeks to solve, has been maximising satisfaction through the utilisation of scarce resources. In turn, the solution has been seen to be based upon technological and organisational innovation leading to enhanced productivity and economic growth. Yet, as Adam Smith observed “Consumption is the sole end and purpose of production” [1]. In other words, the objective is to increase the availability of goods and services that will enhance the quality-of-life to the benefit of all mankind, with the implicit assumption that the poor, who would gain greater satisfaction from an additional unit of consumption than the rich, up to the point that they attained an acceptable quality-of-life. However, mainstream economists, by concentrating on the overall or aggregate increase in “satisfaction” equate this with a universal increase in welfare when analysis of the impact on individual members of the global population shows this is not the case.

This failing is compounded because, by eliminating the behaviour of individual consumers from the concept of demand, it focuses attention on supply and the producer. By contrast, Adam Smith’s axiom cited above emphasises a consumer perspective while his arguments in favour of a free market were antithetical to the policy of Mercantilism that had dominated government policy for generations.

In asking the rhetorical question, “Who wants cheap jeans and cheap beer?” Times columnist Matt Ridley [18] addressed the issue of international free trade and the universal benefits that this would confer. This issue has come to public attention as a result of the discussion of a trade agreement between the United States and the European Union known as the Transatlantic Trade and Investment Partnership (TTIP). Opposition to this agreement is couched “almost entirely in terms of the risks to producers-farmers, health service managers and small businesses fearful of American competition”. Ridley uses the Corn Laws to make his point [19]. He observes: “Between 1660 and 1846, the British government passed 127

Corn Laws, imposing tariffs as well as rules about the storage, sale, import, export and quality of grain and bread. The justification was much like today's opposition to TTIP: maintaining our supposedly high standards against foreign, cheapskate corner-cutters" [19]. In reality, of course, the intention was to protect the interests of landowners against those of ordinary consumers.

However, in the 1840s "the railways and the penny post enabled Richard Cobden and John Bright to stir up a successful mass campaign against the laws on behalf of the working classes right to buy cheap bread from abroad if they wished" [19].

Although free trade flourished for some decades, in 1879 a return to competitive protectionism began when Bismarck began to reintroduce tariffs on imports. In Ridley's view "Trade barriers undoubtedly helped precipitate war: they shut the Japanese out of resource markets that they then decided to seize by force instead, while Germany's Lebensraum argument would have carried less force in a free-trading world" [19].

Following a discussion of free trade, Ridley concludes that it "cannot be a predatory phenomenon" [19] and that "In an ideal world, every citizen of Planet Earth would have the freedom to buy and sell from every other, without regard to nationality, and free trade agreements like TTIP would not even be necessary" [19]. Clearly, agreements of this kind require careful drafting to counter the possibility of selfish self-interest as well as supervision to enforce implementation.

## 6. What Next?

Our review suggests the following basic propositions:

- (1) Human behaviour is motivated by self-interest (SI).
- (2) Self-interest may be selfish (SSI) and exclude or ignore the affect one's behaviour may have on others. It emphasises competition in which there are winners and losers.
- (3) Self-interest may be enlightened (ESI) and recognise that collaboration and cooperation can result in mutual satisfaction and the benefit of both parties. It is a win-win solution.
- (4) In economics the satisfaction of self-interest is seen to accrue through increased consumption of goods and services resulting in economic "growth".
- (5) Increases in production have failed to account fully for the use of non-renewable resources or the effects that increased production/consumption have on nature and the environment. Current practices are unsustainable.
- (6) Achievement of a sustainable equilibrium and an equitable distribution of welfare enjoyed by all members of the global population can only be achieved by universal behavioural change.
- (7) Such behavioural change requires a restatement of the Dominant Social Paradigm that places less emphasis on materialism and stresses the value of self-actualisation.
- (8) Current research indicates a growing awareness of sustainability as a megatrend and a willingness to adapt behaviour to facilitate it. The Dominant Social Paradigm is beginning to change.

As noted earlier, the issue of sustainability has been the subject of increasing attention in recent years. In 2014, the *Journal of Macromarketing* published the first of two Special Issues on the theme "Sustainability as a megatrend" (the second is to be published in the Spring of 2015) which contains contributions from leading authorities on the topic. In "Marketing and the New Materialism", [20] the

authors address the argument that “consumer materialism and related overconsumption, rooted in market-promoted magical thinking, constitute one set of barriers to sustainable living” [20] (p. 282).

While materialism was originally based on the notion that “nothing exists except matter and its movement” in modern and common use it “has become associated with the tendency to privilege possessions and physical comfort over spiritual values” [21]. The sense of “moral failing” and negative connotations pervades the marketing literature, a review of which leads to the conclusion that “... Despite a few exceptions, research and materialism positions it as a way of relating to material goods that is problematic both for individuals and society. In as much as overconsumption and overproduction drive environmental degradation, resource depletion and global warming, it follows that unnecessary or counter-productive consumption is indefensible” [20] (p. 283). In turn, marketing, as practised by corporations, is largely to blame for this for, by investing material possessions with magical qualities, marketers promote a mythical “good life” that ignores the harmful potential of excessive consumption.

To overcome this failing neo-materialism seeks to reconnect the natural and social sciences and it is the former that define the processes underlying the Earth’s natural cycles that are sustainable while the latter focuses on social behaviour that disrupts them with unsustainable results. “Society, however, through technology, disrupts cycles in three fundamental ways: (1) by extracting large quantities of materials from the Earth’s crust, such as petroleum and coal, which contribute irreversibly to concentrations of greenhouse gases and toxic metals, such as mercury that accumulates in the food chain, (2) by creating and dispersing synthetic compounds such as plastics, pesticides and flame retardants that persist in the environment, increase in their concentrations and toxicity, and (3) by physically degrading the ecosystems, such as watersheds, forests and oceans...” [20] (pp. 285–286) Sustainability depends on society ceasing to act in this way and achieving an equilibrium in the natural cycle of creation and consumption. A “take-make-waste pattern of production and consumption” [20] (p. 287).

Clearly, marketing plays a major role in determining what products are in demand and facilitating their creation, distribution and consumption. “Most of the goods and services that people consume across the globe are produced and distributed by marketing institutions, and marketing is the same system that attaches much value to those goods and services” [20]. Accordingly, it bears a “special responsibility for the relative sustainability of production and consumption” [20]. On these grounds, there is every reason to believe that marketing and capitalism have the potential to lead the drive for a sustainable society. As the authors point out:

“Rather than a wholesale rejection of capitalism and marketing as we know them, a neo-materialist marketing could continue within a capitalist system doing the things it does best: providing the interface between business and society, creating and delivering value to customers and attaching meanings to the material world” [20] (p. 287).

They continue: “The business case for moving toward sustainability is clear. Done properly and strategically it yields short and long-term cost benefits in such terms as energy savings, reductions of waste, conversion of waste streams to revenue streams, reduced risks and insurance costs, and more stable and cheaper supplies of material resources. It also provides several other sources of competitive advantage such as increased innovation, enhanced employee well-being and performance, and the ability to stay ahead of regulations” [20] (p. 288).

We agree with this conclusion and also believe that “Business” has developed the most advanced understanding of, and insight into consumption behaviour and the means of influencing perception and choice that drive it [22]. It also possesses the administrative and managerial skills required to initiate and implement changes in global consumption and this is evident in the strategies being followed by many companies like Danone, Nestlé, and Unilever, which have already established that catering for the needs of the less advantaged members of society or “social business” is, indeed, good business.

## 7. Conclusions

On the grounds that marketing is frequently seen as the driving force behind materialism and unsustainable consumption, a request to contribute a thought piece or commentary to *Sustainability* was seen as an opportunity to suggest an alternative perspective. Given the scope and importance of the topic, it was clear from the outset that any attempt to do so would, inevitably, have to focus on a small number of what I considered to be key issues and so ignore many other important but lesser ones.

The essence of my argument is that policymakers take a macro perspective and so adopt generalisations that lose sight of their impact on individuals and their quality-of-life. My objective is to assert that individual welfare should be the overriding objective of political and economic organisation and that people matter. To promote this view, I attempt to show how Adam Smith’s original conceptualisation of free markets was based on the notion of mutual self-interest and the ways in which task specialisation and exchange in “free” markets would be beneficial to everyone. However, in their attempts to elaborate and improve their analysis of the interaction between demand and supply, successive generations of economists substituted the notions of utility for “satisfaction” and the objective, “rational” man, bereft of all the subjective characteristics of the real world consumer. By doing so it became possible to measure and quantify demand and supply in the aggregate and demonstrate how economic growth would contribute to increases in human welfare. However, in the process, macro economists lost sight of the fundamental object of their discipline, which is maximising satisfaction through the utilisation of scarce resources. Theoretically, if we are to achieve this then we need to be concerned with the marginal utility created by an additional unit of output and, as argued in Section 2:

“According to economic theory, the additional satisfaction gained from the acquisition of another, marginal unit of input or consumption declines. From this it follows that if we aggregate the individual satisfaction experienced by every member of the world’s population, then the overall satisfaction experienced by that population would increase if wealth were re-distributed between the rich and poor as the latter would gain greater value from any increase in their consumption than that available to the former. And the force that prevents this from occurring is generally identified as ‘self-interest’”.

The concept of “self-interest” is a foundational premise of Adam Smith’s arguments in favour of capitalism and free markets. However, Adam Smith did not hold a chair of Economics at Glasgow University, he was a Professor of Moral Philosophy. He was also the author of the *Theory of Moral Sentiments*, published some seventeen years before *Wealth of Nations*, in which he spelt out in considerable detail his perception of self-interest. While pure self-interest is necessary for survival, moral and social considerations distinguish between enlightened self-interest and selfish self-interest and,

following in Smith's footsteps, successful business practitioners pursue policies that emphasise the former. And the discipline of Marketing is based on these principles.

A simple definition of marketing is "Selling goods that don't come back to people who do" an idea which informed my own, more academic version "Marketing is concerned with the creation and maintenance of mutually satisfying exchange relationships" [9] (p. 4). The practice of marketing starts with the ultimate consumer and the benefits that they are looking for. It then creates an affordable supply of goods and/or services and makes it readily available in a convenient place and time while promoting the benefits on offer to the customer. If this promise meets or exceeds the customer's expectations then the seller is likely to be rewarded by the customer's future patronage when they next experience a need for the same benefits. This is a win-win outcome and not a zero-sum game where greedy capitalists seek to extort the maximum profit from ill-informed and gullible consumers.

Following a chronological, time-line as opposed to a thematic structure results in an elaboration of how successive generations have addressed the central economic problem with "the result that the reader is left to cover the same issues again and again". This is deliberate: one person's repetition is another's reinforcement and follows the Aristotelian principle "Tell them what you're going to tell them, tell them, and then tell them what you've told them". Starting with Malthus and his *Essay on Population* (1798), countless authors have drawn attention to the non-renewable nature of many resources and the impact of their exploitation on the natural environment; to the threat of a rapidly expanding population and to the poverty endured by billions. But it was only in the 1960s that the consequence of these trends was brought to the attention of affluent consumers in post-industrial societies leading to efforts to work towards a sustainable global economy. Simultaneously, however, emerging or developing economies began to industrialise in pursuit of the benefits of economic growth as documented by Rostow [23] thereby exacerbating the problems of sustainability.

In order to address this problem it is essential to make individuals aware of the consequences of their behaviour and, especially, excessive consumption based on materialism. In order to do this one requires an insight into human motivation together with an appreciation of how this is affected by socialisation which is to be found in the disciplines of psychology and sociology respectively. A heroic claim, that would no doubt benefit from further elaboration, is that the discipline of marketing has the potential to integrate insights from these two disciplines, and also from economics, and synthesise them into a holistic explanation of "mutually satisfying exchange relationships" that would inform policy decisions with the potential to encourage the adoption of a sustainable, circular economy.

As to how this might be implemented the paper is silent, but it is immediately obvious that there is no magic "silver bullet/one size fits all" solution. Most of the world's wealth is concentrated in affluent post-industrial economies which account for a small proportion of the world's population. As a result of globalisation, the rest of the world is increasingly aware of a standard of living previously beyond their imagination. It is one to which they rightly aspire and do so by following the example set by their rich neighbours involving increased production that further depletes physical resources and damages the natural environment. A return to Adam Smith's sense of moral purpose and enlightened self-interest would seem to suggest that if the benefits attributable to economic growth were distributed more equitably then we might be able to eliminate poverty with everyone enjoying an acceptable and sustainable standard of living.

There is no simple or single answer to how this might be achieved. As a marketer, I believe that global, multinational corporations, whose operations generate more wealth than the GDP of many smaller national economies, have the skills and resources necessary to educate people in affluent economies to adopt a more sustainable lifestyle while, simultaneously, enabling persons at the “bottom of the pyramid” to break free from the poverty trap. To do so they will rely upon transformational marketing.

### Conflicts of Interest

The author declares no conflict of interest.

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