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The Market Failures Approach and the Ideal World Objection

Abstract: According to the Market Failures Approach to business ethics, the competitive, profit-maximizing behavior of firms is justified because it facilitates a maximally efficient market. This permits failing to privilege concerns of fairness or equality. Instead, managers are banned from strategies that generally sacrifice market efficiency, because that's what justifies the profit motive in the first place. This is how managers should act in the ideal world of perfect competition, but, unfortunately, few industries approximate these conditions. And exploiting market failures is sometimes more efficient than the alternative. Though proponents of this approach have long recognized this conundrum, convincing responses have not been forthcoming. In this paper, I show how this problem of what to do in non-ideal worlds is similar to the Ideal World Objection to rule consequentialism. Recognizing this allows us to frame what is problematic about this approach and to consider how answers given in the domain of normative ethics can carry over to it. Ultimately, I take this objection to be decisive for both rule consequentialists and proponents of the Market Failures Approach. Consequentialists sometimes fall back on the idea that consequentialism provides a criterion rightness, not a decision procedure. I suggest that the same move is open and advisable for proponents of the Market Failures Approach. They have arrived at a promising justification for rent-seeking in the marketplace, but we shouldn't try to derive rules to guide the behavior of individual market participants. Instead, recognizing common causes of market failures provides a useful tool for institutional/industry regulation and reform.