THE ETHICS OF CAPITALISM

by
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This article presents a simple model of the ethical choice problem in business. The model incorporates insights from the literatures of ethics, psychology , economics, and business ethics. It suggests several interesting hypotheses regarding the level of ethics which is likely to be observed in a competitive capitalist economy, and the level to be desired.

Business ethics is an important subject. It is important to individuals acting in their economic roles because living up to one's ethical ideals is an important dimension of one's self image. It is important in terms of the survival potential of an economic system because, as Schumpeter suggested many years ago, an economic system that is perceived as morally wrong, is doomed to ultimate demise [21].

The article is divided into six sections. The first covers definitional matters. The second identifies the key insights from the relevant literatures. The third discusses the phenomena to be incorporated into the model. The fourth presents the model. The fifth deduces several static conclusions from the model. And the sixth section raises an interesting dynamic issue.

I. DEFINITIONAL MATTERS

Ethics is both a scholarly discipline and a practical aspect of human existence. For scholars, ethics is the study of human behavior in terms of the basic issues of right or wrong, good or bad. For individuals busy living their daily lives, ethics is a matter of choosing and trying to practice a code of conduct. Society, of course, seeks to influence the choice through an intensive process of socialization.

Business ethics is the study or practice of the good or right in a business setting. In this article the term is further restricted to the actions of the chief executive officer of the firm.

MICRO VS. MACRO

Ethical issues arise at both the macro and micro level. Macro-ethics deals with the whole society. Macro issues familiar to economists would include the moral aspects of patterns of income distribution and cyclical unemployment.

At the micro level the issues concern relationships between pairs of individuals. The rightness or wrongness of a businessperson's dealings with a customer or employee would be examples.

In general, micro and macro ethical issues should not be mixed insofar as normative analysis is concerned. That is, an individual employer should not receive condemnation for a morally unacceptable national pattern of income distribution or for unemployment caused by a recession. Instead, the employer should be held to moral standards that are achievable within the constraints implied by the economic system.

COMPREHENSIVE IDEALS VS. DUTIES

For heuristic purposes, another helpful distinction is between comprehensive ethical ideals and more narrowly defined duties. The comprehensive ideal consists of a world view such as the Christian Ethic. Such a world view prescribes behavior for all possible aspects of the ethical choice problem. It is so broadly stated that legitimate arguments can arise regarding the application of the world view to a specific situation.

Ethical duties are defined in a more narrow fashion. Duties are frequently listed in the code of conduct of an organization. One example is the Boy Scout Law (A scout is trustworthy, loyal, helpful, friendly, courteous, kind obedient, cheerful, thrifty, brave, clean and reverent). Another example is the Rotary International Four Way Test (Is it the truth? Is it fair to all concerned? Will it build good will and better friendships? Will it be beneficial to all concerned?).

Ethical duties are defined in a sufficiently operational manner to help individuals apply the comprehensive ideals to daily conduct. That same operationality makes duties useful in discussions of business ethics. For purposes of illustration and communication, six specific ethical duties will be referred to in this article. The six are: honesty, fairness, friendliness, loyalty, helpfulness and courtesy. The six do not exhaust the possibilities.

SIX RELATIONSHIPS

The discussion of business ethics can also be facilitated by identifying the various relationships in which ethical issues arise.

The business executive confronts ethical issues in dealing with persons performing at least six different roles--customers, employees, stockholders, suppliers, competitors, and members of the general community subject to spillover effects of the firm's operations. In each of the six relationships the executive must explicitly or implicitly adopt ethical standards of conduct and seek to adhere to them. The question raised by this article is, "What standards will be adopted?"

II. THE RELEVANT LITERATURE

Four literatures will be drawn upon in our effort to answer that question--philosophy, economics, psychology and business ethics.

PHILOSOPHY

The study of ethics originated as a branch of philosophy. The resulting literature is extensive and complex.[2] Fortunately, for the purposes of this article, that voluminous literature has been conveniently summarized by historian-philosopher Will Durant. In his view, "...Ultimately, there are three systems of ethics, three conceptions of the ideal character and the moral life" [5]. Durant's trilogy consisted of (a) a system that calls for the universal application of love (as in all of the world's great religions), (b) a system that calls for the universal application of the principle of survival of the fittest (as in the writings of Nietzsche), and (c) a system that calls for the mixture of the first two (as in the writings of Aristotle).

Durant's classification scheme is used below. For our purposes the first system on Durant's list will be called ALTRUISM; the second the EXPLOITATION ETHIC; and the third the JUSTICE ETHIC.

ECONOMICS

In the early days of capitalism there appeared a literature addressing the issue of business ethics. The conclusions were optimistic. The writers predicted that the market system would promote honesty and, in general, a higher standard of ethics[7].

That promising beginning was cut short by Adam Smith. Smith's approach in **The Wealth of Nations** [23] was to analyze capitalism with a worst case assumption of selfishness. Smith, of course, was aware of altruism. In fact, he made it a major subject of his earlier book, **The Theory of Moral Sentiments** [24]. But he chose to show that one did not have to appeal to ethical considerations to make a case for capitalism's superior performance.

For two centuries following the publication of **The Wealth of Nations** economists ignored the issue of business ethics as defined in this article. The macro issues of full employment and income distribution received regular attention. But, with rare exceptions, the micro issues were ignored. There simply was no interest in investigating the extent to which capitalism encouraged the business person to practice such duties as honesty, fairness, loyalty or courtesy.

The rare exceptions that can be found took a negative view, arguing that the market process prevents the business leader from developing his personality to the fullest. That was Frank Knight's lament in "The Ethics of Competition" [10]. And that was the lament of such critics of capitalism as Sismondi, Marx, John Ruskin, John Hobson and E.F .Schumacher.[3]

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In the last two decades economists have rediscovered the issue of micro ethics. One line of development has applied neoclassical modeling to the analysis of altruism, honesty and loyalty. Gary Becker initiated the movement which applied orthodox neoclassical methods to analyze such ethical issues as crime, discrimination and altruism [3]. Preston provided a similar analysis of altruism and envy [20]. Ackerloff has written several innovative articles investigating the implications of honesty and loyalty within the neoclassical framework [1]. And the 1972 Russell Sage Foundation symposium on altruism contained several excellent papers using orthodox tools to analyze ethical issues [18].

A second line of development has been the attempt to resurrect the 'humanistic" approach of Sismondi, Ruskin and Hobson. A 1979 book by Lutz and Lux represents the primary example of this approach. The crux of their view is the acceptance of Maslow's hierarchy of wants as the central assumption regarding human motivation. (The hierarchy is described below.) Lutz and Lux use the hierarchy to argue that capitalism as observed in the western world cannot be morally justified and that major "humanistic" changes are needed to improve economic welfare [14].

Both of these recent lines of development are drawn upon in the model developed below.

PSYCHOLOGY

Psychology's contribution comes from two sources. One is the literature of humanistic psychology [4]. That literature is based on the concept of a hierarchy of wants. Pioneered by Abraham Maslow the concept hypothesizes that human wants are organized in a hierarchy and that lower ranking wants in the hierarchy must be minimally satisfied before higher ranking wants have any motivational effect. One version of the hierarchy orders the wants in the follow *ascending order* [15]:

1. Physiological Needs
2. Safety and Security Needs
3. Belongingness Needs (love, affection, acceptance)
4. Esteem Needs (self-esteem, esteem by others)
5. Self Actualization Needs (meaningfulness, aesthetics, perfection, justice, service, truth, love)

The Maslovian hierarchy suggests that those individuals who have satisfied their lower ranking wants may, indeed, be driven by a need to be ethical. More will be said about this insight below.

A second relevant portion of the literature of psychology is Kohlberg's extensive research into the development of ethical standards among children [11, 12]. That work suggests that most individuals are subjected to intensive ethical brainwashing in their childhood. Parents, schools, churches, and the media all conspire to make society's generally accepted ethical standards part of the young person's internal makeup. The result is that over one-half of American young people grow up with an internal standard of ethics somewhere between the ethic of justice and altruism (as discussed above). They judge themselves by that standard, feeling good when they meet it, and experiencing pangs of guilt when they do not.[4] The remaining youth manage to overcome the socialization and choose their own ethical standards independently of society's dictates.

In conclusion, the literature of psychology suggests that individuals go about their daily affairs with a desire to adhere to an ethical code of conduct. For many that code of conduct was assimilated during the process of socialization. For others the code was freely chosen.

BUSINESS ETHICS

There does exist a literature on business ethics.[5] The main contribution of that literature which is relevant to this article comes from the various surveys of ethical practices that have been conducted.[6] Those surveys tend to find that, 1) practices considered unethical by persons in business are frequently encountered, but, 2) when measured against other settings of human endeavor such as the family, the vast majority of respondents in business claim that ethical standards in business are relatively high.

The remainder of the management literature on business ethics consists of normative discussions of proper business practices or thought-provoking examinations of the ethical dilemmas that arise when the businessperson must choose between two courses of action, both of which can be justified in terms of a high standard of ethics. That issue--the problem of choosing from among several equally high ethical options for action--is not the matter under discussion in this article.

III. ELEMENTS OF A MODEL OF BUSINESS ETHICS

How can the insights from these various literatures be assimilated into a positive model of the ethical possibilities of capitalism? One answer is to utilize economic theory for the overall framework and hang the insights from the other disciplines on that framework. Before that is done a brief discussion of the elements is in order.

BUSINESS ETHICS AS AN INVESTMENT

The adoption of a code of business ethics can be viewed as an investment on the part of the business leader. And just as investments in plant, equipment or education have a "payoff," so the business leader's investment in an ethical code has a potential payoff. In fact, there are at least three types of payoff.

Profit

One is profit. The ethical standards a person uses in dealing with others will influence the way those others respond. The literature on business excellence [6, 8, 19] suggests that through the use of the right ethical standards a business leader can increase consumer demand, boost employee productivity, improve the terms offered by suppliers, reduce the cost of investment funds, lessen the attacks of competitors and generate community support. If such a cornucopia of payoffs does exist, then ethics could become a major management tool.

There are three possible explanations for this asserted positive payoff to the right standard of ethics. They are:

a. implicit contracts
b. transaction costs
c. multiple valued transaction benefits

The implicit contract explanation views the business leader as offering to raise the standard of ethics in return for greater cooperation from the other party. The transaction cost explanation says that by raising the level of ethics, the business leader reduces the transaction costs required by the other party (to protect his or her self interests).

The multiple valued transaction benefit explanation interprets the exchanges between the business leader and another economic agent as involving both the goods and services being exchanged and an affirmation or negation of the other agent's worth. The higher the level of ethics practiced by the leader, the greater the degree of affirmation of the other agent's worth. And because having self-esteem is a benefit, the agent will accept less in the way of financial remuneration or give more in the way of effort than would otherwise be the case.

An example of the self worth phenomenon would be the case of the degree of respect shown by an employer toward an employee. When the employer gives an order to an employee, it makes a difference whether or not the message is conveyed in a tone of respect. Shown respect, the employee’s feeling of self-worth is strengthened and the employee is more likely to perform in the spirit of the order. Shown disrespect, the employee is more likely to violate both the spirit and the letter of the order.

The Pursuit of Pleasure and Avoidance of Pain

The second payoff to the selection of the right code of business ethics is psychological. Kohlberg’s research and humanistic psychology suggest that a majority of business leaders will derive sensations of pleasure from acting in accord with the higher ethical standards and will experience feelings of guilt if they behave unethically. The psychological basis of those feelings may be the conditioning process discovered by Kohlberg or it may be the “free choice” of the self actualizing person envisioned by Maslow. In the Maslovian case the lower level needs would have been satisfied and the higher ones would have become dominant. It would be consistent with the literatures of psychology, philosophy and religion to hypothesize that adherence to high ethical standards would be a dominant need for some such persons. For such individuals the payoff to a high standard of ethics in business would be the personal satisfaction of living up to the ideal.

The humanistic frame of reference also suggests that the willingness of others to accept unethical treatment is likely to depend on the victim's location in the hierarchy of wants. Persons at low levels of income will be primarily concerned with meeting lower order needs and may be willing to accept unfriendliness, disrespect, and unfairness in return for an income. But as incomes rise, and as alternative sources of income open up, those "victims" should move up on the hierarchy of wants and demand a higher standard of ethics from the business leader.

Interpersonal Utility

Much recent work by economists has tied altruistic or ethical behavior to the pleasure principle. The nearly universal approach is to assume that economic agents receive pleasure from the happiness of others. That is, the utility of other parties is an argument in the utility function of the economic agent. This psychological phenomenon would be another reason for arguing that the business leader might, ceteris paribus, act in a highly ethical manner because of the pleasure which he or she feels from doing so.

DIMINISHING RETURNS

If ethical codes function like other factors of production, then it is likely that they are subject to the law of diminishing returns. That is, successive increases in the level of ethics practiced by the business leader will at first cause increases in profit but the rate of increase will eventually slow down and at some point profit will reach a maximum. Beyond that point further increases in the level of ethics will actually cause profit to fall.

A major reason for expecting diminishing returns to the investment in ethical behavior is the likelihood that the intended beneficiary will experience diminishing marginal utility to successive increments of ethics. When the business leader employs honesty, courtesy, friendliness, loyalty, fairness or helpfulness, the recipient customer or employee (or other agent) gains utility. But the marginal gain to successive doses will eventually go down. At some point satiation may occur. In other words, a customer or other agent can only take pleasure from the consumption of so much honesty, or friendliness, or other ethical duty. Beyond that point, additional doses of ethics might actually provide disutility. As Thoreau once said, (If I knew for certain that a man was coming to my house with the conscious design of doing me good, I should run for my life ...for fear that I should get some of his good done to me." [8].

Thoreau's concern probably applies to most ethical duties. From the standpoint of the intended beneficiary it is possible to overdo them. They can be carried to the point where they bother or annoy the intended beneficiary. Examples can be easily cited for each type of ethical duty and each type of agent which the business leader will confront. Consider the case of dealing with the customer. This involves full disclosure with regard to the good or service being provided. But the buyer does not want to be told everything there is to know about the good or service. And woe unto the seller who tries to give the customer a thorough education before making the sale. At some point the customer will be satisfied that he or she has heard enough. Additional information will not be wanted either because the customer is not willing to invest the time to learn or because the customer doesn't have the sensory capacity to absorb any more information.

Diminishing returns can also be expected because of the fixed factor of the business leader's cognitive and communication capacities. In order to raise the level of ethical behavior exhibited toward another agent the business leader needs to learn more about how the intended beneficiary thinks and feels. The time needed to gain each additional bit of information probably increases beyond some point. And the time needed to utilize the additional information probably increases as the new bits of information add to the complexity of the decision process.

TIME HORIZONS AND ACCOUNTABILITY

Investments have payback periods. The initial investment is made at one point in time and the earnings on the investment flow back in future periods. If, for any reason, the potential investor does not expect to capture the future benefits, then the investment will obviously not occur.

For the analysis of business ethics this long run time horizon has important implications. The increased profit accruing to an investment in business ethics is expected to come from future dealing with appreciative customers, employees, suppliers and other economic agents. But if the business leader does not expect to continue to do business with those individuals in the future, the long run payoff may not be captured.

Of course, there is still the matter of reputation. If the customers are satisfied and if that satisfaction can be communicated to other potential customers, then the payoff may still be captured. That is, investing in a high standard of ethics can yield a payoff if there is a resultant "reputation" that new customers know about and use in deciding whether or not to deal with the business person. Institutional advertising and product branding are examples of this phenomenon in practice.

The considerations of the last two paragraphs assumed an identity of interests between the chief executive officer and the firm. In most cases, however, the CEO will be the agent for the shareholders. His or her interests will not be identical with the long run interests of the firm. Hence, it is entirely possible that the CEO will practice a low level of ethics with a realization that such a practice will hurt the firm in the long run but with the further belief that by the time shareholders realize what has happened, the CEO will have left employment with the firm and those injured by his or her actions will have no means of exacting retribution. In short, lack of accountability in an agent-principle relationship may lead to a lower level of ethical business practices than would otherwise be expected.

Of course, some ethical actions elicit immediate returns. Courtesy, friendliness and helpfulness are certainly in this category.

Conversely, such ethical duties as honesty and loyalty will only pay off in the long run.

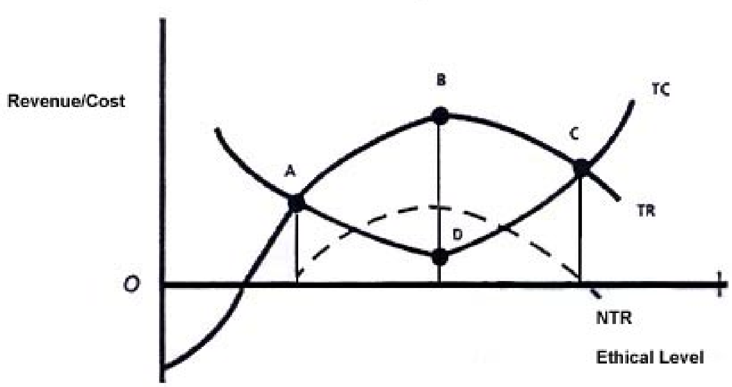
IV. A MODEL

The preceding considerations are brought together in the model schematically presented in Figure 1.

The y axis in the figure measures revenues and costs in monetary terms. Both are expressed as discounted present values of the streams of revenues and costs over the life of the investment in an ethical standard.

The x axis of the diagram measures the *level* of ethics employed. There are, of course, three basic systems --exploitation, justice and altruism. But within each it is assumed that gradations are permissible. It is further assumed that the highest gradation of one level approaches the lowest gradation of the next highest level. Thus, the highest level of the exploitation ethic would appear at the boundary between the exploitation and altruism ethics. The left hand boundary of the scale, the origin, represents one hundred percent exploitation. The right hand boundary represents 100 percent altruism.

Figure 1



The business leader's problem in this model is to choose a level of ethics for the business. In making that choice the leader takes into account the discounted total cost and discounted total revenue associated with each possible ethical standard.

The total cost is assumed to have a “u” shape, declining from a high value as the level of ethics increases, reaching a minimum in the justice region and then rising. The declining portion reflects the assumption that the highly exploitative ethic requires heavy enforcement costs due to resistance from those being exploited. As the degree of exploitation diminishes, the costs of enforcement decline.[7] The rising portion of the total cost curve reflects the assumption that at some point the effort to raise the level of ethics requires increasing the costs of information-gathering and decision-making.

Discounted total revenue in Figure 1 is also shown as a function of the level of ethics. The function carries negative values for low levels of ethics but becomes positive beyond point A. As the level of ethics continues to rise, total revenue also rises until peaking at point B. Beyond B increasing levels of ethics are associated with declining total revenue.

The TR curve of Figure 1 can be interpreted as partitioning the range of ethical practice into three areas. One represents the ethical practices that would be classified as exploitative. These cover the range over which total revenue is negative. The second represents practices that would be classified as the justice ethic. These cover the range beginning where total revenue becomes positive and continuing until it reaches a maximum. The third range covers various degrees of altruism. Altruism starts where total revenue begins to decline and continues until the one hundred percent altruism level is reached.

The assumed shape of the total revenue curve is based on the earlier discussion of ethics as an investment. Low levels of ethics actually produce negative rates of return due to increased transaction costs. Intermediate levels of ethics yield progressively higher returns because of reduced transaction costs, the emergence of implicit contracts, and multi-valued transaction benefits. But high levels of ethics, those in the altruism range, are associated with declining total revenue due to diminishing marginal utility on the part of the beneficiaries and the cognitive and communication limitations of the business leader .

The position of the total revenue function assumes all other determinants of economic success to be given. For example, if the model is applied to ethical policy toward consumers, it is assumed that product price, advertising, and other demand influencing variables are given. A change in one of those variables would cause the total revenue function to shift. Thus, a reduction in product price, assuming demand to be price inelastic, would cause the total revenue function in Figure 1 to shift down. An increase would cause it to shift up.

The third curve in Figure 1 is the net total revenue curve, NTR. It is derived by subtracting total cost from total revenue. The NTR function has an inverted U shape both because of the diminishing returns assumed for the total revenue function and because of the U shape of the total cost function.

V. IMPLICATIONS FOR VARIOUS MARKET STRUCTURES

EQUILIBRIUM UNDER MONOPOLY

The model permits a wide range of equilibrium solutions under a regime of monopoly. One of those solutions is the profit maximizing position at point B. This choice is of particular interest because it suggests that selfish motivation will lead the business leader to adopt an ethical policy reasonably close to the altruistic ethic. Perhaps Adam Smith's invisible hand works reasonably well in the realm of ethics.

Another equilibrium appears at C. This is the case of the business leader who is a Maslovian self actualizer and for whom self actualization requires altruism.

In this case the leader maximizes the degree of altruism practiced in business, subject to the constraint that a normal profit is earned.

No clearly defined equilibrium possibility appears to the left of A or the right of C. But both areas have one feature in common. In both cases the cost of the chosen level of ethics exceeds the benefits. Therefore, the practice of either the very low or the very high level of ethics requires a subsidy. At the upper end the subsidy allows the business leader to indulge in a desire to be altruistic. At the lower end the subsidy allows the business leader to demonstrate his power to exploit, to be disloyal, dishonest, unfair, unkind, or rude. To do so the leader sacrifices profit, but the monopoly position may provide the revenue to make the trade-off possible.

In summary, a monopolist is free to choose from among a variety of ethical options. The only options that pay off in terms of increased profit are in the ranges of justice and altruism. Neither the exploitation ethic nor the highest forms of altruism payoff in terms of financial return on the investment in ethics.

EQUILIBRIUM UNDER MORE COMPETITIVE MARKET STRUCTURES

Competition changes the conclusions. Under conditions of perfect competition there will be entry and price competition until the total revenue function is driven down to a position where it is just tangent to the total cost function as illustrated in Figure 2. There is a single equilibrium at point D. The business leader is forced to choose a form of the justice ethic. In so doing, the leader gains no net advantage over competing firms. But failure to be just would mean losses and eventual exit from the industry

Under various conditions of imperfect competition the business leader would presumably face a wider range of alternatives, but, in the absence of perfect collusion among firms, the options would be fewer than under monopoly. In the short run game theoretic possibilities would be prevalent and it is likely that some firms would use investment in a higher standard of ethics to gain strategic advantage. The literatures on business excellence and on Japanese management methods are full of alleged examples of such strategies.[8, 9]

Under highly competitive conditions there is little possibility of practicing altruism and still meeting the constraint of earning a normal profit. Nor is it possible to practice the exploitation ethic without sacrificing profit.

VI. DYNAMIC IMPLICATIONS

Combined with the recent history of Western Civilization, the model suggests an interesting hypothesis with respect to the relationship between economic development and ethical standards.

It is probable that the boundaries between the three regions in the model are defined by societal norms. Notions of what is honest or dishonest, fair or unfair, courteous or discourteous will differ among cultures and will change over long periods of time within a given culture. Consequently, ethical practices in business can be expected to vary among cultures and over time within the same culture.

Insofar as change within a given culture is concerned, the process of economic development might be expected to raise the minimum level of ethical practices considered just. Such should be the case to the extent that competition occurs in the economy. Rising standards of living should enable economic agents to move to higher levels in the Maslovian hierarchy. That would make business leaders more sensitive to ethical issues. And it would make the agents with whom the leaders deal more interested in the ethical manner in which they are treated. Sir Arthur Lewis once observed that the clearest benefit of economic development was the increased choice which it afforded the citizenry.[10] Our model suggests that with that increased choice comes the ability of economic agents to hold out for better treatment, i.e., a higher standard of ethics.

One caveat is suggested by histories of economic development around the world. Those experiences suggest that the transition from a traditional society to one aspiring to rapid modernization may be accompanied by a lowering of ethical standards. Significant indignities may be suffered by large segments of the population as the new leadership, public and private, pursues its own (or its concept of the public) gain with a degree of exploitation not previously tolerated by the traditional society. The higher level of exploitation may, nevertheless, be tolerated for some time because of a belief that such is the price to be paid for economic development. But as development occurs, at least in market economies with a “reasonable degree of competition," ethical standards should begin to rise. This phenomenon of a reduction in ethical standards following a sharp change in political regimes may also apply to developed economies.

VII. CONCLUSION

The preceding analysis suggests that competitive market situations encourage the reasonably high standard of business ethics called the ethic of justice. The financial incentives of the market exact a price from business leaders trying to be more ethical or less ethical. Saints and sinners can exist, and indeed they do. But in most cases they could improve their profit by adhering to the middle-of-the-road ethic of justice.

This conclusion is based on the long run view and the assumption of accountability. Business leaders intent on maximizing long run profit will find the justice ethic in their long run best interests if their past ethical performance is known to prospective customers, employees, investors, suppliers, competitors and local communities. A record of poor ethical performance in the past will cut off cooperation from others in the present and future. A good record will encourage cooperation and, with it, improved profit.

The conclusion does not apply to situations where the business leader can misrepresent the ethical standards to be practiced, can capture the profit before the other economic agents realize that they are being exploited, and can leave the relationship with no fear of retaliation by the unsuspecting victims. One-time business transactions and short-lived business relationships thus represent a natural habitat for the unscrupulous businessperson.

The analysis also suggests that economic development should tend to raise the minimal standards of ethical behavior over time. Not only should material well being improve but the relationships between economic agents in their daily dealings should exhibit greater degrees of honesty, loyalty, friendliness, courtesy and fairness.

But that improvement will be arrested far short of the ethical ideal of altruism. Competitive market systems will reach stable levels of business ethics falling short of the altruistic ideal. Hence, there would appear to be a permanent conflict between idealists who hunger for universal altruism and pragmatists who through study or experience realize that an efficient economic organization will have to be satisfied with a level of ethics that reaches the border of altruism but is unable to pass into that promised land.

NOTES

1. This article is reprinted with permission from the Journal of Behavioral Economics, Vol. XV, No. 1 & 2.

2. For a good overview, see [21].

3. For a brief review of their insights, see [14].

4. The notion of an ethical standard being internalized in this fashion has been recently employed by Pollack in an article introducing transactions analysis to the study of the family. See [19].

5. See, for example, [2].

6. See, for example, [6].

7. Pollack alludes to this line of thought in his argument that altruism lowers governance costs in the family. See [19].

8. On business excellent, see the modern classic in the field [17].

9. 0n Japanese management see [16]. Ouchi's view is by no means universally accepted (see for example [9]). But the preponderance of the literature on Japan accepts at least some of Ouchi's point of view that higher ethical standards in dealing with employees has given Japanese firms a distinct labor productivity advantage.

10. Lewis says, “The case of economic growth is that it gives man greater control over his environment and thereby increases his freedom” [13].

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