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The Ethical Wealth of Nations[1]

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The Ethical Wealth of Nations

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Abstract:

Michael Porter argues that some nations manifest a competitive advantage deriving from key elements of their economic structure. Some nations are thus disposed by structure to possess what Porter calls a "competitive advantage of nations." (Porter 1990). In this paper I examine the prospect of *ethical* wealth for nations, and in particular, of a set of advantages that extend far beyond the simple dimension of trust so often discussed. I consider, further, how such a range of ethical features would be structured, and what the implications of those features would be. Three conclusions are reached: 1. Morality may create economic advantages for nations in ways that extend beyond the notion of an idealized market; 2. In order for ethics to drive economic advantage, ethical concepts must rise to the status of *intrinsic* value; and 3. If claims for national ethical success factors are true, then nations should attend to the issue of moral education.

Not all nations are created equal. Michael Porter and others argue that some nations manifest a competitive advantage deriving from key elements of their economic structure. Some nations are thus disposed by structure to possess what Porter calls a "competitive advantage of nations." (Porter 1990). Extending the concept, Fukuyama has argued that cultural phenomenon, including a "propensity for spontaneous sociability" or, more simply, trust, can mark the difference between efficient and inefficient economic processes. (Fukuyama 1995). If so, then not only traditional forms of capital but "social capital" must be counted when determining the wealth of nations. It follows too, that if some nations are taller and richer than others, and have become so not by dint of hard work or natural resources, but by a form of social capital, then we should attempt to identify the key elements of such social capital. Certainly, the popular analyses of many current events suggest that ethical attributes or their absence have impacted economic events. Crony capitalism and the lack of transparency have been implicated in the Asian melt down of 1997-1998, and the failure of markets in former Soviet Union has been linked to widespread bribery and corruption.

In this paper I want to examine the prospect of an ethical advantage of nations, and in particular, of a set of advantages that extend far beyond the simple dimension of trust so often discussed. I wish to consider, further, how such a range of ethical features would be structured, and what the implications of those features would be. In exploring the possible meaning of an "ethical advantage of nations" my task in this paper is to consider a proposition analogous to sociologist Robert Putnam's that certain inherent cultural tendencies make a society more likely to succeed with democratic institutions.[1] (Putnam, Leonardi et al. 1994).

What ethical factors, then, might promote high levels of national economic performance? Can we make sense of such factors and, in turn, interpret their implications for national and corporate policy?

Before beginning, a caveat should be made. The theses of social capital theorists qualify as empirical claims that must eventually find empirical confirmation. Fuzzyheaded speculation has sometimes passed for rationality in the discussion of social capital, and the plausibility of a claim must be remembered to be only one of many steps in securing its empirical truth (and perhaps not even a necessary step). Robert Solow may be right, for example, when he criticizes Fukuyama's thesis for its lack of rigor.2 For this reason I wish to limit my aims in this paper. I shall attempt not to demonstrate truth of any particular claim, but only show how those claims exhibit particular logical structures and to draw implications from those structures. In this vein, I will do two things.

First, I want to construct a typography of current claims, evidence, and rationale made for the existence of an ethical economic advantage. Such claims may be divided into four categories. Each claim has the following generic form: a more prosperous economy can be driven by that economy's possessing a certain ethical characteristic. The claims vary in terms of the *characteristic* asserted to drive higher prosperity. The four most popular characteristics are:

A. Fairer distribution of goods

B. Better government

C. More ingrained social cooperation

D. Inculcation of economic "duties" by citizens

It is noteworthy that all factors are primarily *ethical* in character, rather than economic.

Second, after having developed these four categories, I want to establish three further points:

> 1. Many purported ethical success factors can be interpreted as a means of circumventing market imperfections--but some cannot. In other words, the claims for economic advantage extend beyond the traditional logic of Pareto Optimality. In short, morality may create an economic advantage for nations in ways broader than the notion of an idealized market.
>
> 2. The success criteria for plausible success factors require that the values associated with those success factors possess the status of intrinsic value. In other words, people must ascribe independent value to the ethical factor, irrespective of its economic contribution.
>
> 3. If such claims for national ethical success factors are true, then nations should attend to the issue of moral education.

Fairer Distribution of Goods

One ethical factor claimed to influence economic success is the fairer distribution of goods. Put more technically, increased distributional equity or fairness enhances economic efficiency and productivity. An extreme example of distributional inequity occurs in countries where a handful of rich families control all of a country's capital resources. Broadly speaking distributional inequity occurs whenever a grossly unfair distribution in society exists of what Rawls and others have called society's "primary goods" (Rawls 1971) such as wealth or health care. Such distributional inequity is said to dampen incentive and misallocate scarce resources. Some data appear to support the hypothesis, notably, data indicating than many of the world's most successful economies have less extreme gaps between their rich and poor than do the most successful ones.

World Bank research has strongly suggested a significant link between economic performance on the one hand, and accountability and the openness of governance on the other." (1998, p. 11) In its World Development Report 1997: The state in a Changing World, the Bank identified 5 fundamental tasks that governments must administer to insure sustainable, widely shared development, namely:

- establishing the foundation of law
- maintaining a non-discriminatory policy environment, including macroeconomic stability
- investing in basic social services and infrastructure
- protecting the vulnerable
- protecting the environment. (1998, p. 12)

It would be an exaggeration to say that the distributional equity hypothesis has been proven. Nonetheless, many aspects of the hypothesis are at least plausible. It stands to reason that when grossly disproportionate distribution of income occurs, the natural talents of the economically disadvantaged cannot find their way effectively to the market: under such circumstances the high IQ and creativity of a slum dweller is less likely to benefit the national economy optimally. For these reasons it is not surprising to discover that in the wake of the Asian financial crisis of the late 1990s, James Wolfensohn, head of the World Bank, articulated as one of the Bank's three "principal objectives" in Asia that social protections for the poor be strengthened (Wolfensohn 1998).

Better Government

Economic success has also sometimes said to be enhanced by the existence of better government. Most claims are made on behalf of democracy as not only the "more ethical" form of government, but also the all-around "better" form of government, and an important part of being all-around better is economic efficiency. The economic argument for democracy is clearly not new. Lipset's now-famous argument that greater economic growth increases the likelihood that stable democratic forms of politics will emerge suggests a compatibility between democracy and economic growth (Lipset, 1980). Later theorists and statesmen have asserted that open and democratic political systems constitute catalysts for economic success. As early as the 1960s Milton Friedman argued that economic freedom stands in need of political freedom. (Friedman 1962) How, he asks, can we be assured of labor mobility, access to resources, availability of knowledge, and opportunities for entrepreneurship when political freedom is absent? If, as in the Soviet Union of the 1930s, all members of society must work, and, indeed, must work at jobs formed and allocated the central government, then how can the economic freedom necessary to fuel innovation and incentive exist? In light of the widely held assumption that the type of government most compatible with political freedom is democracy, democracy thus has often been viewed as a positive factor in economic success.

More recently, James Wolfensohn , president, the World Bank has remarked that,

> "We must recognize this link between good economic performance and open governance. Irrespective of political systems, public decisions must be brought right out into the Sunshine of public scrutiny. Not simply to please the markets, but to build the broad social consensus without which even the best conceived economic strategies will ultimately fail." (1998, p. 34, back cover)

In turn, the importance of having a democratic v. non-democratic government is heightened if one believes that a democracy is better able to reflect the true needs of consumers, and to embody the market's value of consumer sovereignty. This importance of a market-compatible government is heightened further if one agrees with Amartya Sen that the governments typically must make up for private sector shortcomings in dealing with familiar problems discussed in the literature, such as public goods and situations of strong externalities. (Sen, Stern et al. 1990).

Ingrained Social Cooperation

A nation's embodiment of underlying cooperative tendencies may help it prosper because those tendencies can avoid forms of self-destructive economic interaction such as prisoner dilemmas. Robert Frank, an economist who writes frequently about game theoretic issues explains why moral motives are important in commerce. In "Can Socially Responsible Firms Survive in a Competitive Environment?" Frank discusses ways in which economic activity is more efficient when guided, at least in part, by principles and values(Frank 1996). These ways depend heavily on the increased ability of market actors to solve what Frank calls "commitment" problems, i.e., problems that create failures and inefficiencies unless parties are able to behave responsibly to one another. A disposition to take ethics seriously can solve commitment problems with employees, with customers, and with other firms. For example, piece rates are efficient tools for managing production but not when firms are perceived to be untrustworthy. If workers do not believe the firm has committed itself to a given production rate schedule, and that it will simply raise rates when workers produce more, then they are more likely to maintain artificially low production rates. Or to take another example, employees will be reluctant to invest time and energy into developing company specific skills, i.e., skills that have negligible value on the open market, unless they believe the company is committed to rewarding them fairly. Shirking and opportunism, career lock-in, rising wage profiles, confidentiality requirements, quality assurance issues, subcontractor hold-up problems, and customer support issues are all ones that Frank argues can be solved more efficiently through socially responsible behavior.

In the international realm cooperation can also matter. As David Bobrowsky has argued, MNCs may be viewed as engaging in certain “games” where appropriate cooperation can mitigate prisoners’ dilemmas and other forms of collectively destructive interaction. “MNCs,” he notes, “are involved in three related strategic “games”: the "regulation game," with states and other firms at the international level, the “reputation” game,” with consumers, investors, and domestic regulators at the national level, and the “management game.” (Bobrowsky 1999, p. 5) The importance Bobrowsky’s point lies in the implication that, because they are involved in such games, cooperative rules in the form of codes of conduct can lower transaction costs in any (or all) of these three games, thus increasing the benefits of cooperation and reducing the costs of opportunistic actions by other players.(Bobrowsky 1999). Codes of conduct, in short, may generate greater efficiency in institutional practices *pace* Williamson (Williamson 1985).

Inculcation of Economic Duties by Citizens

The efficient functioning of any economic system, whether it be seventh century Japanese Confucianism, free market capitalism, or Communism, requires its participants to embrace certain system-specific duties. To be sure, some economic systems are inherently more efficient than others. Free market capitalism is undoubtedly more efficient and fair than Soviet style communism. Nonetheless we ought not to lose sight of the fact that any economic system, including Soviet style communism, will be more or less efficient depending on whether its participants accept or fail to accept key duties that support that system's essential transactions. Still further, it is worth noting that the economic duties necessary for the efficient functioning of an economy vary significantly depending on the kind of system in place. The obligations a Wall Street Banker may owe to the system (such as engaging in free and fair competition) are different from that owed by an economic magistrate in the Nara period of Feudal Japan. By identifying what those duties are, one arrives at a much clearer picture of what business ethics entails.

Thomas Dunfee and I have described the generic duty that any participant of a legitimate economic system should take seriously the "structural hypernorm of necessary social efficiency" or (shortened) the "efficiency hypernorm." At its broadest, the efficiency hypernorm requires observance of duties generated by the array of institutions and organizations that taken together provide the basic fabric of a given political economy. This fundamental moral precept addresses those institutions and coexistent duties designed to enable people to achieve the basic or "necessary" social goods of economic welfare and social justice. (Donaldson and Dunfee 1999)

Because of the widespread adoption of market structures around the globe, and because of a shared intuition among most theorists that markets require a certain amount of moral cooperation, many writers have concluded that failing to taking market-related duties seriously negatively affects economic performance. Here is a selective list of economic duties important for a market system:

1. Respect for intellectual property

One common claim for the impact of good ethics on economic performance is tied to the social promotion of economic incentives. To the extent that people fail to respect intellectual property, and to the extent they engage in intellectual property violations such as software piracy, the incentive to create new and better forms of intellectual property is said to diminish.[3] Why should intellectual property be protected? It should be protected because and to the extent that it enhances aggregative economic welfare. (To be sure, notions of intellectual property may vary somewhat depending upon culture. As Alford notes, stealing a book has been called an "elegant offense" by the Chinese. (Alford 1995).) But there is widespread agreement that without some protection of intellectual property, incentives to invest time and other resources in developing new property is diminished. It is also well known that legal mechanisms are notoriously inept at policing many forms of intellectual property theft, as for instance with software piracy. Data show that countries with similar geographic and economic systems (such as the nations of Europe) often have strikingly variable software piracy rates. This suggests that not only regulation and government control are important in securing respect for intellectual property, but also social mores. (Donaldson 1996)

2. Engaging in fair competition and avoiding monopolies

To the extent that a John D. Rockefeller or a William Gates is able by virtue of monopoly power to demand artificially inflated prices, consumers are harmed. John Locke, the English philosopher renowned for his seminal defense of private property articulated the "no-monopoly requirement" of fairness convincingly. No one, he notes, may take the only water hole in the desert and charge what he will. (Locke 1948) A natural right to property, when properly understood, prohibits such an action.

3. Avoiding nepotism and “crony capitalism.”

Examples of the pernicious impact of nepotism and behavior nicknamed "crony capitalism" are not difficult to find. Indonesia’s political and economic demise in 1998 brought striking abuses of nepotism and cronyism to light. The Suharto family’s nepotistic economic arrangements were targeted by critics as a lynchpin of the country’s economic troubles. Industries and foreign company relations (including both Chinese conglomerates and many large Western corporations) were blatantly divided among Suharto family members: Suharto daughter Tutut, son Sigit, daughter Titiek, and son, Tommy, were allocated sweeping spheres of influence. Tommy, in particular, was placed in charge of and infamous national auto production scheme that utilized Korean auto production facilities while protecting sales of the car in Indonesia through government tariffs. To the extent capital is allocated in the economy on the basis of nepotism, not the underlying value of the investment, economic efficiency suffers.

- Not abusing government relationships

At one extreme, Boddewyn and Brewer (Boddewyn and Brewer 1994) have argued that managers should consider the host company government on all fours with any other competitive factor. From this perspective the government has no special status over and above any other factor of production. Government is viewed simply as one player in the competitive game that international firms should try to win. The government, hence, can be "gamed" to the advantage of the foreign corporation in the process of one company’s exploiting its chain of economic value-adding activities in cross-border activity. (Boddewyn and Brewer 1994, p. 126) For his part, Boddewyn has even argued that when companies seek competitive advantages, bribery, smuggling, and buying absolute market monopolies (as discussed in the duty to avoid monopolies above) are not necessarily ruled out (Boddewyn 1986).

Yet the role of government in maintaining market freedom is obvious. If and when government relationships are abused, the government's role in protecting and sustaining the market is compromised. For example, when taxes are not collected, courts cannot function, and the protection owed property in a free market is destroyed.

4. Providing accurate information to the market (including transparency of relevant information)

The importance of accurate information in fueling efficient economic activity is well substantiated. Rational choice demands accurate information. When companies fail to provide investors with accurate information, investors make worse decisions and any market, in turn, becomes less efficient. Indeed, another of the three "principal objectives" asserted at the end of 1998 by the head of World Bank, James Wolfensohn, in the wake of the financial turmoil at Asia was "Improving the quality and transparency of key government institutions, including addressing issues of corruption and accountability." (Wolfensohn 1998)

5. Avoiding bribery

Bribery distorts markets by allocating resources away from higher quality and lower prices towards the self-interest of agents. The company manager who pockets a bribe and buys goods for his company from a bribing supplier violates not only his duty to his company (by pocketing the money himself), but a duty he owes to the integrity of the market economy. Having taken the bribe he purchases a product or service that only through accident would constitute the best buy for his company. Such a misallocation, repeated hundreds of thousands of times, damages national economic efficiency.

Liberalizing markets in developing countries may not automatically decrease centuries old traditions of gift giving and bribery. As Chakraborty has written about India,

> One would have hoped that with the onset of 'liberalization' from government controls since 1991, the scale and frequency of corrupt practices would lessen. Along the "business bureaucracy-government" axis, this might be a growing reality, which is encouraging. But the accompanying "globalization" process has ushered some new dimensions into the field of business ethics. The competitive fray among global corporations to enter the Indian economy, and the eager overtures of Indian businesses to grow fast through collaborations with them, have begun to manifest fresh varieties of business non-ethics. (Chakraborty 1997)

The view sometimes circulated in rich nations that emerging economies tolerate widespread bribery is slowly being exposed as false. As Heimann notes, "There is no country in the world where bribery is either legally or morally acceptable. That bribes have to be paid secretly everywhere, and that officials receiving bribes have to resign in disgrace if the bribe is disclosed, makes clear that bribery violates the moral standards of the South and the East, just as it does in the West. "(Heimann 1994) (footnote #73 quoted in (Nichols 1997))

6. Respecting environmental integrity

One of the more important so-called "public goods" is a livable environment. Most economists agree that the public goods inherent in the environment will not be *efficiently* achieved through the mere interplay of self-interested behavior. Even Milton Fridman speaks of the "neighborhood effects" problem and the need in turn to address the problem through more than market forces. (Friedman 1962) Even if one believes -- as

Friedman may have -- that the only solution to protecting the environment lies in legally imposed sanction rather than ethical responsibility, it follows that market participants have a duty to support reasonable legal sanctions in order to insure environmental public goods.

7. Duties to honor contracts, promises, and other commitments

If businesspeople regularly broke contracts, promises, and other commitments, the law would be powerless to insure remedies. In a sense, business law is like the policeman who is able to control a community, but only on the assumption that criminal activity is the exception, not the rule. Were people never independently motivated to engage in law abiding, non-criminal behavior, then the policeman would be overwhelmed. Similarly, the law of torts would be powerless to control a world of business in which firms and individuals had no independent respect for handshakes and contracts.

These, then, are the major items on the list of contemporary claims about how ethical factors may promote national economic advantage, or the "ethical wealth of nations." The fairer the distribution of goods, the better the government, the more ingrained the social cooperation, and the better inculcated are economic "duties" by citizens, the higher national efficiency and productivity will be—or so the assertions would have us believe. Leaving aside the critical question of the truth of these claims, what threads, if any, link the items in this long list of claims? Moreover, what, if anything, follows *if* the claims on the list turn out to be true?

It is tempting to suppose that what unites the items on the list is simply the concept of market imperfections. By the concept of "market imperfection" I mean a deviation from the perfect functioning of the ideal market as defined through the notion of Pareto Optimality. Pareto Optimality refers to a market in which all voluntary transactions have been consummated, another words, a market where no one can be made better off without someone being made worse off. This interpretation is especially tempting for those economists who relegate ethics entirely to the study of economic externalities and other Pareto sub-optimal outcomes. Of course, not all nations subscribe fully to market capitalism. Nonetheless, most nations today do make some sort of systemic commitment to a market system—although the form of that commitment can vary enormously. For better or worse, Communism, Confucianism, and even radical socialism, are unpopular forms of government today.

Yet while many of the purported success factors on the list are a function of market imperfections, some, notably, are not. To be sure, key ethical assumptions flow from neoclassical economic theory. For example, Julienne Nelson has shown that because the assumptions of a perfectly competitive market are not met, certain duties follow (Nelson 1994): A perfectly competitive market assumes, for example, that:

1. We all have the same information.
2. We all behave competitively in both spot and futures markets (i.e., neither producers nor consumers expect to influence the prices of goods and serves offered for sale.)
3. We do not use technologies that cause externalities or that exhibit increasing returns to scale at relevant levels of production.

Failure to meet these conditions occurs every day in business. It follows that such imperfections impose certain duties to "maintain the system" upon market participants (duties which often are conveniently handed by citizens to government institutions such as courts and bureaucracies). To deny these conditions flatly would be to undermine the health of the free market system. (Nelson, 1993, p. 111). These duties have been interpreted differently by theorists, but most concur they involve obligations surrounding information disclosure and fair competition. For example Nelson asserts that an informed seller sometimes has obligations to notify a buyer of hidden product defects, and that sellers have a duty to "promote accurate and informative advertising."

Hence, many of the ethical success factors in the list above fall under the banner of the remedies for market imperfections. For example, each of the items on the list of "economic duties" that citizens should inculcate implicitly refers to market imperfections. In other words, respect for intellectual property, engaging in fair competition, not abusing government relationships, providing accurate information to the market, avoiding bribery, duties to honor contracts, promises and other commitments, and avoiding bribery all reflect norms that would be rendered unnecessary were a Pareto Optimal state to exist. Were the market to function at a perfect level of competitiveness, then no need would exist for participants to adopt duties of the kind listed under the economic duties category above. [4]

But the same cannot be said for the other kinds of factors listed above. Consider, for example, the call for the fair distribution of goods throughout society. If one form of social capital is the fair distribution of goods throughout society, there is no reason to suppose that a perfect market will achieve such fairness. Pareto optimality, for example, is compatible with wildly disparate levels of wealth. As has sometimes been noted, it is compatible with one person owning the entirety of an island, and the others relegated to the status of impoverished servants. (It might be the case that nobody could be made better off through a voluntary transaction without making the owner of the island worse off.) This is not to condemn the mechanism of the market, for markets deliver enormously social benefits. It is only to say that markets cannot do everything: distributive justice has never been claimed, even by extreme market proponents, to be an automatic consequence of pure market activity.

Nor does the concept of "better government" automatically flow from the fact of a perfectly competitive market. It may be, as suggested before, that democratic governments are "better" for market economies. But this proposition is logically distinct from the proposition that a perfect market, exhibiting a Pareto optimal state, will automatically generate a "better" and hence democratic form of government. It may, or it may not.

Finally, the notion of ingrained social cooperation is not a necessary logical implication of a perfectly competitive market. Indeed the very notion of a prisoner's dilemma, which highlights the importance of cooperation as a social phenomenon, is one that presupposes that in the absence of confidence in a cooperative tendency of others, the dominant option from the standpoint of self-interest is defection. The market, as economists are quick to note, assumes self-interest and presumes no preexisting level of cooperation among economic actors.

And so morality creates an economic advantage for nations in ways broader than the notion of an idealized market. Correcting market imperfections stands as an important economic function for morality, but does not constitute a universal link.

One characteristic, however, does link all of the success criteria listed above. In order to function successfully the values referenced above must have in the minds of market participants some "intrinsic worth." By "intrinsic worth" is meant value attributed by an individual to something, where that value is not necessarily tied to the value of something else. The term references an individual's attribution of *independent* value to something, a value that is separate from that thing's instrumental usefulness, or which in other words, lies apart from its usefulness in attaining some additional object that satisfies the individual's self-interest. Whenever one seeks for the sake of something else by definition has instrumental value and lacks intrinsic value. One example of something with instrumental value (and hence no intrinsic value) is money; most people seek it not for the sake of money itself but for its capacity to secure goods, services, and human happiness. For most people, then, money lacks "intrinsic value."

Goods frequently accorded intrinsic value include happiness, friendship, knowledge, community, integrity, justice, and beauty. As Gauthier and other theorists note, it sometimes makes rational sense for a person to attribute intrinsic value to honoring a principle, for example, the principle of "keeping ones promises" even though in some instances self-interested reason may counsel breaking one's promise. (Gauthier 1986) a similar theme is sounded by be economist Robert Frank. In "If Homo Economicus Could Choose His Own Utility Function, Would He Want One With a Conscience?" Frank notes that a strong disposition to behave morally, even when it is irrationally grounded, may actually serve as a competitive advantage for the person with a conscience. (Frank 1987) If I have reason to believe that you will keep your commitment to me, even in instances where it is in your self-interest to not do so, I will be more inclined to choose you as a business partner. Further, if you are the kind of person whose intentions are revealed, either by voluntary or involuntary disclosure, you are a more reliable business associate. As Frank notes, "A blush may reveal a lie and cause great embarrassment at the moment. But in situations that require trust, there can be great advantage in being known to be a blusher." (Frank 1987) "The common feature of these problems is that their solution requires individuals to make ex ante commitments to behave in ways that will not be self-serving ex post."(Frank 1987) This notion of intrinsic value is extended to many aspects of economic activity by Quinn and Jones who show that, ironically, corporate excellence in practice frequently depends on a non-instrumental commitments to ethics. They argue that the principal-agent model of the firm, once it is properly considered, requires that managers fashion business policies with reference first to certain moral duties and only second to shareholder wealth. (Quinn and Jones 1995)

We ought not to be surprised by the role played by intrinsic value in economic activity. In daily life we prefer doing business with people who show independent concern for values. Think of integrity. If we believe that our lawyer or banker is constantly lying in wait, looking for the moment he can abandon integrity, and that he is routinely seeking the hidden moment when acting unscrupulously will fatten his advantage and decrease ours, then we suppose it is time to hire a new lawyer or banker. Most of us prefer doing business with a lawyer or banker who places some *intrinsic* value on integrity.

So, too, the values that serve national economies require the status of intrinsic value from the standpoint of individual firms and persons. The values referenced in the list above demand some level of independent commitment on the part of citizens. In some instances the requirement is practical, in others, a matter of logic. If economic activity is to be enhanced through a fairer distribution of goods, better government, ingrained social cooperation, and the adoption of economic duties, then it is hard to imagine such conditions being met by citizens simply pursuing maximal self interest and treating such goods as having merely instrumental worth. The problem lies in the logical probability that in many specific instances a self-interested calculation will indicate that abandoning the value at issue will lead to maximal satisfaction of self-interest.

Consider, for example, the value of democratic government and the act of voting. Voting, as many have noted, is a fundamentally irrational act from the standpoint of self-interest. I may realize that a society in which large numbers of citizens vote is critically important for the general satisfaction of my own self-interest. I may thus interpret the act of voting as having important instrumental value. Further, my instrumental interpretation of voting may be enhanced if I also believe that a democratic government is, all other things being equal, more effective in generating a healthy, economy (as suggested in the analysis above). But the calculation undertaken from the standpoint of my own self-interest relative to any particular act of voting invariably reaches a negative recommendation. My loss of time and mental energy in undertaking the act of voting will consistently overwhelm the nearly nonexistent projected benefits from the tiny possibility that my vote will actually make a difference.

This is true for the other values argued to be important for economic success. Practically speaking, concern for a fair distribution of primary goods, commitment to cooperation, respect for intellectual property, attention to fair competition, avoidance of nepotism, respect for government relationships, integrity in providing information to the market, the rejection of bribery, respect for the environment, and belief in the importance of honoring contracts, promises, and other commitments, all must hold at least partial intrinsic worth for individual market participants in order for their successful realization. Without an individual's independent commitment to such values, they easily fall prey to rational, self-interested calculations.

Of course we have not in this paper set out to prove that the ethical factors listed in the early part of this article are in fact important for national economic success. Next, however, for the purpose of argument, let us presume they have been shown to be important in this way. Given, as we have seen, that such values must possess a component of intrinsic worth, implications follow for what nations should do. In particular, nations should attend to the issue of ethical education.

First, the ethical education that a nation undertakes must be of a kind that generates the commitment to the intrinsic worth of values. It will not do to educate economic participants merely in the niceties of enlightened self-interest. It will not do simply to instruct the young in the importance of "appearing ethical" in order to be financially successful. It will not even do to educate perspective business managers by merely explaining how successful economies rest upon bedrock of moral principles. The task, rather, is to educate people, children and managers alike, in a way so that they are capable of ascribing independent (i.e., intrinsic) value to concepts such as integrity, democracy, the environment, and distributive fairness.

Nor does it seem likely that such education will occur spontaneously. The right form of values-based education occurring without special effort seems especially unlikely in economies that must adjust themselves to modern markets from a past steeped in more familial, communal economic patterns. Evidence suggests that individual values bend only slightly in the presence of a new economic ideology. A study by Ralston, Holt, and others assessed the impact of economic ideology and national culture on the individual work values of managers in the United States, Russia, Japan, and China. Three divergent hypotheses framed the study. One, entitled the "convergence" hypothesis holds that economic ideology drives values; in other words, managers in industrialized countries will embrace free market values. (Ralston, Holt et al. 1995, p182-83) On this view individual values and economic ideology converge. A second, entitled the "divergence" hypothesis holds that individuals will retain their diverse, culturally determined values regardless of economic ideology. For example, Eastern countries with histories of socialism would not shift work values regardless of how industrialization occurs. (Ralston, Holt et al. 1995, p182-83) The third hypothesis is entitled "crossvergence" and constitutes a mixture of the first two hypotheses. It holds that neither of the above views is adequate, and that instead there is a melting pot of values formation. . (Ralston, Holt et al. 1995, p182-83)

The findings of the survey strongly suggest the crossvergence perspective. (Ralston, Holt et al. 1997) and earlier (Ralston, Holt et al. 1995). They suggest that while a nation's transformation to a market economy, as is occurring today and China and Russia, may bend only some of the individual values necessary for the efficient and successful operation of the economy.

Rather, a more complete "value bending" will require some form of educational initiative. Not all education around economic values needs to be of a traditional form, for example, schooling, or government communication. Some education may be multinational an organized through NGOs. The NGO "Transparency International," for example, has worked with nation states and corporations to develop anti-corruption education initiatives. Transparency International has worked in cooperation with General Electric Corporation in Italy and Canada. And, it has cooperated with a broad cross section of groups in Uganda and Tanzania. With corporate help, Transparency International also recently formed a national chapter in Russia.

None of the foregoing would make sense were it were true that nation states should all adopt one, single, monolithic blueprint of ethics. But while evidence accumulates that some fundamental ethical principles are transnational in character, it also suggests strongly that nations and cultures possess at least some "moral free space" in which to shape their own religious, cultural, and historic identities(Donaldson and Dunfee 1999). Hence, within this range of moral free space lie the important questions about ethics and economic efficiency.

Gibbon in his book, *The Decline and Fall of the Roman Empire* asks why so many religions were allowed to flourish in ancient Rome. He answers his own question by commenting that the elite in Rome thought that all religions were equally false; the common people thought they were all equally true; and the bureaucrats thought they were all equally useful. (Gibbon 1993) Gibbon's clever comment underscores an important truth. With religion, ideology, and ethics we must sometimes ask more than the question "Is it true?" Ethical precepts are the kinds of thing that must stand on their own, and must entail intrinsic value. But they are also the kinds of thing about which we must ask "What do they make a possible?" If, as it seems increasingly likely, successful economies rely at least in part on the collective morality of their participants, then we must ask the follow-up questions of what and how. *What* kinds of values are important? And *how* are such values inculcated?

These questions have pressing practical importance. Amartya Sen has referred recently to the economic corruption in Italy and the "grabbing culture" in Russia. In doing so he shows how the presence or absence of particular features of business ethics can influence the operation of all economies (Sen 1997, p. 1). Clearly, in Italy it makes sense to ask how economic corruption impacts the economy, and in Russia how the presence of a "grabbing culture" may hinder economic performance. And because it makes sense to ask in any country what values enable healthy economic performance, and how those values are created, this paper has sought answers. The answers are that the values necessary to drive successful economies must maintain an element of intrinsic worth, and must be inculcated, at least partially, through a process of education.

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1 Indeed, it was Putnam who more than anyone popularized the term “social capital” despite the fact that his work was primarily aimed at the conditions for democracy rather than economic success.

2 Discussing Fukuyama’s account in Trust (Fukuyama 1995), Solow writes “The trouble with this sort of thinking is that it is vague and often, in any concrete sense, uninformative. How would you ever know if the thesis is true or false?” (Solow 1995) Solow’s interpretation seems accurate. For “social capital” and especially “ethical capital” to attain the degree of acceptance among economists that Gary Becker and Theodore W. Schultz have brought to “human capital” (including the idea that investment in education can be a national asset), we would no doubt need some means of measuring the phenomenon, of saying that there is “more” and “less” of it in certain places and times, and perhaps even an understanding of how it can diminish, i.e., “depreciates.”

3 Morality sometimes influences intellectual property in a direct way. As Mullan notes, the European Patent Office, through its Guidelines for Examination, tests whether it is probable that the general public would regard the invention as so abhorrent that the protection of its patent would be inconceivable. (Mullan 1993)

4 Granted, one item in this list seems difficult to fit under the "market imperfections" label, namely, avoiding nepotism and crony capitalism. Yet even favoring a friend over a more attractive price might be construed as a step down from purely competitive behavior, and hence a form of market imperfection.