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Harmonization Between Communitarian Ethics and Market Economics

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Introduction

While economic thinkers in previous centuries, such as Adam Smith and Alfred Marshall, devoted a fair amount of attention to issues of values, the subject has tended to recede from the concerns of mainstream economists of the twentieth century. Over the past two decades or so, however, there has been a gradual resurgence of interest in the subject.[1] Indeed, one may safely claim that it now constitutes a branch of economics in its own right, and that it may come increasingly to influence other areas of the discipline in the future.

In this article, I discuss the contrasting behavioral perspectives of mainstream economics and communitarian ethics, and show how the latter can enrich our understanding of fundamental economic issues. From this we proceed to examine some of the longer-term implications of our discussion. My argument is that this longer term is now increasingly manifesting itself in modern societies.

Mainstream Economics: Basic Postulates[2]

The fundamental behavioral postulates on which mainstream, or neoclassical, economics rests have been succinctly stated by Jack Hirshleifer: "Economic man is characterized by *self-interested goals* and *rational choice of means*."[3] Now, there are certainly many areas of economics that can be usefully explicated through the application of models based upon these two postulates. Consumer-demand analysis, based upon the result that utility-maximizing individuals will equate marginal rates of substitution to commodity price ratios, is, for example, one such area.[4] However, difficulties arise as economic theorizing seeks progressively to widen its domain of applicability,[5] while retaining the basic postulates above. Even many economists, not to mention laymen, are, for example, likely to view with raised eyebrows the following assertion by a well-known Chicago economist: “A person is reliable if and only if it is more advantageous to him than being unreliable ... someone is honest only if honesty, or the appearance of honesty, pays more than dishonesty.”[6]

Extraordinary as Telser’s statement may appear, it is by no means a fringe view among economists. Indeed, it underlies the principal-agent framework, which has become the dominant paradigm for the examination of an extremely wide range of economic issues. In this framework, agent deceptiveness is taken for granted: “The agent could commit himself morally to pursue an action that is *determined jointly* with the principal. Then it is the principal’s doubt concerning the morality of the agent that creates the problem.”[7] As Laffont thereafter specifies, the principal’s doubt is well-founded.

An important reason for such amoral concepts is that the utility functions of economic actors are typically conceived very narrowly. Not only are economic actors viewed as entirely self-interested, self-interest is specified in highly materialistic terms. For example, in modern labor economics, the utility function of the worker almost invariably contains only two arguments, real income and work effort (viewed as a source of disutility).[8] The same applies with respect to the utility functions of managers (vis-á-vis their dealings with owners), while in modeling the behavior of investors it is quite common to view them as concerned only with their consumption streams over time.[9] Economic actors are thus specified as being entirely indifferent—or, perhaps more appropriately, oblivious—to the purely ethical dimensions of their conduct, involving issues such as honesty, trustworthiness, or reliability, except insofar as these are modeled as impinging upon their material prospects over time. Such modeling is itself comparatively rare.[10]

There are three questions that can, perhaps, be raised in regard to such a circumscribed view of human motivation in the economic sphere. First, while such a question may not find favor with the followers of Milton Friedman, is it descriptively accurate? Do social and ethical considerations really play no intrinsic role in workers’ dealings with firms, with each other, or managers’ dealings with shareholders? Is it possible that such considerations do play a role, which varies from one society to another, or within the same society over time? To stimulate the reader into perhaps devoting some thought to these issues, one may refer to the renowned economist Edward Denison, who cites “the apparent decline in the ability to rely on the honesty of other people (including employees)" as a factor in reduced United States productivity growth in the 1970s.[11]

Second, is it predictively accurate, in the sense that models based upon it are capable of generating predictions that are not empirically refuted? Here, too, doubts are being increasingly expressed. In a recent article, Joseph Stiglitz observes that "many predictions of the incentives paradigm do not seem to be borne out," and gives a number of examples from observed compensation schemes.[12] Robert H. Frank asserts even more strongly that "the self-interest model, which assumes that everyone behaves opportunistically, is destined to make important errors in predicting actual behavior."[13] Among the reasons that Frank provides in support of this assertion is that, "Without taking into account concerns about fairness, we cannot hope to predict what prices stores will charge, what wages workers will demand, how long business executives will resist a strike, what taxes government will levy, how fast military budgets will grow, or whether a union leader will be re-elected."[14]

Third, is it prescriptively fruitful? This question raises two sets of issues. The first relates to individual attitudes and behavior. So pervasive have economic logic and modes of thinking become that "twentieth-century man is led to believe he is *obligated* to act in his own self-interest, in the interests of efficiency, and in aid of the invisible hand."[15] Economists are aware, of course, of the numerous qualifications to the invisible-hand theorem but this awareness does not appear to have filtered down to the public at large, as can be seen from the observation above.

Not only is self-interested behavior thus not always optimal in the economic sphere but the issue can also be raised as to whether individuals who always behave self-interestedly in the economic sphere are capable of behaving non-self-interestedly in other spheres—as friends, relatives, community leaders, and the like. The following observation on a great twentieth-century Japanese entrepreneur is pertinent here: "Matsushita foresaw that a lifetime's organizational experience shapes one's character indelibly. It was unthinkable, in his view, that work, which occupies at least half of our waking hours, should be denied its powerful role. The firm, therefore, had an inescapable responsibility to help the employees' inner selves."[16] We will discuss this issue in greater detail below.

The second set of issues has to do with policy recommendations. If people are considered to be immutably self-interested, then only measures that appeal to their self-interest can be contemplated when seeking to influence their behavior in policy-oriented directions. Hence, the economist's standard reliance on a variety of taxes, subsidies, regulatory, and other pecuniarily oriented measures—even when dealing with quasi-social issues such as procreation, marriage, care of the aged, public service, and the like. The government's role in moral suasion, and in seeking to influence or mold the ethical climate of the society generally, invariably fails to enter into the economist's frame of reference when thinking about policy issues.

Communitarian Ethics: An Alternative Perspective

The basic underlying principle of a communitarian ethic is that each individual should be integrally concerned not only with the pursuit of his or her own personal interests but also with the promotion of the well-being of as many others as possible. There is thus a fundamental difference in this approach from the completely self-interested stance of mainstream economics, as discussed in the preceding section. Communitarianism as so defined is, in fact, inherent in many of the great religious systems and philosophies of the world. Although space does not permit a detailed discussion,[17] we may adduce some revealing quotations, beginning in the West and working our way progressively Eastward:

> You shall love your neighbor as yourself.[18]
>
> The structural edifice of social life [in Islam] is pervaded by very deep and sincere feelings of love, goodness, and brotherhood. The whole social life is a true picture of cooperation and mutual help ... The Holy Prophet said: "None of you is a true believer in Islam until and unless he loves for his fellow men what he loves for himself."[19]
>
> Love ... is identifying yourself with all beings in the world. When we accept that all the world is the One Supreme Self, we must love all beings literally as ourselves.[20]
>
> To study Buddhism is to study oneself. To study oneself is to forget oneself. To forget oneself is to realize oneself as all things [in the world].[21]
>
> The cultivation of the self ... requires an unceasing struggle to eliminate selfish and egoistic desires.[22]

The immediately preceding quotation from Tu carries two further implications. First, unselfish behavior and attitudes are not something that one can simply choose to adopt overnight: An "unceasing struggle" is required "to eliminate selfish and egoistic desires," because, presumably, such desires exist not only on the conscious plane for each individual but also at the subconscious or instinctual level. Second, this unceasing struggle is a requirement for the "cultivation of the self"—or what is termed *progressive self-realization* by other writers. According to Reinhold Niebuhr, Christ's statement about finding one's life in losing it, "calls attention to the fact that egoism is self-defeating, while self-sacrifice actually leads to a higher form of self-realization. Thus, self-love is never justified but self-realization is the unintended but inevitable consequence of unselfish action."[23]

There is a further aspect to this unfolding process of self-realization that is worthy of consideration. As a person becomes progressively less selfish, his concerns become wider. That is, his consciousness expands in the sense of being able to empathize with increasingly larger groups of people. To quote again from Tu: "The enlargement of the self, with its eventual union with Heaven as the most generalized universality, travels the concrete path of forming communions with a series of expanded social groups."[24]

There is a profound similarity between this insight and that of Aristotle. Space does not permit a detailed discussion of the latter, which may, however, be found in another article.[25] Aristotle also viewed social engagement as a virtually indispensable means for self-realization: although his discussion focused mainly on political involvement and concern with the affairs of the state, he was well-aware that the state is an "association embracing other associations, like the family,"[26] and that the individual should be constructively engaged with these other associations as well. Engagement with the state and other associations in a spirit of "justice and friendship"[27] would serve progressively to neutralize the individual's instinctual selfish tendencies (or what Barker terms "elements of appetite and passion"[28]) and make him a better person: "Progress in political science ('in its widest sense') is not so much to know more as to be better—not an increase of knowledge, but of goodness through knowledge. It means self-knowledge, *and with that, self-control*."[29]

In summary, we wish to draw three lessons from the foregoing philosophical discussion that are of relevance to economic analysis. First, there is a strong normative prescription of non-purely-self-interested behavior in the great religious and cultural heritages of the world. Second, endeavors toward such behavior serve to gradually widen and deepen the individual's social concerns, which means that his utility function may change in a fairly systematic way over time. Third, such a progressive process serves to—also progressively—neutralize the "elements of appetite and passion" in the individual, and thereby increase his self-control or, as economists would say, his ability to make consistent, rational choices. These three considerations are integral aspects of the pursuit of self-realization on the part of individuals.

Rather striking empirical support for this argument has been provided by the sociologist J. Philippe Rushton,[30] one of the world's leading investigators into altruistic behavior. Rushton's investigations led him to the conclusion that "the consistently altruistic person is likely to have an integrated personality," and that such persons "behave consistently more honestly, persistently, and with greater self-control than do nonaltruists."[31] The congruence between these findings and the preceding philosophical discussion is indeed noteworthy.

Implications of Communitarian Ethics for Mainstream Economics

The first section above identified and discussed the pure self-interest axiom on which much of mainstream economics is based. As mainstream economics progressively widens its domain of applicability—to include issues such as marriage and the family, crime and deterrence, and so on—while retaining the self-interest axiom, its basic behavioral stance becomes increasingly identifiable with what is known in the philosophical literature as ethical egoism: The belief that "the sole moral object of the individual's action is his own benefit."[32]

To some extent, of course, economics is simply mirroring trends in various societies at large. Scholarly works by writers such as James L. Collier,[33] William A. Donohue,[34] and others have persuasively demonstrated the rise of selfishness in the West. Mainstream economics can still be faulted, however, for focusing on self-interest as the *sole* human motivation, as we discussed earlier. Nonetheless, the discussion in this section must continually move between two levels: (1) the consequences of actual trends in society at large, and (2) the analysis by economists of these trends. One objective of this essay is to examine the light that communitarian ethics can shed on each of these issues.

Some of the major problems created by an overemphasis upon self-interest are listed below. One of the most—if not *the* most—important set of problems are those associated with the weakening of intergenerational ties. In general, there do not exist markets in which the children of today can express effective demands to be raised with their needs attended to properly. They have to rely profoundly on the altruistic concern and sense of responsibility of the present adult generation. Overly self-interested attitudes and behavior on the part of these adults can then create very severe problems, which are manifested quite readily in Western societies. An excessive absorption with the self and with self-fulfillment, narrowly conceived, is a major factor—though, of course, not the sole factor—responsible for marital instability and divorce of which children are the primary victims. The growth in the number of children living in poverty in the United States, most of whom belong to single-parent families, is staggering. Collier's observations are worthy of quoting at length:

> Between the high divorce rates, the rising number of children born to unwed mothers, and the widespread institutionalizing of young children (in day-care centers, and so forth), we have seen in America an

> abandonment of parental responsibility which is unmatched in human history.... It is probable that we are now raising a generation that will be less well-socialized, more self-centered, and probably somewhat more impoverished in its cognitive functions than previous generations. The damage, I submit, has already been done, and the results are abundantly evident in the rates for crime, alcoholism, drug use, and disaffiliation we are seeing in our young ... *so long as Americans continue to put the interests of themselves over the needs of their children* we are going to create a social system which each year will be less pleasant to live in.[35]

Another important area that has been severely affected by the weakening of intergenerational ties is that of savings. One of the salient features of the postwar United States, according to Christopher Lasch, has been the progressive development of "a culture of competitive individualism"[36] and the associated gradual decline of what, in economic terms, may be termed the degree of intergenerational altruism.

> To live for the moment is the prevailing passion—to live for yourself, not for your predecessors or posterity. We are fast losing the sense of historical continuity, the sense of belonging to a succession of generations originating in the past and stretching into the future. It is the waning of the sense of historical time—in particular, the erosion of any strong concern for posterity—that distinguishes the spiritual crisis of the seventies from earlier outbreaks of millenarian religion, to which it bears a superficial resemblance.[37]

Now, according to one of the leading scholars of savings behavior in the United States, Lawrence J. Kotlikoff, the progressive and sustained decline in the United States savings rate in the postwar period can be attributed to a significant degree to this decline in intergenerational altruism. According to Kotlikoff, "it appears clear that the country is experiencing a long-term decline in saving which may well be the result of the unreported but enormous economic deficits associated with Social Security and other unfunded federal government retirement programs in the last three decades."[38] The postwar period witnessed significant increases in the coverage and value of Social Security benefits paid to retirees,[39] which were substantially financed, not by their own prior contributions, but by levies on younger, working individuals. The fact that intergenerational transfers were mandated on a scale so large as to affect the nation's long-run savings rate appears to be explicable only by the "waning of the sense of historical time" and the "erosion of any strong concern for posterity" that Lasch identifies.[40]

Unfortunately, mainstream economics has very little to offer by way of solutions to the aforementioned problems. The standard economic solution to the problem of low savings is to increase the incentive to save by increasing the after-tax real return. Not only is the direction of the effect of this measure theoretically ambiguous (depending on the well-known opposition between income and substitution effects for savers), but even where the effect has been found to be positive empirically, its magnitude has generally been found to be small. The issue also arises as to whether substantial increases in the after-tax return are feasible.

Mainstream economics is even more at a loss when it comes to the weakening of the family and the resultant impact upon children. The kinds of suggestions that are currently being made focus simply on making more economic resources available for children. Consider, for example, the following:

> *Rhetorical appeals* for a return to "family values" are unlikely to make headway against the problem of child poverty … A more efficacious and humane approach to the cure of child poverty would be *to take the weakening of marriage as a given* and to look for politically acceptable ways of capturing more economic resources for children in single-mother families. *Such policies may further weaken the incentives to marriage, but that may be unavoidable*.[41]

Child poverty certainly represents a tragic phenomenon, and the author may well be right that what she refers to as *rhetorical appeals* are not likely to work in the short run. However, what is disturbing is the absence of any reference to the moral responsibilities involved in marriage and parenthood, even as an issue that could be effectively raised over a longer time horizon. Consider also an observation by Nancy Folbre in the same volume: "As children become increasingly public goods, parenting becomes an increasingly public service,"[42] and hence, she argues, deserving of public support.

It is clear that the approaches proposed by economists can only be palliatives to the problem. It is here, among other areas, that an explicitly communitarian-ethic approach has much to offer. There has to be an unambiguous recognition that the weakening of intergenerational ties—and the extremely severe social and economic problems that this creates—can only be effectively checked and reversed if there is a large-scale value and attitudinal change on the part of people. As suggested in the first section above, the governments of such societies cannot afford to neglect their responsibilities of moral suasion, that is, of seeking to influence or mold the ethical climate of their countries. Public pronouncements by political leaders of various Western societies do indicate a growing awareness of this, but much more can and should be done.

By the same token, countries in which intergenerational ties are still strong should safeguard these ties as an invaluable asset. They should be aware of the dangers that economic development and modernization pose for such ties and consciously seek to neutralize those dangers. Again, the moral leadership and educational role of the governments of these countries take on crucial importance, neglect of which can, over time, engender serious problems that will be difficult and time-consuming to reverse.

Another area of concern may broadly be referred to as issues of cooperation and trust in economic relationships. It may be helpful to discuss separately the perspectives of mainstream economics and communitarianism on this topic. To make the discussion more concrete, let us first focus on human relationships within the firm. As pointed out in the first section above, in modern labor economics the utility function of the worker—indeed of any employee, including the managers of firms—almost invariably contains only two arguments, real income and work effort (viewed as a source of disutility). When this is juxtaposed with what in mainstream economics is referred to as—very pervasive—situations of asymmetric information, which refer to situations in which one party, referred to as the *agent*, is much better informed about the task assigned to him, and how well he is performing it, than the person on whose behalf he is performing it, referred to as the *principal*, then very serious problems can potentially arise. These are generally subsumed under the rubric of shirking. Since the employee cannot be easily monitored, he can simply choose to put in less effort and care and not do as good a job as he is expected to perform. Moreover, the problem of shirking tends to be more acute in the technologically dynamic sectors of the economy, which rely less on more easily monitored and standardized assembly-line activities and in which technology, market demands, and the resulting job demands are continually changing.

Two points need to be noted further in this connection. First, it may be thought that the problem of shirking is only acute in a single-period context. In a multi-period situation, the principal should gradually be able to detect with increasing accuracy whether the agent is shirking or not, and an awareness of this should be sufficient to deter the agent from shirking. It has been shown by Roy Radner[43] that a Pareto-optimal arrangement in the multi-period case can in fact be arrived at, but only if, as one would expect, both principal and agent are sufficiently patient—in other words, have a zero or very low intertemporal discount rate. Here, however, the important work of Robert Frank becomes relevant. Frank refers to the tendency on which experimental psychology furnishes ample evidence for current rewards or penalties to appear much more vivid in people's imaginations than future ones. People (and animals) have a "psychological reward mechanism" that assigns "disproportionate weight to near-term rewards," thus creating a self-control or impulse-control problem.[44] He then goes on to argue that "a person who cares only about material rewards" is likely to succumb to this self-control problem, and make ill-advised short-term choices—for example, by shirking "even when it is not prudent to do so."[45]

Second, if the argument above is correct, we would expect more individualistic or self-interested societies to be characterized by a higher propensity for shirking, and hence to have difficulties in achieving or maintaining a comparative advantage in high technology industries in general. There was, in fact, a widespread decline in United States competitiveness in the high technology industries in the 1980s, which has been discussed at some length in Dertouzos et al.[46] However, in the 1990s, there has been a revival of United States competitiveness in these industries. The latter may, however, be partly attributable to the substantial decline in the dollar up until mid-1995 and with it a decline in the United States terms of trade. Moreover, the revival may also reflect the kinds of phenomena discussed in Carl Shapiro and Joseph Stiglitz' well-known paper.[47] With widespread corporate downsizing and retrenchments in the United States, the risks associated with shirking behavior are correspondingly heightened and thus may more effectively deter such behavior. Again, however, the issue arises as to whether such deterrence will continue to operate should the economy move closer to full employment.

Asymmetric-information situations are pervasive in modern economies. They exist not only within firms but also between firms and various outside parties. The precise nature of the informational asymmetry and its consequences vary from one setting to another but the result that self-interested behavior in these situations precludes the attainment of "first-best outcomes" is a robust one.[48] Indeed, in their far-reaching diagnosis of United States economic problems, Dertouzos et al. devote an entire chapter to failures of cooperation and observe: "Our studies have shown a lack of cooperation at several levels. The relationships affected include those between individuals and groups within firms, between firms and their suppliers or their customers, among firms in the same industry segment, and between firms and government"[49] (as well as between firms and their sources of finance).

The communitarian perspective on cooperation and trust in economic relationships is markedly different. As a prelude, consider again the previously quoted insight of Tu Wei-Ming, "The enlargement of the self, with its eventual union with Heaven as the most generalized universality, travels the concrete path of forming communions with a series of expanded social groups."[50]

In another study, Tu has conceptualized the series of expanded social groups described above as a "series of concentric circles."[51] In premodern times, this series could well consist of the family (with the individual at the center), the town or village, the district, the province, the nation, and so on. However, in modern times, the firm might well be regarded as one of these primary communities. Some suggestions to this effect may be found in the following observations, one from the West and the other from the East: "Many of the best companies [in the United States] really do view themselves as an extended family"[52]; "[with] the change-over to an industrial economy in the 1880s and 1890s [in Japan] … company affiliation automatically replaced the clan, and to some extent the family as well, in the social fabric of the country."[53] A subsequent observation by De Mente is also of interest:

> It must be recognized that the relationship between the larger Japanese employer and his employees is not strictly an economic one. The average employer gets from his workers a degree of loyalty, cooperation, and effort that is seldom surpassed anywhere. In turn, the employer feels responsible not only for the economic welfare of his employees, but also takes an interest in their social and spiritual well-being.[54]

Similar views have been expressed by others. The well-known sociologist Ronald Dore, for example, goes so far as to elaborate what he terms the *community model* of the Japanese firm.[55] The analysis here fits in neatly with the theory advanced by Robert Frank as to how emotional attitudes and commitments can often help individuals to overcome the self-control problem. Regarding their firms as communities, which they identify with (and which in turn identify with them), provides Japanese workers and managers with a strong emotional propensity to engage in cooperative acts and behavior for their own sake over a sustained period of time, thereby also discouraging opportunistic and shirking behavior.[56]

This cooperative spirit, moreover, does not end at the boundaries of the firm. As our references to Tu above suggest, it is extended outward to encompass all other parties with which the Japanese firm has a relationship, namely, customers, suppliers, banks, and the government.[57] There is a general preference for relational, as opposed to spot, contracting—long-term relationships, attended by "sentiments of friendship and the sense of diffuse personal obligation."[58] Dore adds that "most Japanese feel more comfortable in high-trust relations of friendly give-and-take in which each side recognizes that he also has some stake in the satisfaction of the other."[59] As discussed in detail in *Communitarian Ethics and Economics*, such values and attitudes, when widely held, conduce considerably to the more efficient functioning of the economic system, especially when informational asymmetries are pervasive, as they invariably tend to be in modern, complex economies.

Longer-Term Issues

The discussion in the previous section also has implications for longer-term issues—issues that we may broadly refer to as relating to the institutional framework of the capitalist economic system. An insightful comment by Salim Rashid[60] contains some pertinent observations on this issue. Rashid argues that, fundamentally speaking, "ethics and values are prior to the market." Referring to the enforcement of property rights, for example, he points out that "before capitalism, a system of greedy individuals pursuing their self-interest, is to function we need a set of judges who are individuals not motivated by greed." He further argues that historically the requisite value system in the West was provided by Christianity. "The paradox of capitalism is that a system that is ostensibly immoral and unjust requires as a prerequisite ethical and value systems that look beyond self-interest as well as individuals who are imbued with a morality that looks beyond self-interest."[61] According to Donohue, similar concerns have been expressed by others:

> Sociologist Daniel Bell maintains that our society comprises two conflicting sets of values. On the one hand, there are the values of the Puritan ethic: hard work, thriftiness, and sobriety, these are the values upon which capitalism was built. On the other hand, there are the values of hedonism: immediate gratification, personal pleasure, and expressiveness, these are the values of corporate capitalism, *working to undermine the very values that made capitalism a success*.... Sociologist Robert Bellah also blames capitalism. It used to be that the Protestant ethic ruled the land, holding society together. Capitalism, with its "get-ahead" individualism, destroyed the social fabric by releasing the individual from the grasp of kinship, community, and inherited status.[62]

The foregoing observations suggest intriguingly that there is an inherent long-term contradiction in the capitalist system, namely, the mentality of self-interest that it tends to engender, or perhaps facilitate, due to growing affluence, becomes, over time, increasingly pervasive in society, and eventually undermines the institutional framework that is necessary for the success of capitalism.

How, then, can any society avoid or minimize this long-term weakness? There is, in my view, no escape from the fundamental solution: Our attitude toward self-interest, and the pursuit of wealth, must be drastically changed. Some observations on the Protestant ethic are relevant here:

> Protestant asceticism (according to Max Weber) restricted consumption of luxuries and prohibited spontaneous enjoyment of the world. On the

> other hand, it insisted upon relentless efforts in one's lawful vocation as the duty of all Christians. This unique combination, Weber felt, was almost certain, *ceteris paribus*, to lead to the accumulation and reinvestment of capital by those involved in business activities.... Thus, through the entirely unintended consequences of the double injunction to diligence in lawful callings and asceticism in the world, ascetic Protestantism created the modern capitalist mentality.[63]

"The correct use of wealth then, according to Weber's interpretation of Protestant sermons, was to 'improve' it [i.e., the world] to the glory of God."[64]

Other religions and philosophies have similar views. In both Islam and Hinduism, for example, there is the concept of wealth as a trust, which the wealth-holder has to discharge responsibly. We have also quoted above the general statement of a Confucian scholar, "The cultivation of the self … requires an unceasing struggle to eliminate selfish and egoistic desires." None of these religions encourages laziness. The pursuit of self-realization, which we discussed earlier, involves an unceasing struggle. Other religions would certainly agree with Marshall's figurative statement that "the correct use of wealth … was to 'improve' it to the glory of God"—in other words, to use it, not only for individual but also for social betterment.

Perhaps the point could be put more directly by noting Kapur's distillation of a basic communitarian principle: "In the process of seeking to realize one's 'true self', and thereby achieve 'true happiness', each individual should endeavor to widen his consciousness as much as possible by seeking to empathize with as many beings and things as he or she possibly can."[65] If this is a basic motivation for any individual, then self-interest and the self-interested pursuit of wealth should correspondingly recede in importance as motivational influences.

This discussion has important implications for the role of the leaders of society—whether in politics, business, or any other sphere. A person in a leadership position should endeavor to set the moral tone for his community or organization through example by actively seeking to widen his consciousness.[66] Correspondingly, he should also set an example by being less pecuniarily motivated. This requires not that he live like an ascetic, but that he willingly accept a pecuniary compensation that is lower than his marginal product with the difference representing the value he places on his altruistically motivated contributions for their own sake. Thus, a person with a wider scope of responsibilities in a country or organization would receive a higher compensation than his subordinate because his marginal product is higher but his compensation should exceed his subordinate's compensation by less than the difference in their respective marginal products.[67]

In my view, it is only through the active observance of these considerations that the institutional framework of the capitalist system can be satisfactorily sustained over time. Capitalism as a system that relies on the price mechanism to allocate resources efficiently (subject, of course, to necessary interventions in the case of market failures) would continue. As the great Japanese entrepreneur Konotsuke Matsushita observed, profits "should not be a reflection of corporate greed," but are useful as "a vote of confidence from society that what is offered by the firm is valued."[68] However, the role of self-interest as a motivating factor in the capitalist system should gradually decline; and hard work, thrift, entrepreneurship, and the like should instead progressively come to be inspired by communitarian motivations.[69] It may take time for such a state of affairs to come about—although education, widely conceived, can play an important role in this process—but there does not appear to be any other means by which the free-enterprise system can sustain its vitality across generations and make its legitimate contributions to the advancement of society.

Conclusion

To conclude, we can perhaps do no better than to quote two profound—and prescient—insights of Alfred Marshall:

> In all economic questions, considerations of the higher ethics will always assert themselves, however much we try to limit our inquiry for an immediate practical purpose.[70]
>
> No doubt, men, even now, are capable of much more unselfish service than they generally render; and the supreme aim of the economist is to discover how this latent social asset can be developed more quickly and turned to account more wisely.[71]

The preceding discussion can be viewed as an elaboration of Marshall's insights. Perhaps, it is now time for economists—in collaboration with other social scientists and philosophers—to return to their supreme aim and carefully study how it may be achieved.

Notes

[1] See, for example, Daniel M. Hausman and Michael S. McPherson, "Taking Ethics Seriously: Economics and Contemporary Moral Philosophy," *Journal of Economic Literature* XXXI, 2 (June 1993): 671–731; and Matthew Rabin, "Incorporating Fairness into Game Theory and Economics," *American Economic Review* 83, 5 (December 1993): 1281–1302, as well as the insightful work of Amartya Sen, *On Ethics and Economics* (Oxford: Basil Blackwell, 1987).

[2] Many of the issues in this and the following sections are examined in significantly greater detail in Basant K. Kapur, *Communitarian Ethics and Economics* (Aldershot, UK: Avebury, 1995); and "An Aristotelian Utility Function and Its Social and Economic Implications," Department of Economics, National University of Singapore, 1996, mimeograph.

[3] Jack Hirshleifer, "The Expanding Domain of Economics," *American Economic Review* 75, 6 (December 1985): 54.

[4] Even here, however, there may be exceptions. For example, consumers may well refrain from consuming a particular species of fish—even though it is both sumptuous and affordable—if they believe that continuing consumption is likely to lead to its extinction. Ethical considerations may well be germane to more areas of economic choice than is generally appreciated.

[5] Hirshleifer, "The Expanding Domain of Economics," 53–68.

[6] Lester G. Telser, "A Theory of Self-Enforcing Agreements," *Journal of Business* 53, 1 (1980): 27–44, quoted in Robert H. Frank, *Passions Within Reason: The Strategic Role of the Emotions* (New York: W. W. Norton and Company, 1988), 75. Note that Telser's statement in effect denies that people behave in accordance with the golden rule of ethics, namely, "Do unto others as you would have others do unto you."

[7]Jean-Jacques Laffont, *The Economics of Uncertainty and Information* (Cambridge, Mass.: The MIT Press, 1989), 180. Emphasis added.

[8]See, for example, Robert Gibbons, "Piece-Rate Incentive Schemes, Part 1," *Journal of Labor Economics* 5, 4 (October 1987): 413–29; and Debra J. Aron, "Worker Reputation and Productivity Incentives, Part 2," *Journal of Labor Economics* 5, 4 (October 1987): S87–S106, among many others.

[9] There is, of course, nothing inherent in neoclassical economics that prevents it from incorporating altruistic or other-regarding concerns in the utility functions of economic agents. There is a fairly extensive economic literature on altruism, associated with the names of Gary Becker, Oded Stark, B. Douglas Bernheim, and others. However, in practice, in large areas of economics this literature is ignored. A great deal of recent analytical work on managerial and worker behavior in organizations, for example, adopts the narrow specifications of utility functions described in the text. On a related point, as some writers have, in my view, correctly argued to describe an altruistic person as self-interested because he still seeks to maximize his utility function (which includes the utilities of others) is to reduce the notion of self-interest to a tautology. If Hirshleifer's statement as quoted above is to have significant substantive content, then the notion of self-interest in general must be conceived rather narrowly.

[10] Perhaps the most important examples of such models are those dealing with reputational considerations. However, it is not uncommon for reputational models to have multiple equilibria. Depending on the structure of payoffs, which, in turn, may depend upon the beliefs of economic actors, it is just as possible to have a low-reputation equilibrium as a high-reputation one. Examples of such multiple equilibria possibilities are Franklin Allen, "Reputation and Product Quality," *Rand Journal of Economics* 15, 3 (1984): 311–27; and Joel Guttman, "The Credibility Game: Reputation and Rational Cooperation in a Changing Population," *Journal of Comparative Economics* 16, 4 (1992): 619–32.

[11] Edward Denison, *Accounting for Slower Economic Growth* (Washington, D.C.: The Brookings Institution, 1979), 73. See also William Dickens, Lawrence Katz, Kevin Lang, and Lawrence H. Summers, "Employee Crime and the Monitoring Puzzle," *Journal of Labor Economics* 7, 3 (July 1989): 331–47.

[12] Joseph Stiglitz, "Symposium on Organizations and Economics," *Journal of Economic Perspectives* 5, 2 (Spring 1991): 15–24, 21–22.

[13] Robert H. Frank, *Microeconomics and Behavior* (New York: McGraw-Hill, 1994), 278.

[14] Ibid., 277.

[15] Shlomo Maital, *Minds, Markets, and Money: Psychological Foundations of Economic Behavior* (New York: Basic Books, 1982), 279, who is describing approvingly an argument of Fred Hirsch, *Social Limits To Growth* (Cambridge, Mass.: Harvard University Press, 1976).

[16] Richard T. Pascale and Anthony G. Athos, *The Art of Japanese Management: Applications for American Executives* (New York: Simon and Schuster, 1981), 50. Joseph Stiglitz also recognizes this possibility: "How work is organized may not only affect the productivity of workers, but how they view themselves and their world, and how they behave outside the work place." "Post-Walrasian and

Post-Marxian Economics," *Journal of Economic Perspectives* 7, 1 (Winter 1993): 109–14, 112.

[17] This may be found in Kapur, *Communitarian Ethics and Economics*, chap. 1.

[18] From the Bible, as quoted by economist Oded Stark, "Altruism and the Quality of Life," *American Economic Review* 79, 2 (May 1989): 86. Stark observes further, "This rule for regulating relations between pairs of individuals has two elements: first, it mandates altruism. Second, it prescribes a specific dosage of it. The rule instructs individuals to care not only about their own component of the social state, and to attach a weight to the well-being of another individual that is exactly equal to the weight they attach to their own well-being." As a practical matter, Stark further argues that in various situations assigning a weight of less than half to the other person's welfare—but *not* an arbitrarily small weight—would suffice to generate efficient outcomes.

[19] Afzalur Rahman, *Islam: Ideology and the Way of Life* (Singapore: Pustaka Nasional Pte., Ltd., 1980), 381–82.

[20] Swami Parthasarathy, "Commentary on *Kaivalyopanishad*," in *The Essential Teachings of Hinduism*, ed. K. Brown (London: Rider, 1988), 14.

[21] Dogen, Shobogenzo, quoted in U. Yoshifumi, "The Status of the Individual in Mahayana Buddhist Philosophy," in *The Japanese Mind: Essentials of Japanese Philosophy and Culture*, ed. C. A. Moore (Honolulu: University of Hawaii, 1967), 170.

[22] Tu Wei-Ming, "Neo-Confucian Religiosity and Human-Relatedness," in *Confucian Thought: Selfhood as Creative Transformation* (Albany: State University of New York Press, 1985), 137.

[23] Reinhold Niebuhr, *An Interpretation of Christian Ethics*, 4th ed. (London: SCM Press Ltd., 1948), 63–64.

[24] Tu Wei-Ming, "Neo-Confucian Religiosity," 134.

[25] Kapur, "An Aristotelian Utility Function."

[26] Sir Ernest Barker, *The Political Thought of Plato and Aristotle* (New York: Dover, 1959), 228.

[27] Ibid., 235.

[28] Ibid., 243.

[29] Ibid., 242. There is thus a two-way process at work: A certain initial degree of unselfishness serves to incline the individual toward constructive social engagement, and the experience of social involvement, in turn, leads to greater self-awareness and further deepening of the individual's unselfish tendencies.

[30] J. Philippe Rushton, *Altruism, Socialization and Society* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1980). Rushton's work is mentioned in Robert H. Frank, *Passions Within Reason: The Strategic Role of the Emotions* (New York: W. W. Norton and Company, 1988).

[31] Ibid., 84.

[32] Stephen Lukes, *Individualism* (Oxford: Basil Blackwell, 1973), 99. It may be counter-argued that economics studies the implications of self-interested behavior without necessarily prescribing it. Consider, however, our quotation from Maital above. Moreover, economic prescriptions are almost invariably predicated upon a completely self-interested view of agents' behavior. It could thus be argued that mainstream economics does, at least implicitly, endorse self-interestedness.

[33] James L. Collier, *The Rise of Selfishness in America* (New York: Oxford University Press, 1991).

[34] William A. Donohue, *The New Freedom: Individualism and Collectivism in the Social Lives of Americans* (New Brunswick, N.J.: Transaction Publishers, 1990).

[35] Ibid., 252–55. Emphasis added. In a similar vein, Donohue relates the well-documented decline in student educational performance to the severe weakening of the family (168); see also John H. Bishop, "Is the Test Score Decline Responsible for the Productivity Growth Decline?" *American Economic Review* 79, 1 (March 1989): 178–97, for the implications of the former for productivity growth.

[36] Christopher Lasch, *The Culture of Narcissism* (New York: W. W. Norton and Company, 1978), xv.

[37] Ibid., 5.

[38] Lawrence J. Kotlikoff, *What Determines Savings?* (Cambridge, Mass.: The MIT Press, 1989), 299.

[39] Yair Aharoni, *The No-Risk Society* (Chatham, N.J.: Chatham House Publishers Inc., 1981), 78–85.

[40] A paper by William Lord and Peter Rangazas, "Altruism, Deficit Policies, and the Wealth of Future Generations," *Economic Inquiry* XXXI (October 1993): 609–30, provides further support for this basic argument. It might appear that the growth of Social Security was a response to various socio-economic challenges, such as the desire to protect the basic living standards of a generation whose earning opportunities had been adversely affected by the Great Depression and World War II. While such considerations may have played a part, they appear unable to account for the magnitude of the transfers that have been mandated over time. To quote Lester Thurow, *The Zero-Sum Society* (New York: Simon and Schuster, 1985), 249, "the average elderly family now enjoys a standard of living higher than that of the non-elderly. Much of this progress can be traced to Social Security." Aharoni (83) points out that "A worker who entered the system in 1937 and paid the maximum tax for thirty years before retirement would have paid a very small fraction of the benefits received. Today, high-income workers may pay far more than they will receive in benefits." In their empirical study, Joseph G. Altonji, Fumio Hayashi, and Lawrence J. Kotlikoff, "Is the Extended Family Altruistically Linked? Direct Tests Using Micro Data," *American Economic Review* 82, 5 (December 1992): 1177–98, find little evidence of intergenerational altruism in United States data.

[41] Barbara R. Bergmann, "Curing Child Poverty in the United States," *American Economic Review* 84, 2 (May 1994): 76. Emphases added.

[42] Nancy Folbre, "Children as Public Goods," *American Economic Review* 84, 2 (May 1994): 86.

[43] Roy Radner, "Monitoring Cooperative Agreements in a Repeated Principal-Agent Relationship," *Econometrica* 49, 5 (September 1981): 1127–48.

[44] Robert Frank, *Passions Within Reason*, 82–83. In support of this, Frank (76–77) adduces the results of the following experiment. When subjects were asked to choose on a given day between $100 to be received 28 days later and $120 to be received 31 days later, they made, correctly, the latter choice. However, when they were then asked to choose between "$100 today" and "$120 three days from now," they chose the former—a clear case of choice inconsistency. "The behavioral psychologist's explanation for the inconsistency goes roughly as follows: With respect to the first pair of alternatives the psychological reward mechanism regards each payoff as temporally remote. Something 28 days away seems virtually as far off as something 31 days away. One cannot get immediate gratification anyway, so why not settle for the more valuable reward? In the second pair of alternatives, however, the immediacy of the first reward is, for many subjects, just too vivid to ignore. It floods their consciousness and overwhelms their judgment." Ibid., 78.

[45] Ibid., 82.

[46] Michael L. Dertouzos, Richard K. Lester, Robert M. Solow, and The MIT Commission on Industrial Productivity, *Made in America: Regaining the Productive Edge* (Cambridge, Mass.: The MIT Press, 1989).

[47] Carl Shapiro and Joseph Stiglitz, "Equilibrium Unemployment As a Worker Discipline Device," *American Economic Review* 74, 3 (June 1984): 433–44.

[48] See Kapur, *Communitarian Ethics and Economics*, chap. 5, for a detailed discussion.

[49] Dertouzos et al., *Made in America*, 94.

[50] Tu Wei-Ming, "Neo-Confucian Religiosity," 134.

[51] Tu Wei-Ming, *Centrality and Commonality,* 113.

[52] Thomas J. Peters and Robert H. Waterman, Jr., *In Search of Excellence: Lessons From America's Best-Run Companies* (New York: Warner Books, 1982), 261. Interestingly, Peters and Waterman also quote the C.E.O. of 3M, Lew Lehr, as pointing out that companies with such an orientation have filled the void resulting from the breakdown of institutions such as communities, schools, and churches as social centers.

[53] Boye De Mente, *The Japanese Way of Doing Business* (Englewood Cliffs, N.J.: Prentice-Hall, 1981), 132.

[54] Ibid., 133. De Mente was writing in 1981 before the subsequent, on-going, social, economic, and political changes in Japan. These changes merit a separate analysis in their own right but De Mente's observations may be viewed as applicable in respect of a considerable part of twentieth-century Japanese experience.

While the problems since about the late-1980s in Japan require a separate, detailed analysis, I would like to advance a general hypothesis here. In the postwar period, Japan was arguably a highly communitarian society. Unfortunately, the Japanese communitarian consciousness essentially stopped at its national boundaries. As our quotation from Tu at the beginning of this section suggests, the process of human self-realization requires that one's communitarian consciousness progressively embrace a series of expanded social groups. We may thus hypothesize—subject, of course, to further study—that the Japanese inability to adequately internationalize their communitarian consciousness as the next stage of realization after the task of national recovery was well-accomplished by the 1980s led increasingly to an inward-looking orientation that bred complacency and, ultimately, corruption.

[55] Ronald Dore, *Taking Japan Seriously: A Confucian Perspective on Leading Economic Issues* (London: The Athlone Press, 1987).

[56] Consider also the following—non-country-specific—observation by Stiglitz (111-12): "[Herbert] Simon (1991) has provided a convincing case that agency problems are often overcome best by attempting to change the preferences of workers, making them 'identify' with the firm with which they work, and that successful firms manage to do this." Amartya Sen, too, mentions the Japanese company ethic as an example of other-regarding concerns. "The Formulation of Rational Choice," *American Economic Review* 84, 2 (May 1994): 389.

[57] See Kapur, *Communitarian Ethics and Economics*, chaps. 5–6, for an extended discussion.

[58] Dore, *Taking Japan Seriously*, 170.

[59] Ibid., 183.

[60] Salim Rashid, "Comment on Basant K. Kapur's 'Ethics, Values, and Economic Development'," Third Asian Development Bank Conference on Development Economics, Manila, Philippines, November 1994.

[61] Ibid.

[62] William Donohue, *The New Freedom*, 17–18. Emphasis added. It should be pointed out that while citing these authors Donohue also expresses disagreement with some of their views, although his criticisms of them are, in my view, not entirely valid.

[63] Gordon Marshall, *In Search of the Spirit of Capitalism: An Essay on Max Weber's Protestant Ethic Thesis* (London: Hutchinson, 1982), 81.

[64] Ibid., 86.

[65] Kapur, *Communitarian Ethics and Economics*, 5.

[66] Cf., the important insight of Tu Wei-Ming quoted earlier: "The enlargement of the self, with its eventual union with Heaven as the most generalized universality, travels the concrete path of forming communions with a series of expanded social groups." As discussed at length in *Communitarian Ethics and Economics*, chap. 4, in Japan even corporate leaders are expected to exhibit a high, non-pecuniary, sense of loyalty to their organizations, and indeed to the country as a whole.

[67] One might counter-argue that a leader should receive the value of his marginal product, so that the temptation for him to engage in corrupt practices is thereby reduced. Given that the prospective reward to engaging in corrupt practices for any senior leader are potentially very large, it is unlikely that such a compensation policy by itself would serve as an adequate discouragement. Our suggestion in the text does imply that a senior leader should be compensated better than a junior one but, in addition, a high degree of loyalty and altruistic commitment to the community and the organization are, in my view, necessary safeguards against the temptation to engage in corrupt practices.

[68] Pascale and Athos, *The Art of Japanese Management*, 49.

[69] Consider, for example, the motto of Sanyo Corporation: "Let us create a better society *through the company*." Friedrich Furstenberg, *Why the Japanese Have Been So Successful in Business* (London: Leviathan House, 1974), 26. Emphasis added.

[70] Quoted in John Maloney, *Marshall, Orthodoxy, and the Professionalization of Economics* (Cambridge: Cambridge University Press, 1985), 199.

[71] Alfred Marshall, *Principles of Economics*, 8th ed. (London: Macmillan and Company, 1956), 8.