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From the Editor:

This issue of the ACE journal contains two papers. The first is by Ian Jones and Michael Pollitt on economics, ethics and business integrity. Michael gave the paper during last year's ACE Study GroupMeeting. The second is by Donald Hay on the question of a moral framework for markets. This issue also contains a reply by David Paton to Vivien Foster's provocative article on Christianity and environmental economics. There are also a book review of a recently published edited collections written in response to the second Oxford Declaration on Christian Faith and Economics edited by Herbert Schlossberg, Vinay Samuel and Ronald J. Sider.

The next ACE Study Group meeting will take place on the 3rd and 4th of July at Jesus College, Oxford. If you would like to attend, please contact Donald Hay at Jesus College, Oxford as soon as possible. Nearly all the speakers share the same Christian name - Britton, Dilnot, Hartropp and Henley! The sole exception is Sabina Alkire.

As always I am keen to receive material for the journal: papers, responses to papers and book reviews.

Please read the notice about a new emailing facility using the Internet on the following page.

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I hope that in addition to passing on information about ACE activities this can become a medium for sharing views and advice.

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Contents

ECONOMICS, ETHICS AND INTEGRITY IN BUSINESS

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Integrity *In moral sense* (a) unimpaired moral state; freedom from corruption; innocence, sinlessness. (b) soundness of moral principle; the character of uncorrupted virtue esp. in relation to truth and fair dealing; uprightness, honesty, sincerity.

(Oxford English Dictionary)

1. Introduction

High profile concern for personal and commercial integrity in the UK seems to be a reaction to the well-publicised business scandals of the last few years, such as the fraud-related collapse of the former `blue chip' companies Polly Peck[1], Ferranti[2] and Maxwell Communications[3], the `dirty tricks' campaign run by British Airways against Virgin[4], allegations of insider dealing in Blue Arrow shares against County NatWest and the huge $9.5bn collapse of the international bank BCCI [5]. Leading business schools have appointed professors of business ethics - the London Business School has recently appointed a Jesuit priest, Jack Mahoney, to such a chair, funded by the retailers Dixons [6].

If concern for personal and commercial integrity is high in the UK it is even more of an issue in the emerging market economies of Central and Eastern Europe (CEE). In such countries a radical revolution is under way in business practice as large sections of the economy are transferred from state to private ownership, and new economic freedom has resulted in a huge rise in the number of small businesses. This revolution is quickly transforming the structure of the former communist economies, while producing related problems of unemployment and inequality of income and wealth.

One of the reasons why business ethics lacks intellectual credibility is the reluctance which most writers on the subject have in defining their terms. Much of the writing in the mainstream business ethics journals does not appeal to particular religious traditions but to Greek moral philosophers, as if these thinkers represented the agreed philosophy for intellectuals [7]. In general it is assumed that we all know what an *ethical* action is. In a society which has increasingly marginalised absolute standards of value, such a code has little meaning. Companies often think that they need to educate their employees in good practice in order to establish a culture of integrity [8].

In this paper we seek to clarify and illustrate the economic basis for discussions about integrity in business life. In order to be clear about what we mean by integrity we work from a Biblical definition in the Judaeo-Christian tradition. This is not to suggest that other faiths have nothing relevant to say on the subject but we leave it to followers of those faiths to write their own analyses of problem. Biblical definitions do however seem particularily applicable to those market systems that arose in Judaeo-Christian cultures.

The argument of this paper is that there are at least three dimensions of integrity in business life: the personal, the corporate and the macroeconomic (or systemic). We illustrate each of these by reference to a case study which raises the important issues and provides a concrete example to reflect upon. We then briefly discuss the relevant economic issues raised in the example and go on to suggest ways in which problems can be reduced or avoided. The cases cited in this article are for illustrative purposes only.

The paper is in six sections. Section 2 examines what integrity means from a Biblical perspective. Section 3 discusses the economics of personal integrity using a parable which facilitates analysis of recent high profile business frauds. Section 4 presents an analysis of corporate integrity with reference to the Blue Arrow/County NatWest affair. Section 5 attempts to sketch some macroeconomic aspects of integrity with particular reference to Russia. Section 6 is a conclusion.

2. Biblical Insights into the Meaning of Integrity

The dictionary definition of integrity distinguishes two aspects of the moral meaning of integrity: wholeness and honesty. Integrity, in the sense of wholeness, is a state of being, it is something that we have. Integrity, in the sense of honesty, is something that we act with. This distinction is useful in that it suggests the importance both of honesty in individual decision-making and of a striving after a reputation or culture of good practice. The two are of course interrelated: honest actions are based on an attitude of honesty at the personal, corporate and macroeconomic level.

In this section we attempt to gather some of the key Biblical insights into integrity and attempt to apply them to a modern capitalist economy. In what follows we define integrity more narrowly in the sense of honesty. Such a definition includes telling the truth and not spreading false information. The section is two parts: part one offers five basic principles on integrity and part two outlines two practical principles on how integrity can be encouraged.

Basic Principles:

Firstly, integrity in business is seen as an intrinsically good thing. In the Bible, God explicitly commands honesty in business life and expresses a dislike for those who oppose men of integrity [9]. The truth thus has intrinsic value [10]. There can be no distinction between honesty at work and away from work.

Secondly, integrity is seen as an important quality in leaders both inside and outside the Church [11]. In the Bible, God encourages individuals to have integrity and commends those who display this quality [12]. Many of the leading Biblical figures were leaders in situations where not everyone around them shared their faith [13], yet they were still highly successful in both the world's and God's sight.

Thirdly, integrity yields direct benefits. In Biblical injunction people of integrity can expect God's blessing and inspiration [14] and the respect of others, especially their masters [15]. Dishonest behaviour is often exposed and proves costly [16]. Indeed many dishonest actions only remain profitable if they are undiscovered - one danger in acting dishonestly is that you may not be able to get away with it.

Fourthly, integrity is a scarce commodity at most times and in most places. Although integrity can be encouraged and is a `good' thing, we must always be realistic about people's capacity to defraud and steal. The Bible states that 'all human beings are evil' [17] and even those who are rich are shown to be prone to temptation and greed [18]. Regulation, law and other people with integrity can restrain but not eliminate dishonesty [19].

Fifthly, acting with integrity is costly. It involves saying no to certain practices common in our own and indeed in other cultures across the world and will involve problems [20]. There are many business situations where you may not be given the choice between acting honestly or acting dishonestly. You may simply be ordered to do something dishonest, or be in a situation where only a dishonest action will allow your business to survive. In such cases, being honest will inevitably involve a cost.

Practical Principles:

First, the best test of whether an action is honest or not is that of bringing it `into the light' [21]. It is highly likely that an action is dishonest if it would not have been taken if the perpetrator had known that his action would be made public. This test is not foolproof: some actions may be publicly acceptable but Biblically wrong and likewise some may be Biblically acceptable but publicly unacceptable [22].

Secondly, the incidence of dishonesty is reduced when opportunities for dishonesty (temptation) are reduced. We are encouraged in the Bible to pray not to be led into temptation, to flee temptation and not to put temptation in the way of others [23]. A culture of honesty, a strong legal and social framework and a fair distribution of wealth reduce incentives and opportunities to be dishonest. This is not to suggest that we should be honest *only* if the incentives are right (see the first Biblical principle).

3. The Economics of Personal Integrity

Moving to the first of our case studies - the parable of the rich man and the pensioners:

> `There once was a rich man who was chairman and chief executive of two companies. One company was a private company in which the rich man had a 100% shareholding, the other was a public company in which the rich man had a 50% shareholding. The public company had many current and ex-employees who were members of a pension fund in which they had invested millions of pounds of their savings. Through his private company rich man made several risky investments. The public company reported healthy profits. After some time the rich man died.
>
> After the death of the rich man it was revealed by the media that most of the money was missing from the pension fund of the public company and that the private company was very unprofitable and heavily indebted. It was further revealed that the rich man had transfered this money under his own authority to his private company in order to finance the bank loans of his private company and protect that company from bankruptcy. Most of the missing money was irrecoverable and many pensioners in the public company lost a large percentage of their savings.
>
> Safeguards were in place to prevent the rich man from abusing his authority but they failed to stop the transfer of the assets of the pension fund. The rich man was able to transfer the resources of the public company on his sole authority without reference to other executives of the company. The rich man's bankers did not realise the size of the losses which the private company was running. Pension fund regulators and the Central Bank did not detect any irregularities. The non-executive directors and the auditors of the public company did not suspect the rich man.'

The scenario in the above parable is familiar - it reflects well publicised frauds arising from the actions of one or more powerful individuals. It is educationally interesting in that it illustrates the ability of one person to steal or act dishonestly in such a way that millions of pounds are lost and thousands of people severely affected. Multi-million pound losses are clearly exceptional in reality (hence the media attention), but the general principles apply to many smaller managerial decisions and are of much wider application.

The problems in the public company arose primarily because of *asymmetric information* between the manager (in this case the rich man) and those charged with (or with an interest in) monitoring his behaviour - the shareholders and their auditors. In the economic theory of the firm, this situation is an example of the *principal-agent problem.* The manager is the agent who is employed by the shareholders - the principals - to run the company on their behalf. The reason this is a problem is because the principal and the agent have different objectives and different information. The principal wants to maximise his return (within the law) and the agent wants to maximise his personal welfare (utility). The agent clearly has superior information about the performance of the company and the opportunities for profit and utility. The shareholder must choose a manager and give him a remuneration scheme taking these environmental factors into account. In the literature, the shareholder can increase his expected profit by giving the manager a profit related pay scheme, improving the internal monitoring procedure within the company, employing outside consultants/auditors, encouraging competition between managers, entering into long-term contracts with managers and encouraging an identification of the managers with the objectives of the shareholders.

Although the rich man was himself a large shareholder in the public company, he clearly had an interest in transferring funds from the company where he had minority shareholding to his wholly-owned private company. The risky investments made by the rich man through his private company illustrates an interesting phenomenon - a manager who was more willing to take risks than his shareholders. Shareholders in public companies should be wary of managers with objectives so different from their own: such individuals are likely to be costly in terms of both remuneration and monitoring. *Company training schemes, corporate cultures and business schools should have a role in teaching managers the importance of personal integrity.* Managers who are not going to take advantage of their positions to maximise their own welfare are more valuable to their shareholders.

The losses [24] from the pension fund of the public company in our parable were not just a function of the personal preferences of one man. The Principal Agent problem suggests that utility-maximising agents can be turned into valuable employees if they are given the right hierarchy to work in. Company procedures were lax and did not take adequate account of the principal-agent problem. Improved monitoring and internal control procedures would have helped. Countersigning of cheques was not required in the company statutes of the public company, thus the rich man was able to write cheques to his private company without reference to any other executives. This practice might have helped, though the possibility of collusion between managers to defraud shareholders is very real. The `honest' party (perhaps the non-executive directors) must be prepared to take the personal cost of `whistle-blowing'. Auditors should be expected to detect and reveal irregular transfer payments in public companies. Here, collusion between the manager, the auditor and the non-executive directors would seem to be a further problem - the auditor fears loss of business if he reveals information. Areas of company law relevant to these issues need to be reviewed (as has recently happened in the Cadbury Report [25]) but it is clearly in the interests of large shareholders to follow best-practice monitoring procedures.

4. The Economics of Corporate Integrity

> `Integrity is the cornerstone of our business. Our roots go back over three centuries and the partnership between our traditional values and modern skills is the foundation on which our business stands.' (National Westminster Bank, *Annual Report and Accounts* 1986).

The so called `Big Bang' of October 1986 transformed the financial markets in the UK. Many of the large high street banks entered the equity and gilts markets in an attempt to exploit new opportunities. One of these was National Westminster Bank (NatWest) which invested heavily in its merchant bank, County NatWest (County) [26].

Blue Arrow was a British employment agency which was raising £837m in September 1987 to buy Manpower, an American one. County was advising Blue Arrow on the rights issue. This was the largest issue in the London market to that date and would have made County NatWest one of the major players on the London Stock Exchange.

The Economist (7th March 1992, p.23-26) records the details of what subsequently came to be known as the Blue Arrow Affair:

> `On the evening of September 28th 1987, National Westminster's bid to become a real force in investment banking began to falter...Blue Arrow shareholders had taken up their rights to only 38% of the shares on offer. County did not want to make the subunderwriters take the remainder, for the issue would then be seen to be the failure that it was, and the share price would fail. County had underwriten a

> quarter of the deal itself...So, after the deadline for the closure of the rights issue, County, P&D Phillips and Drew, stockbrokers to Blue Arrow and Dillon Reed Blue Arrow's American advisers bought enough shares to bring the proportion taken up to 49%....Next day,...a press release from County and an advertisment from P&D said 49% of the rights had been taken up, and the remainder successfully placed at a premium. The advisers bought more shares in the placing: County NatWest and County NatWest Securities, its market maker, each ended up with just under 5% of Blue Arrow. Union Bank of Switzerland (UBS), P&D's parent, held about 4%, and was protected by an indemnity under which County promised to make good any losses it might suffer on the shares....All this left County NatWest with an interest (including the shares held by UBS) in 13.5% of Blue Arrow, worth £150m....But for the stockmarket crash of October 19th 1987, the secret might never have got out. The crash halved the price of Blue Arrow's share price, and dashed County's hopes of selling the shares gradually in a buoyant market...In early December, facing a year-end audit, NatWest decided to transfer the marketmaker's stake to County itself, and admit to owning 9.5% of Blue Arrow...On December 17th UBS struck a deal whereby UBS cancelled the indemnity and kept its 4% holding of Blue Arrow shares in return for £32m.(NatWest's losses on Blue Arrow were to total £96m, though they were partly offset by a hedging profit of £18m and advisory fees of £12.5m.) County then announced it owned 9.5% of Blue Arrow.'

The consequences of the announcement were serious for the NatWest Group. There followed much internal reorganisation, several well publicised resignations of senior executives [27], compensation payments by County NatWest to all Blue Arrow shareholders who bought shares between the close of the rights issue and the December 17th announcement [28], a Department of Trade and Industry inquiry [29] and eventually a fraud trial at the end of which 3 top executives were found guilty of conspiracy to defraud [30], though the convictions were overturned on appeal [31]. The 1989 Chairman's Statement [32] noted:

> `The Blue Arrow affair has been highly publicised. The Bank acknowledged some of the criticisms and County NatWest has thorougly reviewed its practices. As a Group we are committed to the highest ethical standards.'

The Bank updated its `set of principles' published in 1986 and started work in 1990 on producing a code of ethics was published in 1993 [33]. After a three-year process, which involved discussion and presentation at several levels in the company, the bank produced a code of ethics and a procedure for `whistle-blowing' within the company. This was produced after discussions with more than 600 people at all levels of the company during 1991. Further discussion took place in the following year and accountability was increased with an annual report to the board on progress with the code. A confidential hotline was launched to report on violations of the code and took more than 60 calls in the first six weeks.

NatWest's code of conduct [34] notes:

> `Advertising is the most public face of the group. False or misleading advertising is incompatiable with the reputation for absolute integrity which the group is determined to build and maintain. Statements about the group's services and comparisons with competitor's products will be based on verifiable facts and will be designed to give a fair view of the nature of our services and of the financial commitment and risks involved.'

In contrast to the rich man in our parable, it appears that managers within NatWest and County felt that concealing the failure of the Blue Arrow rights issue was actually the most profitable strategy for the shareholders of the companies concerned. However this deception was (by NatWest's own standards) unethical: the Blue Arrow share price was artificially inflated and those not party to the deception bought shares on unfair terms. The decision not to reveal the whole truth involved several senior managers within the NatWest Group and was only uncovered by chance.

The Blue Arrow/County Affair is illuminating in that it both highlights particular economic problems and suggests possible responses to them. The key economic problem was the attempt to profit by the issuing of misleading information. We use two sets of economic theories to analyse this particular case. Firstly, we consider the *theory of reputation* - this theory focuses on the trade-off between short-run and long-run profits. Secondly, we discuss the *theory of the firm* as an alternative to the market: here we focus on the internal workings of the firm [35].

County had a clear incentive to mislead in order to avoid large losses in the short run. This was a risky strategy which might have paid off if the truth had not come to light. The cost to NatWest when the truth was revealed was the loss of reputation and the Bank was clearly concerned that this would have a serious effect on future profits. One way of viewing an honest action is as an investment which yields a return in the future. This example is a highly Biblical view of honesty. Many economic theories have sought to analyse actions which in the short run result in losses in this way. In particular the economics of advertising can be analysed in the context of investment [36]. It is interesting that County attempted to use untruthful advertising to increase their reputation.

Companies undertake advertising in order to increase sales. If a company exaggerates the attributes of its product in an advert this may gain more sales in the short run, but as people learn by experience that the product is not what they thought it was, the company will lose their custom. Under certain circumstances, it pays to advertise truthfully in order to build up a stock of satisfied customers and to encourage consumer loyalty. It is still true, however, that if there is little repeat buying of the product untruthful advertising may yield higher profits [37]: hence the large number of `cowboy builders' and the small number of unscrupulous makers of breakfast cereals. Truthful advertising and satisfied customers are just two of the factors which contribute to a company asset called `goodwill' [38]. Companies with a reputation for high quality have a quantity of goodwill which cannot be seen but can earn a return. Revelation of dishonesty or bad business practice by a business or the executives in it may have a serious negative impact on a company's stock of goodwill and result in the loss of customers or the lowering of profit margins on sales [39].

Economics views the firm as a unit of production which allows the *administrative integration of information exchange*. The firm represents an alternative way of managing economic transactions to the market. The firm is an organisational unit which can take advantage of division of labour, economies of scale, and pooled information in order to minimise production costs [40]. Crucially, the firm can undertake many economic transactions at much lower cost than an equivalent transaction organised via the price mechanism [41]: this is because of the bounded rationality (limited ability) of individuals and the problems of monitoring and avoiding opportunism in contracts with those outside the firm [42]. A key problem within the firm is the motivation of individuals working for the firm to supply the optimal level of effort. This is most easily achieved when the individuals are self-motivated. Here, people of integrity who see their work as a vocation are likely to be more productive than those who do not. *Firms minimise costs via the cooperation of employees and the internal arbitration of disputes* [43].

While older analysis of the role of firms has focused on transaction cost savings' newer analysis has shifted to the role of culture within the firm [44]. Encouraging employees to identify with the objectives of the organisation may be the most effective way of motivating employees to work hard. Improved internal relations within the firm in an atmosphere of honesty and forgiveness may raise productivity through increasing the cultural identification of employees. Firms which promote good relations between their employees and encourage employees to develop their creativity and sense of community within the firm can expect to benefit from this via lower unit costs. Codes of ethics and ethical training may be useful in helping companies to develop a creative and healthy environment within the firm [45].

NatWest undertook an expensive process of educating their staff in their code of ethics following the Blue Arrow affair. This step can be viewed as an investment in reputation - failure to be seen to adhere to this code will lead to a loss of business. The code also tried to improve the operation of NatWest as a firm within which there was a culture which did not allow such unethical and in this case unprofitable behaviour. The creation of such a positive culture reduces the cost of integrity to the individual. The fact that so many people contacted the confidential helpline suggests the personal cost of being honest. Those senior managers involved in the decision making process within NatWest which led to the misleading of the market undoubtedly suffered a personal cost when the whole affair became public. A key test which managers should apply to their behaviour is whether the action would still be profitable if it was made public.

5. The Macroeconomics of Integrity

Since the collapse of the Berlin wall in 1989, economic and political revolution is quickly transforming the structure of the former communist economies. We now focus on the effects of these changes in the Russian Federation. Russia may be an extreme case but it is the largest former communist country and many of the other central and Eastern European countries exhibit similar if less severe problems.

The Russian economy faces severe macroeconomic (or systemic) problems. GDP fell 12% in 1993 and inflation reached 915% p.a. [46]. The government budget deficit in 1993 was 6% of GDP. The economy has become heavily dollarised as people seek to escape the declining value of the rouble. The political situation is unstable with the emergence of a strong nationalist movement and the weakening of pressure for reform. Real interest rates are negative and banks are speculating heavily in foreign exchange. Both banks and firms are moving out of the rouble and holding dollars: demonetisation takes the form of increases in barter and foreign exchange transactions. The macroeconomic picture is characterised by uncertainty and volatility [47].

At the microeconomic level, there is uncertainty about the ownership status of many government-owned companies following the collapse of central planning. Corporate governance is non-existent as there are few identifiable owners of large state-owned enterprises. State-owned banks and firms are colluding to support business operations at a high level of inefficiency. Firms appear to be hoarding labour and also using their monopoly power to maintain prices and margins in spite of falling demand. Enterprise reform to improve incentives and efficiency is recognised as the key to improved economic performance [48].

Corruption is rife: both in industry, where the Mafia are having an increasing influence on production, and in government, where opportunistic behaviour by civil servants and politicians is serious [49]. It appears that it is not possible to operate a street kiosk without a substantial payoff to the Mafia [50] and that the bigger were the gains to corruption in government the more likely is it to occur - four officials at the central bank were charged with misappropriating $350m of currency [51]. The business atmosphere is not conducive to fair competition. Companies spread lies about competitors' products through misleading advertising or via paying journalists to write untrue articles about them [52]. The danger is that Russia will develop a Columbian rather than a Western European form of capitalism [53].

This transformation in Russia presents two main problems for the honest business person - the cultural legacy of communism and opportunistic competition from unscrupulous entrepreneurs (sometimes the two problems are related - some state officials use their influence to make profitable business deals). Former apparatchiks still remain in position in many state-run and newly-privatised companies: these may provide a substantial cultural barrier to entry for new entrepreneurs attempting to compete against firms with substantial opportunities for anti-competitive behaviour (eg. through use of `old boy networks' to obtain contracts). Immoral or amoral competitors and partners (criminals in some cases) may substantially reduce the opportunity to do honest business in the period of transition. One of the major restraints on foreign inward investment in the new democracies is thought to be the difficulty involved in finding trustworthy local partners with whom to establish joint ventures [54]. In the absence of a well-run market-place with appropriate legal restraints on advertising, health and safety standards and on monopoly, unethical businessmen have much more scope for profiting from immoral and anti-social behaviour. Businessmen wishing to act morally find it all the more difficult to do so and remain profitable.

One way of thinking about the problems of doing business in Russia is by using game theory. We model `the economy' as consisting of two players in a game who are considering the returns to an honest action. Imagine two players with a choice of two strategies - be honest or be dishonest [55]. An honest player (Player 1) wants to act with integrity first and maximise profits second. A dishonest player (Player 2) just wants to maximise his profit. The payoffs (in £) are given in Table 1 below, player 1's payoff is the first number in the bracket. Players must make their moves simultaneously. Such a game might be used to model the interaction between two firms in a market, between two individuals within a firm or between the firm and another party such as the government or a supplier.

Table 1

		Player 1	
		BE HONEST	BE DISHONEST
	BE HONEST	(10, 10)	(12, 2)
Player 2	BE DISHONEST	(-2, 12)	(6, 6)

If player 1 is honest then player 2 will be dishonest and the payoffs will be (-2,12), player 1 will make a loss. Financially, best thing for player 1 to do is be dishonest and both players will get £6. However the sad thing is that if both were honest they could receive £10: from the systemic point of view this is the best outcome.

The above game is called the *Prisoners' Dilemma* [56]. In equilibrium, if both players just care about profits they will both be dishonest. There are three possible ways in which being honest can yield a profit for player 1. The first way out of the dilemma is if the game is repeated an infinite or uncertain number [57] of times. Player 1 could offer to be honest as long as player two is honest, if player 2 was dishonest in any period then player 1 would threaten to punish him by being dishonest in every subsequent play of the game. Note that detecting dishonest behaviour is essential if punishments are to be enforced. Player 2 is thus offered the chance to receive £10 every time he co-operates or £6 forever if he does not. If player 2 cares a reasonable amount about the future, being honest may be an optimal strategy for each player [58]. Thus, an infinitely repeated Prisoners' Dilemma problem may have `honesty as the best policy' [59].

There are two things to note about this solution. First, the game must be repeated an infinite or uncertain number of times. A finite number of plays means that being dishonest is the most profitable strategy in the last play of the game. This implies that the penultimate play of the game may be thought of as the last play of the game, because the actual last play is a single play game. Working backwards every play of the game may be thought of as a last single play - hence being dishonest becomes the most profitable strategy in every play of the game. Second, it appears that the honest player must threaten to be dishonest. This is strictly true, though the honest player never actually has to be dishonest. As a way out of this apparent ethical dilemma, the threat might be to refuse to play the game, though in business this is not always possible.

The second way out of the Prisoners' Dilemma suggests that even in a finitely repeated Prisoners' Dilemma game it is possible that honesty may be the best policy. If there is a small probability that player 1 actually is honest then player 2 may be honest for a significant number of the early plays of the game [60]. Towards the end of the game, the net returns to being dishonest become positive and it is profitable for both players to start playing the dishonest strategy. If player 1 were known to be honest for sure then he would consistently make a loss, while if he were definitely a profit maximiser the problem would reduce to a finitely repeated game as in the previous paragraph [61].

The final way out of the dilemma is to change the rules of the game. If being dishonest is outlawed or has a large enough fine (greater than £2) attached to it, being honest becomes the best strategy even for the profit maximising player. The justification for this could be that total profits are highest if both players are honest and hence we might say that this maximises the welfare of society even when simply measured in terms of profit. Similar results are obtained if the players make binding commitments to be honest via the posting of bonds, or if the cost of public disgrace and the probability of being caught being dishonest are high enough, this alters the payoffs sufficiently to make being honest the most profitable strategy.

This model leads us to several key conclusions about the process of marketisation in Russia. First, honest business should be encouraged as it leads to the highest social welfare. Second, dishonest business will be reduced if the returns to dishonesty are reduced. In the game, if the £12 payoff fell to £8, then both players would choose honesty. Lack of transparency, low government salaries and lax law enforcement increase the perceived return to dishonesty. Third, long-term investment should be encouraged and `casino' capitalism should be discouraged. The rapid development of property and stock markets are less of a priority than infrastructure and utility companies. Fourth, market institutions are highly important in the operation of the market. In particular a modern market economy requires a legal system, a police force, a military, a legislature, a civil service, a central bank and a set of regulatory institutions, eg. for anti-trust monitoring or the enforcement of standards in advertising. Much textbook economics forgets that the market itself is not a privately supplied good but a public institution. A market free from proper regulation leads to anarchy and Mafia control of production rather than the optimal allocation of resources.

6. Conclusions

This paper has attempted to introduce the reader to a broad range of ideas and issues of relevance to the economics of integrity. We began by discussing the definition of integrity from a Biblical perspective. The key ideas were: honesty is good in itself; leaders of integrity are highly important and valuable and have large effects on their environment; integrity is often consistent with profit and dishonesty is costly to the perpetrator when it is revealed; integrity is scarce and dishonesty cannot be eliminated; and maintaining personal integrity in a culture which tolerates unethical behaviour can be very costly. On the practical level, we suggested the test of openness in order to decide whether actions were ethical and the need to reduce temptations to behave unethically.

We then went on to discuss and analyse three levels at which integrity has to operate and at which it has economic effects: the personal, the corporate and the systemic. In one sense this definition is stretched: *all integrity is ultimately personal*. Institutions such as firms and markets merely reflect the values and ethical actions of the individuals who established them and who run them. However, it is useful to categorise the economic effects in such a way because policies and strategies to cope with integrity similarly operate at different levels. We saw that many useful strategies could be and have been recommended.

The examples demonstrated the importance of integrity, consistent with the Biblical pattern, at different levels. In particular the lack of integrity in each of the examples led to losses for all the parties concerned. Of course this is not always true, and the Bible has much to say on the fact that it often appears that dishonesty does pay. This does alter the central conviction of the person of integrity that honesty has a value independent of the material return to it. Harder still is the issue of what to do about the dishonest actions of others. In the Blue Arrow affair, County executives initiated the deception of the market while senior NatWest managers chose to go along with the deception rather than condemn it. There are plenty of instances where `whistle-blowing' proves more costly to the `whistle-blower' than to the person about whom the whistle is blown [62]. To NatWest's credit they recognised this and did something about it when they set up a confidential hotline to deal with reports of violations of their ethical code.

Coping strategies within the firm and at the macroeconomic level are an expensive and unsatisfactory substitute for a personal conviction that honesty is something worth having. We should be very clear that the decline in that personal conviction within managers can have a serious and negative effect on the performance of capitalist economies. At the moment, we are living on the legacy of integrity and personal conviction which shaped our market and democratic institutions and many of our great public companies. Whether CEE succeeds in developing a viable form of capitalism which comes close to maximising social welfare, will in part depend on the values with which the new markets are built and the personal integrity of the first generation of managers and entrepreneurs. Their problems in this area merely illustrate the dependence of our own system's relative success on past convictions about personal behaviour which we no longer teach or value.

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11. Exodus 18:21, Nehemiah 7:2 and Titus 1:8.

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13. For example: Daniel (Daniel 2:46-49) and Joseph (Genesis 41:41-45).

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15. Proverbs 3:32, 16:13 and 25:13.

16. Proverbs 10:9, 11:3, 13:6.

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as the rate of discount in the infinitely repeated model.

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DO MARKETS NEED A MORAL FRAMEWORK?

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1. A moral framework for the functioning of markets?

The issue we wish to explore in this paper was stated succinctly by Hirsch (1977) in his significant, but neglected treatise, *The Social Limits to Growth*.[1] His starting point was the relationship between Adam Smith's economic analysis in the *Wealth of Nations*, and his social analysis in *The Theory of Moral Sentiments*. He quoted with approval a summary provided by Coats (1971): "Men could safely be trusted to pursue their own self-interest without undue harm to the community not only because of the restrictions imposed by the law, but also because they were subject to built-in restraint derived from morals, religion, custom and education."[2] Hirsch interpreted this to mean that without standards of truth-telling, mutual trust, and obligation to fulfil promises, the market system will tend to fail. Fewer goods and services will be produced because potential transactors are not able to trust each other sufficiently to trade with each other. According to Hirsch, such standards were previously sustained by moral sanctions *outside* the market system, and he is clearly referring to the sanctions provided by Judaeo-Christian religion and ethics - what he calls "the depleting moral legacy".

Three possible solutions to this problem were discussed by Hirsch. The first is that proposed by the Hayek-Friedman school of liberal economists. Market behaviour is to be

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[1] Paper prepared for the Balliol Colloquium, *Integrity in Public and Private Domains*, 27-29 January 1995. Comments from David Vines substantially improved this paper, especially in section 4.

controlled by the provision of statutory rules with incentives for compliance. However, as Hirsch observed, law can only imperfectly substitute a sense of social obligation. Arrow illustrated the limitations of liberal thought with an extreme example. If the market extends to the judicial and administration system, so that judges and regulators are willing to be bought by the highest bidders, then any attempt to regulate market behaviour by statutory rules is bound to fail. Arrow (1972) remarked: "The definition of property rights based on the price system depends precisely on the lack of universality of private property and the price system."

The second solution, mentioned by Hirsch only to be dismissed, is a revival of religious sanctions. Griffiths (1984) is more sanguine about this solution. Indeed he argues that a Judaeo-Christian moral code is essential for the functioning of a market economy. In this he rejects the neoliberal position that markets are morally neutral, being no more than mechanisms by which different value systems can be expressed in terms of the types of goods and services being produced in the economy. On the contrary, markets cannot function effectively without a clear basis for individual rights (including rights of property), and notions of obligation to others (which restrains self-seeking behaviour in markets). Griffiths' contention is that Judaeo-Christian thought, with its conception of human beings in the image of God, and with its emphasis on obligations to ones neighbour, especially the weak and disadvantaged, provides precisely the moral ingredients required. Hirsch presumably would not disagree with this diagnosis, but would doubt whether a revival of Judaeo-Christian ethics is an option in current circumstances. More surprisingly, a Christian ethicist John Atherton has counselled in a recent book (1992) against importing "Christian values" into an essentially secular social organisation like the market, and has proposed that our focus of attention should be the values that the market itself develops, something akin to a natural law ethic.

The third solution, proposed by Hirsch himself, is to foster a new social ethic. "Individuals' motives can remain self-interested, provided their actions within the relevant sphere are conditioned by a social interest. The purpose is served if individuals act <u>as if</u> they put the social interest first, even if they do not, and merely follow convention or the social ethic that influences individual behaviour. The key shift needed is therefore in that social ethic."[3] But how is this social ethic to be generated? Hirsch suggested that "the functional need for a change in social ethic can be expected over time to promote it."[4] But he was unable to identify any particularly satisfactory mechanism to bring this about, though he believed that collective action would be needed, since no individual would have an incentive to change his or her behaviour alone.

The common feature of these three options is that they propose bringing an "external" moral or legal framework to bear on the problem identified by Hirsch. The problem is that the scope of self-interested behaviour, which the freedom of the market system permits, includes actions such as deception and failure to fulfil promises, which could, if they became widespread, deter people from trading. Note that this problem is quite narrowly defined: we are not addressing here the general evaluation of the morality of markets e.g. the value of market freedom, or the justice of market outcomes. But it is a problem which has attracted considerable attention in a number of cases, such as Maxwell Communications, the Blue Arrow affair at County Nat West, and the Guiness share support operation during the bid for Distillers. More generally, it is known that the Bank of England has been concerned to promote ethical behaviour in financial markets in the aftermath of the financial deregulation of the 1980s: no longer it seems is "a gentleman's word his bond", and there is considerable lack of clarity about what gentlemen are allowed or not allowed to do.

Given this interest, it seems worthwhile to give the problem a more detailed analysis. Our objective is to try to delineate more accurately the circumstances in which individualistic behaviour is likely to prove destructive of the market mechanism. This will be the focus of discussion in the next section. A subsequent section will return to the need for external moral and legal frameworks to enable markets to function effectively.

2. Market incentives for good market behaviour

We rely in this section on the analysis developed by Dasgupta (1988), which focuses on the concept of trust in markets. He notes first that standard economic theory presumes that people are trustworthy in transactions, without explaining why, and so presumably appealing to social obligations or institutional sanctions. In exploring trust, Dasgupta keeps within the framework of rational economic behaviour, and does not appeal to any external moral code which generates a sense of obligation on the economic actor to fulfil a promised action. Hence, if there is no punishment or loss involved in a failure to fulfil contracts, then there is no incentive to fulfil a contract, and no transactions will take place. Any punishment threat must be credible, in the sense that the "enforcement agency" must itself be trustworthy, where the nature of the agency varies from society in general (social ostracism) to the aggrieved individual or individuals. Given the scope for punishment implied in a contract, you rationally trust another person to do something, not just because he says he will, but because you believe it is in his interests to do so. So, when entering into an agreement with someone else, you need to look at the transaction from their point of view at the point in time when they have to fufil their part of the contract. That is, you form expectations about the actions of the others, and those expectations then affect your willingness to enter into an agreement or contract. (Note here that we are excluding the possibility that you are able to control or monitor the actions of the other party directly, within the terms of the contract).

Economic analysis has identified two areas where trust is important in market transactions. The first is where one person's choice of action depends on the actions of others which the first person cannot directly control or monitor. The second is where a person's actions depends on information held by others, and they cannot necessarily be relied upon to tell the truth. We will look at examples in these two areas, to illustrate the general points under discussion.

In the first case we may examine two firms entering into a joint venture where each has to contribute its expertise in some fashion which is not directly measurable. The success of the joint venture depends not only on the contributions of the firms, but also on market uncertainties, which are also difficult to measure accurately (e.g. the size of the potential market for the product produced by the joint venture). Given the uncertainty and non-measurability, it is simply not possible to write a contract to cover all contingencies. Each firm then has the option of putting in a low or a high level of expertise with commensurate costs to itself in terms of effort and commitment of resources. What emerges is a typical Prisoner's Dilemma problem. The best outcome (in terms of joint profits) is for both firms to put in a high level of commitment. However for each individual firm the best outcome is when the firm gives a low level of commitment, when its partner gives high: the firm is able to free ride on the commitment of its partner, and takes its share of the (lower) profits with very little cost to itself. For this reason, neither firm will be willing to put in a high level of commitment, and the outcome will be low commitment and low profits for both firms. This may be sufficient to deter the firms from entering the agreement in the first place; lack of trust means that a market transaction which is privately and socially beneficial will not take place.

However, the analysis is not quite so bleak if the transaction is one of a continuing series, rather than one off. In this case, the prospect of foregoing profitable future joint ventures may be sufficient punishment to deter the firm from a low commitment to the current venture. One firm can then "trust" its partner to behave positively, because it is *rational* for the partner to do so. That will not work, of course, if the partner could behave badly in one venture, collect the profits from so doing, and promptly put itself up for sale to a new management. However, that is perhaps a rather implausible scenario.

This analysis can be extended to a wide range of market transactions where the parties are required to perform. The incentive to behave positively is the threat of losing out on future transactions. Obviously, this threat of punishment is strongest where the parties to the transactions remain the same over time: but it can also be strong where reputations for performing contracts will spread widely in the business community.

The second area of potential market failure is lack of trust in the truthfulness of the person on the other side of the transaction. Dasgupta (1988) has given a subtle and detailed analysis of this case. His example is an extension of Akerlof's famous analysis of the "market for lemons", where a lemon is American slang for a used car of low quality (Akerlof (1970)). A potential customer is considering whether to enter a particular used car showroom. He does not know whether the salesman is honest (will sell a good car) or dishonest (will pass off a lemon as a good car), but he does know the proportions of honest and dishonest sellers in the whole population of salesmen. In a simple model, the customer acts on the basis of his expected net benefit from entering the salesroom. Suppose initially that this is negative: the customer does not enter the salesroom and a potential transaction is foregone.

There are two routes out of this apparent impasse. The first appeals, once again, to repeated transactions and the building of reputations.[5] The dishonest salesman compares the returns from selling a stream of good cars over time with the one-off gain from selling a lemon, after which (to take an extreme case) he stands revealed as dishonest and no-one will deal with him again. If the long term returns exceed those of the one-off gain, then the dishonest salesman will act as if he was honest. Knowing this, the customer will not hesitate to enter the salesroom: he will expect to be sold a good car regardless of the nature of the salesman. (Once again, there is a problem if the dishonest salesman has decided that the time has come to retire: he passes off his entire stock of lemons before his dishonesty becomes common knowledge, and decamps to the Caribbean to eat the lotus).

The second route focusses on the actions that honest salesmen may take to signal their honesty to potential customers. An example is an advertising campaign which would only be worthwhile for an honest salesman who planned to stay in business, and could recoup the outlay from a stream of sales over time, but would not be worthwhile for a fly-by-night dishonest salesman who was going for a short term gain. Unfortunately, it is also easy to construct examples where what is worthwhile for the honest salesman is also worthwhile for the dishonest salesman (in the sense that he is prepared to spend the same amount to avoid being revealed as dishonest).

Alternatively, and perhaps more plausibly in this particular case, it may be worthwhile for the honest salesman to offer a guarantee to replace any car that turns out not to be up to standard - an offer which the dishonest salesman would not be willing to make. Unfortunately again, this simple solution encounters a different problem, which is the dishonest customer, who drives the car to destruction for six months and then claims under the guarantee.

Although these examples are somewhat artificial, they do suggest that rational behaviour can be "good" behaviour in markets despite the apparent temptations to short term gain from failure to fulfil obligations or from deception. The incentives for good behaviour are strongest where firms are involved in an ongoing series of transactions, so that bad behaviour can be punished, and where information about bad behaviour can be quickly spread among market participants. Anecdotal evidence suggests that this situation characterised the London financial markets before the financial liberalisation of the 1980s. It was indeed an exclusive club to which general entry was denied: but within the club a strict code of conduct could be enforced by the simple expedient of expelling any person or institution that was perceived to break the rules. Since financial liberalisation such strict sanctions are no longer in place, and there is a general perception that "standards" have slipped.

Similarly, the existence of long term vertical relationships between firms may reflect a recognition that repeated transactions over time are the best way to ensure that suppliers and buyers perform their obligations.

Another example is the growing economic power of major retailers in the UK. The broad mass of customers are unable to distinguish good quality products, so they rely on the retailers to do it for them. The incentive for the retailer is the knowledge that a failure to supply high quality could quickly damage their reputation with consumers. The incentive for those supplying the major retailers is that only by supplying high quality will they be accepted by the retailers, and that without access to the major retailers they would be excluded from mass markets.

The irony of these arrangements is that they almost certainly constitute barriers to the free market competition so enthusiastically expounded by neo-liberal economists. Indeed there may be a trade-off here: more long term relationships between firms in organised markets may be the means to ensure that contracts are fulfilled and that dishonest traders are excluded, but there may be offsetting losses of economic efficiency as more efficient, but untried, suppliers are unable to get access to markets.

3. Is an external moral framework necessary?

The analysis of the previous section has shown that Hirsch's thesis on the need for a social ethic to sustain the functioning of markets in a market economy is overstated. Even within the rather restricted purview of economic analysis with its emphasis on rational economic behaviour, we have been able to identify circumstances in which there will be incentives for good behaviour. With a broader model of human behaviour (Frank (1988)), it may be possible to extend the circumstances in which we may expect good behaviour to occur in markets, without recourse to any external moral code.

However, it seems implausible, empirically at least, to believe that markets can always generate their own patterns of good behaviour. The examples of consumers being duped by fraudulent schemes or products, the incidence of white collar crime, and the continuing roles of consumer watchdogs in the media suggest otherwise. One response would be to appeal to legal or regulatory frameworks to fill the gap. However there is good reason to believe that these are not likely to be sufficient.

Statutory frameworks for regulating market behaviour clearly have an important role, witness the size of the legal and accountancy professions that deal with business. However the costs are high. Many business deals, especially those involving real estate and development involve armies of lawyers on both sides of the transaction. Audit fees for major companies are high, and there have been some spectacular failures to identify corruption and fraud, witness the BCCI and Maxwell cases. It seems quite likely that professional fees are an obstacle to at least some transactions that would otherwise take place.

In recent years, it has become fashionable to argue for self-regulation by the market participants, on the grounds that statutory frameworks are expensive and cumbersome. Participants are better placed to identify bad behaviour, and to apply their own sanctions e.g. refusal to deal with the offender. However, there are also dangers in such a system, as evidenced by the Guinness case. The fraud for which the defendants were convicted involved secret share support operations during the bid for Distillers. The grounds for appeal currently being addressed are apparently that the Serious Fraud Office failed to reveal to the defence that a City committee had looked at other contemporaneous cases of share support, and had concluded that no wrong had been done. The danger here is obvious: the opinions of market participants on what is or is not allowed are in conflict with the commonsense view that support schemes are deceptive of ordinary shareholders who will have no knowledge of what is going on. In other words, self regulatory organisations may enforce only those rules which seem expedient to the market makers, overlooking the interests of outsiders.

Even were these regulatory frameworks, when added to the incentives for good behaviour that markets themselves generate, completely competent to ensure that economic actors told the truth and kept their promises, there remains the ironic comment of Joan Robinson (1962): "Honesty is much cheaper". In utopian fashion, we could imagine an economy where traders told the truth about their products, and where contracts were always fulfilled to the best of the ability of the participants. Consumers would feel more secure, business would be able to focus on production, marketing and innovation without continually having to concern itself with contracts with suppliers and customers. Much of the accounting and legal professions would disappear. Economic life would be a lot simpler, and much less fraught. A strong social ethic to encourage honesty and trustworthiness in the populace at large may not be the sine qua non of markets that Hirsch suggested, but it might generate a much *happier* economy than we could otherwise hope to achieve.

4. Do markets (sometimes) deplete morals?

The preceding discussion has presupposed existing markets, and the sole question was how we can avoid market breakdown or failure due to bad behaviour. However the argument may also have something to say to the circumstances in which it is appropriate to use markets to allocate resources to the provision of goods and services. The issue is whether markets can sometimes erode good behaviour. Given the current obsession with introducing "market disciplines" into public services such as education and health, the question is not without interest.

The focus is on services which exhibit one or both of the following characteristics. First, some services cannot be precisely defined or even evaluated by the recipient. The best example is the relationship between doctor and patient, where asymmetry of information means that the patient has to *trust* the doctor to diagnose carefully and to treat effectively. Second, other services are close in nature to public goods. For example, basic scientific research in universities may never make an identifiable "marketable" contribution, as there may be a large number of intermediate steps between a particular discovery, and its application. The laser was regarded for many years as an scientifically interesting discovery, but practically useless. Advances in pure mathematics seldom have an immediate practical application.

The key feature of services with these characteristics is that their provision depends, to some degree at least, on virtuous behaviour by the suppliers. While it is true, for example, that doctors may develop reputations it is doubtful whether reputations are always well founded, given that patients are not well placed to evaluate either the diagnosis or the treatment. For the vast majority of doctors, it is vital that patients are able to trust them to provide a good service without enquiring into their reputations. Traditionally, the incentives and rewards for talented people to engage in research have been recognition by the scientific community, and while this has sometimes involved an element of promotion to more responsible positions, this is by no means certain or predictable. Most scientists are driven by a passion for their subject, and view with some distaste colleagues who consciously set out to build a reputation. Where funds are allocated for basic scientific research, there has to be at least a tacit belief that the scientists involved are genuinely motivated by a spirit of enquiry. Obviously a good track record will help a scientist to get funding, but that cannot be the whole story. (The requirement of virtuous behaviour in services with these two characteristics has been traditionally captured by the concept of vocation, the idea that what is required is the commitment of the person to the task of serving others or pursuing truth, which brings its own rewards in terms of personal satisfaction.)

The issue is how far these virtues will survive "marketization". Is it the case that the introduction of markets will tend to erode them, requiring even stronger regulation of behaviour by either statutory or self regulatory bodies to ensure virtuous behaviour? To answer this question, we can draw on the insights of Holmstrom and Milgrom (1991) on a related issue. They consider the case of providing incentives for an agent who has to perform two tasks, one of which has clearly definable and measurable outputs, the other not being susceptible to accurate observation and measurement. Attaching incentives to the measurable output will lead the agent to concentrate his effort on that, to the detriment of the non-measurable activity. Indeed, Holmstrom and Milgrom show that the incentive payment for the measurable output should be zero where the other activity cannot be measured at all. The analogy with our question is obvious. If we wish the supplier to provide qualities which cannot be accurately observed or measured, then it is a mistake to attach incentive payments to that part of their activities that can be measured. Yet that is precisely what marketization does: it links returns to the number of units supplied, tending to undermine any predisposition to virtuous behaviour.[2]

The problem is particularly acute if marketization also involves competition. By driving monopoly rents to zero, competition ensures that there is no scope whatsoever for a particular supplier to provide a superior quality of service. To do so, evidently at higher costs, is to risk elimination from the market place. There is no simple way of signalling to consumers that what is on offer is a higher quality for which they should be willing to pay more. Indeed this points to another possible adverse consequence of marketization: when the patient, or client, or other recipient of services becomes a "customer", he or she rightly adopts a different set of standards in evaluating the supplier. In markets, caveat emptor is the rule, and as we saw in section 2 above, the customer has good reason to be cautious about trusting the supplier, especially if the customer knows that the rewards to the supplier are based on the number of units supplied. Yet again, a predisposition to virtuous behaviour on the part of suppliers is undermined, since it will receive no recognition from the customer. It is hard for a supplier to sustain virtuous behaviour, at considerable personal cost, if he or she receives no encouragement.

These deleterious effects of markets can be countered to some extent by the mechanisms discussed in section 3. Regulation by some statutory body, or self regulation of the profession, may go some way to alleviating the justified fears of the consumers of services. However, it should be recognised that if quality of service is not easily defined or measured, then regulation faces an impossible task. Monitoring of quality can only hope to pick up the most blatant failures to conform to a professional code of conduct. Nor can the consumer always hope to rely on the

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[2] It might be objected that this argument is too strong. Many markets exist in which a range of qualities are supplied, and there is no overwhelming tendency for quantity to drive out quality. The difference with the services we are considering here is that the quality of suppliers is not obvious to the consumers of the services.

personal ethical commitments of the suppliers: even doctors, to take one example, are not saints, and if the incentives are stacked against maintaining high quality, it is unreasonable to expect their conduct to remain unaffected.

If these arguments are correct, they suggest that marketization of services such as education and health is likely to involve deterioration in the quality of service. But is the outcome likely to be any worse than non-market allocation systems? We should note that non-market allocation systems face some daunting problems. To create space for virtuous behaviour, resources must not be directly related to any quantity index, but have to be allocated to teams or individuals on the basis of their promises to provide a high quality service. In other words, these teams have to be trusted to be careful stewards of the resources. However, it is difficult to prevent two types of undesirable behaviour. The first is that the teams may be less than efficient in their use of resources, and dissipate them in expenditures that are unnecessary or ill-directed but bring personal benefits. The second is that the teams may spend a lot of resources on "lobbying" activities within the resource allocating institution, particularly where the institution has a bureaucratic structure. It is a moot point whether suppliers are more likely to be diverted from virtuous behaviour by this type of rent-seeking, than by the lure of profit in a market situation.

However, the non-market mechanism has some obvious advantages. First, it *does* leave space for virtuous behaviour. Second, it makes virtuous behaviour the *ostensible* criterion for resource allocation; even if systems can be exploited by the non-virtuous, there is a greater opportunity for reputation mechanisms to weed them out, since the allocations can be made by those who are in a position to evaluate performance over time (unlike individual customers). Third, the ethos is likely positively to attract the virtuous and to deter the non-virtuous, so that good behaviour is maintained as the professional norm.

There is, however, a danger in building up a non-market service based on virtuous behaviour. The authorities (government) providing the resources may decide to cut expenditure (to promote "efficiency"), free-riding for a while on the accumulated stock of virtuous professionals in the service. If this is done too shamelessly, the incentives to good behaviour may fall to such a degree that either the potential supply of virtuous workers will dry up, or even that the currently virtuous professionals within the service will be seduced into rent-seeking behaviour to protect themselves. The situation is doubly bad, if the authorities decide to cut resources and introduce markets at the same time: in such circumstances it is hard to believe that virtuous behaviour will have any future at all in the service. This may take some time, of course. The erosion of virtue will be slow and gradual, and the full effects may take a generation to be felt.

To conclude, our analysis suggests that there are some services, the quality of which cannot be easily observed and monitored by the recipients of the service, where the introduction of market resource allocation mechanisms can have deleterious effects on the quality of the service supplied. Incentives for good behaviour are undermined, and scope for good behaviour may be eliminated if the markets are competitive. In such cases, the enthusiasm of the authorities for marketization of services may turn out to be a (socially) costly mistake.

5. Conclusions

Do markets need a moral framework? Not, apparently, if the conditions are right. The key condition is that there are incentives to suppliers to establish reputations in order to ensure that their customers will repeat their purchases. But that presupposes that there is a continuing market, and that information is sufficiently widely available to consumers, to make reputation building an option. Where these conditions are not met, and that could be in a wide range of markets, then we have to rely on regulation (either statutory regulation or self regulation by the industry) to prevent bad behaviour. But regulation can be costly, and sometimes ineffective. Perhaps a moral code is not such a bad idea after all: at the very least, honesty is cheaper.

Do markets destroy morals? Not, apparently, if the conditions are right. As noted in the previous paragraph, there are markets where the incentives for good behaviour will reinforce any market virtues that the suppliers may already exhibit. However, where the conditions are not right, where reputations cannot be relied upon, where monitoring is difficult, and where virtuous behaviour is integral to effective supply, then markets, especially competitive markets, are quite likely to drive out good behaviour. Non-market allocation mechanisms may do a better job, since they can preserve virtuous behaviour.

Notes

1. See especially Chapter 10 of Hirsch (1977).

2. p. 9 of Coats ed. (1971).

3. pp. 178-179 of Hirsch (1977).

4. p. 179 in Hirsch (1977).

5. For a very subtle and rigorous exposition see Kreps and Wilson (1982).

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ENDOGENEITY, POPULATION AND THE CATHOLIC CHURCH:
A Comment on "From Eschatology to Sewage Treatment" by Vivien Foster

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1. Introduction

In recent years, a good deal of attention has been paid to the links between Christianity and the environment (eg McDonagh, 1990), much of it concentrating on the refusal of the Catholic church to countenance artificial forms of birth control in developing countries and the supposed threats this poses for the environment.

Vivien Foster provides a thought-provoking analysis of such work in "From Eschatology to Sewage Treatment" (Foster, 1994). The paper is undoubtedly useful in stimulating debate on the Church's role in alleviating environmental degradation. However, there are two criticisms I wish to make here - one a general point on the endogeneity of environmental relationships and the other a note on the relevance of microeconomics to population issues.

2. Endogeneity

Foster (1994, p. 7) asserts that, to limit environmental degradation, policy must be aimed at one or more of three variables: population, per capita consumption and environmental degradation per unit of consumption. Although, it is admitted that this relationship "conceals critical interconnections between the three variables identified", the rest of the paper takes the approach that the endogeneity problem does not fundamentally change the policy analysis. A closer look at some of the interrelationships shows that this may not be the case.

Three relationships are highlighted here, one of which Foster refers to. The first concerns GNP and environmental degradation. Foster (p. 8) provides evidence that unit consumption in low income countries may be more environmentally damaging than in high-income countries. An increase in GNP per capita could potentially have a directly positive effect on the environment. The second relationship is between GNP and population. The effect of GNP growth on population growth rates is relatively well-established (see below). An increase in GNP, all things being equal, tends to lead to a decrease in population growth rates. If lower growth rates lead to a lower rate of environmental degradation, then there is an unambiguous, indirect positive effect of GNP growth on the environment. From these two points it is clear that any a priori assumption that a reduction in GNP per capita will alleviate environmental degradation may be misleading rather than just simplifying.

The third relationship is between population and technology. As Sen (1994) points out in the context of food production, technological change is not an exogenously determined variable, but depends crucially on economic pressure for change. Thus population pressures in themselves can lead to changes in the way factors of production are organised and in the use of technology. One recent example illustrates this point. Mortimore *et al.* (1993) analyze soil erosion in the Machakos district of Kenya. During the 1930's and 1940's erosion was a considerable, and seemingly irreversible, problem due to heavy rains after droughts. 60 years later, the landscape has improved dramatically due to the adoption of agricultural methods which involved terracing to retain moisture. Such labour intensive methods were only worthwhile because of the five-fold increase in population over that time.

Thus the population-environment relationship is a complex one and once again there is no single unambiguous direction of causation. Which direction causation goes is essentially an empirical question, and one that cannot be avoided before discussing policy prescriptions based on a priori assumptions.

3. The Microeconomics of Population

Foster's discussion of the role of the Catholic Church in opposing governmental population measures implicitly suggests that population control programmes are the best way of reducing population growth (given of course that population reduction is a useful policy aim in the first place). Basic microeconomic analysis of fertility decisions illustrates possible weaknesses in this proposition. Consider two families deciding on how many children they should have. One is from a rural area in a low-income country and the other from a highly industrialised country. It is possible to model their fertility decisions in terms of the opportunity cost and benefits of having children.

Table 1 summarizes some of these costs and benefit for each family. Clearly, the opportunity cost of having children increases with development (e.g. women have to forego greater earnings in order to have children) whilst the benefits decrease (e.g. the development of a social security systems means children do not play such an important role in looking after parents in times of illness or old age). Thus economic analysis predicts that couples in poorer countries tend to want to have more children than couples high-income countries.

Table 1: Costs and Benefits of Children in Low and High Income Countries

	COSTS	**BENEFITS**
HIGH INCOME	Food/Clothes Education Large income foregone	No contribution to family income until 16 or 21.
LOW INCOME	Food/clothes Low income foregone	Contribute to family income at young age

		Insurance against sickness / old age

Two conclusions stem from this result. Firstly, The Catholic Church may be right in saying that there are better ways to solve population problems than traditional population control programmes (Foster, 1994, p. 14-15). Specifically, increased economic development rather than contraception may be the most effective way of reducing population growth rates. Historical evidence supports this proposal. Reductions in fertility took place in France in the nineteenth century and in the UK in the earlier part of this century without access to modern contraception. More recently, Taiwan and South Korea both experienced lower fertility rates before the introduction of family planning programmes (McNicoll, 1994, p. 223).

Secondly, the provision of contraception *alone* may have little effect on population growth. The experience of Pakistan is a useful one. A $50 million family planning programme had, by 1988, virtually no impact on its birth rate and resulted only in massive stockpiles of unused contraceptives (Hogendorn, 1992, pp. 282-3).

This leads to a problem with McDonagh's "view that contraception is a more humane approach to population control..." (quoted in Foster, 1994, p. 14). There is a systematic contradiction between population control and the rights of couples (and in particular women). Whelan (1992) distinguishes between population control and family planning. The former is defined as "decisions by governments and international agencies as to the number of children couples ought to have, followed by measures to bring this about" whilst family planning is to do with "decisions taken by couples, in the light of their own beliefs and circumstances, as to the number and spacing of their children". Clearly these are two very different concepts. Where women in low-income countries want large families, the two polices directly contradict each other.

Thus in the experience of virtually every population programme, provision of artificial contraception and abortion has only reduced population growth rates when they have been accompanied by other measures. Direct coercion, propaganda or fiscal incentives are inextricably linked with population policies. Some examples will illustrate this point. In Bali, certain villages have been provided with a map of the area. The space for each house is coloured in differently: green for IUD users, black for condoms and red for the pill. (Hogendorn, 1992, p. 282). Those not using contraception get no colour at all! The aim clearly being for other villages to put pressure on non-users to conform with the population programme. In Brazil, soap operas give the implicit message that small families are happier than large ones, whereas Singapore provides an example of the use of fiscal incentives, with increased maternity charges and an end to benefits for the fourth and subsequent child. (ibid, p. 288).

These measures are not direct coercion in the manner of India in the 1970's and present day China. However, they clearly set out to manipulate reproduction choices of couples and cannot be seen as value neutral whether or not one agrees with the Catholic Church's stand against artificial contraception.

4. Conclusion

From Eschatology to Sewage Treatment suggests that environmental degradation can be alleviated by reducing population growth and that a reduction in population growth can best be achieved by provision of contraception. The first relationship is complex and ambiguous. The second is true only in the very narrow sense of population control policies which throw open a whole new set of worrying questions for the Christian policy maker. In any case, economic development (whether by global growth or global redistribution) seems likely to have a much greater effect in reducing population growth rates should that outcome be thought necessary.

Thus it is possible to argue that, far from providing a conflict with environmental policies, the teaching of the Catholic Church with its emphasis on social justice and raising the standard of living of the poor may provide a basis, on which Christians of all denominations can agree, for policies that respect the ecosystem as well as the reproductive rights of families.

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REVIEW: Christianity and Economics in the Post-Cold War Era: The Oxford Declaration and Beyond, edited by Herbert Schlossberg, Vinay Samuel and Ronald J. Sider, Eerdmans, Grand Rapids, MI, 1994, ISBN 0-08028-0798-4, 186 pp.

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This book has a rather grand, if unwieldy, title which belies its contents, since these are rather less ambitious. The Oxford Declaration was a position document produced by a conference of leading evangelical theologians, economists and social thinkers in Oxford in 1990, under the auspices of the Oxford Centre for Mission Studies, and it may be familiar to readers of this journal. It will certainly be familiar to any who read *Transformation*, the journal devoted to evangelical social ethics and edited *inter alia* by Vinay Samuel and Ronald J. Sider. The present volume reprints the text of the Declarationwhich runs to twenty pages and then includes shortish contributions by a dozen or so writers in reaction to it. The majority, though not all of the contributors were present at the original conference.

The Declaration itself contains much that is laudable, with separate sections on the importance of creation and stewardship, work and leisure, poverty and justice, and freedom, government and economics. Most Christian economists, be they from an evangelical tradition or not, would affirm its theological position on these. On the other hand it is very short on specifics. This is perhaps not surprising in the light of the old adage about getting a hundred and one economists to agree about anything.[3] In fact it might be more appropriate to describe the Declaration as a document providing a theological/Christian ethical perspective on certain themes connected with economic life and public policy. It is strong on its hermeneutics, but rather lacking in hard analysis. It therefore reaches conclusions about economic life which could premise both highly interventionist and highly liberal/libertarian approaches to economic policy. If anything the subsequent writers lean to the latter inclination. In part I suspect that this is because of historical and cultural timing. In 1990 when the Declaration was drafted the velvet revolutions of Eastern

[3] The only exception to this that I aware of concerns UK government monetary and fiscal stance in 1981 in the famous letter to the Times Newspaper (see N. Lawson, *The View from Number 11*, Bantam Press 1992).

Europe had only just occurred and interventionist or even "non-capitalist" approaches to the economic policy seemed to have been discredited. Five years on perhaps a little more reflection would generate a balance of opinion which is a little less sanguine about *laissez-faire*. The post-Cold War transition process for many countries has been very rocky. If anything it has seen growing inequality in the distribution of employment opportunities and income and in some respects an even greater cynicism and disrespect for economic and social freedoms and governmental authority. I am far from convinced by the arguments for the big bang approach to the problem of transition to a "free" market economy. I am also far from convinced by the argument, which seems to be articulated by some of the contributors, that the best way to enhance to image of God in His creatures is to get "government off their backs". Much of the economic system portrayed in the relevant Old Testament provisions is concerned with providing carefully constructed institutional checks and balances to economic freedoms in order to prevent poverty, poor stewardship and unemployment.

The book begins with an introduction by Ronald J. Sider which sets out the historical background to the Oxford Declaration. The text then follows. Part 2 of the book presents six chapters covering different aspects of economic life. Miroslav Volf[4] unpacks the section of work and leisure and presents an alternative view from the traditional evangelical/reformed view that work equals calling, namely that work is a gift. This alternative presents new challenges and is one, in my opinion, that needs exploring in greater depth.[5] Joe Remenyi and Bill Taylor present a summary of work they have undertaken on credit-based income generation schemes for the poor. The Declaration included an annex drafted by these authors and this chapter discusses the work behind it. In fact I found this to be most inspiring and optimistic section of the book, since it presents evidence that demonstrates very well the enormous effectiveness of low-cost, self-help investment schemes among the poor in the Third World. The vision here is very much a "small is beautiful" one, and one that has been taken up by Christian development agencies such as World

[4] It would have been helpful if the editors had told the readers what these authors do and what their background is.

[5] In a recent discussion group on the question of Christians and work I presented these alternatives. For one member of the group, who was very articulate and (left-wing) politically active, and after a fairly long spell of unemployment was employed in labouring work ona construction site, neither view had any resonance with his experience whatsoever.

Vision. However, it is not a panacea and has to be matched by action at the macro level. E. Calvin Beisner is unhappy with the concept of justice in the Oxford Declaration, arguing that there is a contradiction between on the one hand impartially in civil arrangements and on the other the view that action should reflect God's (alleged) partially to the poor and oppressed. What emerges here is an apologetic for a highly individualistic response to individual poverty which is in practical terms doomed to failure. Fortunately Stephen Charles Mott's response to Beisner redresses the balance, arguing for a system of distributive justice based on needs and involving community participation.

Peter J.Hill explores the abscence of a specific line within the Declaration of the role (or not) of government intervention, and concludes pessimistically that, as Christian economists move from principles to specifics, the likelihood of consensus will disappear. However he is right to say that this should not preclude such efforts. Herbert Schlossberg explores the absence of anything on capital formation in the Declaration, and takes the strong view that this is perhaps because the subject of interest in the Declaration is not economics but poverty, and that many brought to the Oxford Conference a mindset that is suspicious of capital-ism. For Schlossberg the solution to poverty is access for the poor to a properly functioning capital market, albeit with capital broadly defined to include cultural and human capital.

Part 3 includes four contributions which set the Oxford Declaration in the context of other similar documents produced at around the same time by other parts of the world-wide Christian church, including John Paul II's *Centesimus Annus* (1991), and the WCC documents *Christian Faith and the World Economy Today* and *Economy as a Matter of Faith* (1992).The authors (Michael Novak and Derek Cross, Ron van Drimmelen, Donald Hay, and Lawrence Adams and Frederick Jones) all find a considerable measure of agreement between them, despite each coming from very different theological traditions. This may sound encouraging but in a sense, in the case the Oxford Declaration and the WCC documents, it arises because the desire for agreement across a broad group of individuals effects a reduction to the lowest common denominator. In this regard it is pertinent that *Centesimus Annus* (in the tradition of the earlier body of papal encyclicals on social teaching) proceeds from the theological to much more in the way of specifics for the modern world (see Donald Hay's chapter[6]).

When I first encountered the Oxford Declaration I wondered why we need a position document on Economics and Christianity and by the end of this book I was still left wondering. The Oxford Declaration carries no authority other than the collective authority of the esteemed panel that drafted it. It has not been adopted by any denomination or Christian NGO, as far as I am aware, and I don't suppose that it will be. Nevertheless the present book does contain much to interest the Christian economist, even if at times one wishes that the contributors had had more space to develop ideas more fully.

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[6] An earlier version appeared in ACE Journal No. 12, 1991.

1.‘Too much dazzle, Asil’, *The Economist*, October 27, 1990, p.127; ‘Making demands’, *The Economist*, May 8, 1993, p.7; ‘What next?’ *The Economist*, May 8, 1993, p.100.

2. ‘Shell game’, *The Economist*, September 23, 1989, p.115-6 and ‘Antennae raised’, *The Economist*, October 14 ,1989, p.125.

3. For the history of the Maxwell case and the details of the losses see: ‘'You'll just have to trust me': The Big Lie - Inside Maxwell's empire...’ *Financial Times*, June 13, 1992, p.1.; ‘The Big Lie - Inside Maxwell's Empire: 'Tell the Queen I'm busy’...’ *Financial Times,* June 15, 1992, p.7; ‘The Big Lie - Inside Maxwell's Empire: Arise, King of Bulgaria...’, *Financial Times*, June 16 1992, p.9; ‘The Big Lie - Inside Maxwell's Empire: Devil take the hindmost...’, *Financial Times,* June 17 1992, p.7; ‘The Big Lie - Inside Maxwell's Empire: Sins of the father...’ *Financial Times*, June 18 1992, p.1; ‘Maxwell's Death - The First Anniversary: Private empire consumed Pounds 1.7 bn’, *Financial Times*, November 5, 1992, p.12.

4. ‘Virgin's honour remains intact:..’, *Financial Times*, January 12 1993, p.17.

5. ‘Behind closed doors’, *The Economist*, July 13, 1991, pp.14-15; ‘The many facades of BCCI’, *The Economist*, July 13, 1991, pp.93-94; ‘Questions’, *The Economist*, August 22, 1992, p.70; ‘The judge lays it on the governor’, *The Economist*, October 24, 1992, p.114; ‘Larceny on a grand scale’, *The Economist*, February 20, 1993, p.118.

6. Jack Mahoney edits the journal *Business Ethics - A European Review* published by Blackwells.

7. For example, Jacobsen, R., ‘Economic Efficiency and the Quality of Life’ *Journal of Business Ethics* , Vol.10, No.3, 1991, pp.201-209.

8. See section 4 on County NatWest. National Westminister Bank undertook a lengthy education process prior to introducing its code of ethics.

9. Leviticus 19:35-36, Deuteronomy 13-16, Proverbs 17:26 and Isaiah 59:4.

10. Proverbs 23:23.

11. Exodus 18:21, Nehemiah 7:2 and Titus 1:8.

12. For example: Job (Job 2:3), David (1 Chronicles 29: 16-17) and Solomon (1 Kings 9:4-5).

13. For example: Daniel (Daniel 2:46-49) and Joseph (Genesis 41:41-45).

14. Psalms 11:7, 41:12, 97:11, Proverbs 3:32, 21:29, 2 Peter 2:9, and Luke 16:10-12.

15. Proverbs 3:32, 16:13 and 25:13.

16. Proverbs 10:9, 11:3, 13:6.

17. Romans 3:12.

18. For example the bad Kings of Israel and Judah in the Old Testament.

19. Romans 7:21-25.

20. Job 27:6, Proverbs 29:10, Titus 2:12-13.

21. John 3:19-21.

22. An example of the former might be 'sex outside marriage' and of the latter 'Jesus' claim to be God'.

23. Matthew 6:13, 2 Timothy 2:22 and 1 Corinthians 10:32.

24. Some economists might argue that all the financial losses referred to in this paper are not *economic* losses but *transfers* from honest to dishonest parties and as such do not indicate the waste of *real* economic resources. To some extent this is true, but from the point of view of *economic welfare* the financial losses do indicate very undesirable *economic* phenomena.

25. 'Taming the overmighty boss: The Cadbury report...', *Financial Times*, December 2, 1992, p.20.

26. For the Blue Arrow / County NatWest story see: 'The buck stops where?', *The Economist*, March 7, 1992, pp 23, 24, 26.

27. 'The high price of banking error', *Financial Times,* July 26, 1989, p.20.

28. 'County pays compensation', *Financial Times,* June 2, 1990, p.2.

29. 'Damning', *The Economist*, July 22, 1989, p.82.

30. 'Everyone's a loser', *The Economist,* February 22, 1992, p.95.

31. 'Tricky in the City', *The Economist,* August 1, 1992, p.74.

32. 'Statement by the Chairman', *National Westminster Bank Annual Report and Accounts*, 1989, p.7.

33. See 'NatWest publishes its principles', *Financial Times*, May 26, 1993, p.15.

34. 'It's Good Business - The NatWest Group Code of Conduct', *National Westminster Bank*, 1993, p.8.

35. See Marris, R. and Mueller, D.C., 'The corporation, competition, and the invisible hand', *Journal of Economic Literature* Vol.18, No.1, 1980, pp. 32-63, and Williamson, O.E., 'The Modern Corporation: Origin, Evolution, Attributes', *Journal of Economic Literature,* Vol.19, No.4, 1981, pp.1537-1568.

36. Klein, B. and Leffler, K.B. ‘The Role of Market Forces in Assuring Contractual Performance’, *Journal of Political Economy,* Vol.89, No.4, 1981, pp.615-641.

37. Schmalensee, R., ‘A Model of Advertising and Product Quality’, *Journal of Political Economy,* Vol.86, No.3, 1978, pp.485-503.

38. Von Weizsacker, C.C., *Barriers to Entry: A Theoretical Treatment*, Berlin: Springer-Verlag, 1980.

39. A recent example is the effect on Nestle of revelations of doubtful selling techniques of baby food to mothers in Africa (Williams, O. ‘Who cast the first stone?’, *Harvard Business Review*, Vol.84, No.5, pp.151-160.).

40. Firms may also exist to exploit monopoly power. The ethics of monopoly power are not considered here, the existence of prolonged monopoly may be in the public interest (Schumpeter, J. *The theory of economic development: An enquiry into profits, capital, credit, interest and the business cycle,* Cambridge: Harvard University Press, 1934).

41. Coase, R.H., ‘The Nature of the Firm’, *Economica* Vol.4, 1937, pp.386-405.

42. Williamson, O.E., see note 36.

43. The firm can be viewed as allowing the team organisation of production (see Alchian, A.A. and H. Demsetz 'Production, Information Costs and Economic Organisation', *American Economic Review* Vol. 62, No. 5, 1972, pp. 777-795).

44. Simon, H.A., ‘Organisations and Markets’, *Journal of Economic Perspectives* Vol.5, No.2, 1991, pp.25-44.

45. Ryan, L.V., ‘Ethics Codes in British Companies’, *Business Ethics*, Vol.3, No.1, 1994, pp.54-64, finds no evidence that codes lead to better performance in the *The Economist*’s 1992 survey of Britain’s most admired companies. He concludes that ethical commitment is only demonstrated by action: thus the process of education which goes along with the introduction of a code is more important than the code itself.

46. See *World Economic Outlook, October 1994,* Washington D.C.: IMF, 1994.

47. Easterley, W. and Vieira da Cunha, P., ‘Financing the storm - Macroeconomic Crisis in Russia, 1992-93’, *World Bank Policy Research Working Paper* WPS1240, 1994.

48. Gray, C.W. and Hanson, R.J., ‘Corporate Governance in Central and Eastern Europe - Lessons from Advanced Market Economies’, *World Bank Working Paper Series* WPS1182, 1993; Van Wijnbergen, S., ‘Enterprise Reform in Eastern Europe’, *World Bank Policy Research Working Paper* WPS1068, 1993.

49. ‘More Crime than Punishment’ *The Economist*, July 9, 1994, pp.19-22.

50. 'Rake's progress into the clasp of Russia's Mafia', *The Guardian*, May 9, 1994, p.9.

51. 'Rotten to the core?', *The Economist*, August 7, 1993, pp.39-40.

52. 'Management: A change of propaganda - Impoverished Russians...', *Financial Times*, August 27, 1992, p.11.

53. See Warner, M., Denenzhkina, E. and A. Campbell, 'How Russian Managers Learn' *Journal of General Management*, Vol. 19, No. 4, 1994, pp. 69-88.

54. See for example, Dunfee, T.W., 'Business Ethics in the New Russia: A Report' *Business Ethics*, Vol.3, No.1, 1994, pp.1-3, on the situation in Russia. Also see 'Slow food', *The Economist*, February 3, 1990, pp.84-85, on the time and cost of setting up a McDonald's restaurant in Moscow.

55. An example of a dishonest strategy might be 'tell a lie about delivery dates/quality of product' against an honest strategy of 'tell the truth about delivery dates/quality of product'.

56. The name is attributed to A.W. Tucker. For an excellent discussion of the ethical applications of the Prisoners' Dilemma see Cramton, P.C. and Dees, J.G. 'Promoting Honesty in Negotiation: An Exercise in Practical Ethics' *Business Ethics Quarterly,* Vol.3, No.4, 1993, pp.359-394.

57. In this version of the model the probability of any period being the last one plays the same role as the rate of discount in the infinitely repeated model.

58. Within an organisation this might amount to the manager offering to be honest with a colleague, punishing if honesty is not reciprocated. Note that there is a certain vulnerability (the colleague might cheat) for the leader in being like this - in Biblical terms this is Christ-like behaviour.

59. We note that one of the underlying assumptions in the Prisoners Dilemma is that individuals have the ability to evaluate strategies rationally. Carter, J.R. and Irons, M.D., 'Are Economists Different and If So Why?', *Journal of Economic Perspectives,* Vol.5, No.2, 1991, pp.171-177, find that economics students act more rationally (selfishly) than non-economics students. This raises the interesting question of whether more complete knowledge of the game increases the temptation to be dishonest. Lattimore, R., 'Is it rational to be rational?', *Economic Notes,* Vol.21, No.3, 1992, pp.395-417, finds that while the economics students are more rational they actually do less well in the long run if they play against non-economists. Simon, H.A., 'Altruism and Economics', *American Economic Review Papers and Proceedings,* Vol.83, No.2, 1993, pp.156-161, demonstrates that in conditions of bounded rationality (limited ability) the intelligent altruist can be more *biologically* successful than the selfish in repeated games.

60. Milgrom, P. and Roberts, J., 'Predation, reputation, and entry deterrence', *Journal of Economic Theory*, Vol.27, No.2, 1982, pp.280-312.

61. The model here is consistent with Jesus' reluctance to reveal his true identity to the Jews until he was ready to face the inevitable consequences for a Jew claiming divinity. Jesus never lied about who he was, he merely maintained a sufficient degree of uncertainty in the minds of those

who would ultimately plot to kill him until the time he chose for his ‘hour’ to come.

62. ‘Whistleblower’s cautionary tale’, *Financial Times*, January 19, 1994, p.9.