

Ethics and Market Economic System: A General Review and a Survey

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Recent global recession has motivated this predominantly historical and exploratory research of thoughts and perceptions. A continuous planning of governmental correction of any market failure, such as various types of externalities and information asymmetry, has been strongly recommended by the pioneers of free enterprise systems. Capitalism—in which private ownership of means of production, physical capital, human capital, financial capital, brand-name capital, social capital, land, and mineral deposits are all protected by law without implementation of a series of certain evolving ethical standards and principles—may not continue to be the same efficient system as implied to be by the cost-benefit balancing forces of free markets. Two survey instruments on perceptions of ethics (with 110 participants) and religion (with 117 different participants), influenced by observations of various events of the recent years, were given to Business and Economics students at the PhD, Master's, and undergraduate levels to assess the perceptions of some educated and/or being-educated people about the market economic system, ethics, and religion. Ethical foundations and values are of highest concern to participants of the conducted survey.

Keywords: *economic system, economics, ethics, ethics and religion, market, regulations and laws*

Introduction: Nature and the Research Approach

This predominantly historical review and exploratory inquiry, supplemented by two surveys, is not an empirical study involving any hypothesis testing. Naturally, it is mandatory to cover the historical background as well as some recent challenging developments. The literature then would have to be inclusive of the older as well as recent years. The following issues are addressed and summarized in our analysis of literature on ethics and market economic system:

- What elements of free-market economic system need more ethical treatment leading to more equity?
- What can be defined as ethics in competition and implemented into corporate culture?
- What reference can be found on the issue of business ethics in the well-known works of founders of freely competitive economic systems?
- What are some sample ethical and religious sentiments, as related to market economic system?

It is worth noting that the nature and purpose of this study would not involve a hypothesis-testing approach. As a side supplemental step only to this historical review and exploratory inquiry, the following propositions were verified through two minor surveys in this study:

- Business students, trained through courses of ethics, have revealed more preference to an ethical value system than those with less or no such training.
- Through a separate survey, the role of religion in both ethical and economic behaviors and values is worth noting.
- Market economic system, hinging on capitalism, where private ownership of means of production, physical capital, human capital, financial capital, brand-name capital, social capital, land, and mineral deposits are all protected by law is still preferred by many compared to other alternative systems that could be found in any other countries.

Theoretical Framework

Market Economic System: Capitalism

The essence of markets' efficient functioning is best explained by two theories of buyers' utility maximization and sellers' profit maximization and/or cost minimization. The law of diminishing marginal utility justifies the law of demand and therefore, a downward sloping demand curve.

Prevailing assumptions in freely competitive markets are as follows:

- Behaviors of decision makers in competitive markets are motivated and best explained by the self-interest hypothesis. People's self-satisfaction can be defined in both material and/or nonmaterial ways.
- Decision makers are rational: They prefer more of a good that they perceive to render consumptive or possessing joy to less of it for the same cost or price. This has nothing to do with assuming that they are either intelligent or wise.
- Decision makers try to maximize gain, given a level of cost, or minimize costs, given a level of gain.
- Gain to consumers is defined as utility or joy of consumption and/or possession of a good or service.
- Gain to producers is strategically defined in many forms, including profit, when possible, sales revenue, social integrity and prestige.
- In freely competitive markets consumers try to maximize their satisfaction and producers try to maximize profit (or revenue, or prestige), when they can.
- Government's major roles are limited to assignment and protection of private property rights in absence of any market failures.
- Government's roles would extend to correction of any major market failure forces such as both kinds of positive and negative externalities, illegal entry and/or exit into and/or from markets.

A typical consumer's satisfaction (utility) derived from successive incremental units of consumption or possession of a product or service would sooner or later diminish. That is why it would take a buyer a lower price for larger quantities to purchase within a certain period of time, given all other relevant variables (such as her income, taste, expected future prices of the same good or service, etc.).

A typical seller's and/or supplier's cost in providing successive incremental units of a product or service is increasing due to the law of increasing opportunity costs: Given limitation of resources of all kinds, the more quantity supplied of any good or service would necessitate an increasing usage of limited resources within a limited time frame, and a relatively increasing sacrifice of other goods or services that would be otherwise produced through alternative allocation of such scarce resources. To cover such increasing opportunity costs, prices would have to increase accordingly. This would justify an upward sloping supply curve, which means, given the market demand and other influential factors for the involving production and/or supply, the larger incremental quantities would be only profitable to supply through increasing prices.

So, it is assumed that in absence of any imperfections, the demand function is derived from marginal utility function, representing marginal benefit or marginal value to the buyers. By the same token, the supply function is derived from marginal cost of production. In absence of any market imperfections, the price and volume of trade in each good or service market would be efficient under perfect competition. When supply and demand functions intersect, assuming that there are no externalities involved, marginal social value or benefit (MSV or MSB) would be the same as marginal private benefit. Marginal social costs would be the same as marginal private cost. Society would realize most efficient allocation of resources at a perfectly competitive market equilibrium condition:

$$MSC = MSV \quad (1)$$

It would be inefficient under each of the following two conditions:

1. $MSC > MSV$ since for every extra unit of a good to be traded, marginal cost to society would be more than marginal value. There will be some reduction in production towards what it takes to come to the equilibrium again, where

$$MSC = MSV$$

2. If $MSC < MSV$ since it would add more value than cost to society to produce and/or supply one more unit of the good. So quantity produced and/or supplied would increase towards what is called equilibrium volume of trade, where (1) will be realized again.

All those adjustments would occur, as demonstrated in Figure 1, when there are no external costs and/or benefits, in which case the following definitions would prevail:

$$TSC = TPC \quad (2)$$

$$TSB = TPB \quad (3)$$

$$MSC = MPC \quad (4)$$

$$MSB = MPB \quad (5)$$

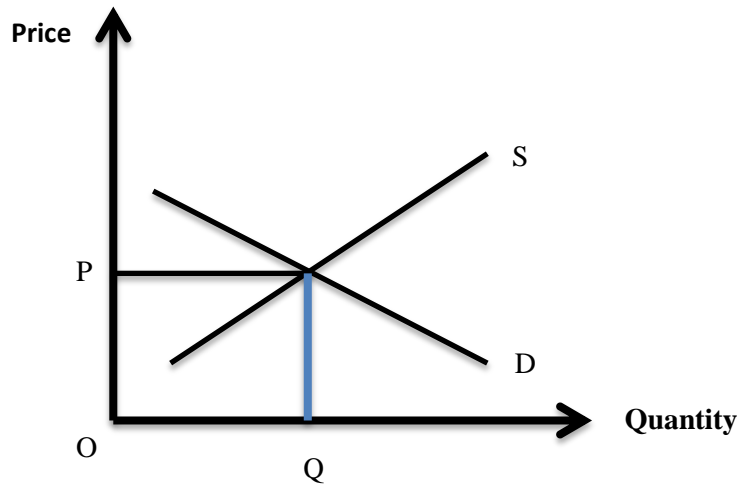


Figure 1: *Efficient Market Solution in Determination of Price and Volume of Trade in Absence of Any Market Imperfections*

In case there are externalities, as represented in Figures 2 and 3, the following 4 definitions would apply:

$$\text{TSC} = \text{TPC} + \text{TEC} \quad (6)$$

$$\text{TSB} = \text{TPB} + \text{TEB} \quad (7)$$

$$\text{MSC} = \text{MPC} + \text{MEC} \quad (8)$$

$$\text{MSB} = \text{MPB} + \text{MEB} \quad (9)$$

where TSC = total social costs; TPC = total private costs; TEC = total external costs; TSB = total social benefits; TPB = total private benefits; TEB = total external benefits; MSC = marginal social costs; MPC = marginal private costs; MEC = marginal external costs; MSB = marginal social benefits; MPB = marginal private benefits; and MEB = marginal external benefits.

Externalities, Information Asymmetry, Taxation, and Ethical Compromise

Disregarding any negative or even positive externalities could be a compromise on an expected efficiency, which in turn would lead to a questionable ethical standard not expected to exist, should some responsible governmental corrections of market economic system be implemented. Corporate operations that lead to more burden on society would result in an inappropriately overproduction by the corresponding businesses. Any lack of accounting and financial transparency is by itself a severe form of external cost and therefore, a burden to society. This must be monitored and corrected by government regulations and rules.

As to some ethical aspects of taxation, it was reported by Drawbaugh (2011) that 30 large profitable corporations—including General Electric Co., Paccar Inc., PG & E Corp., Computer Sciences Corp., Boeing Co. and NiSource Inc.—paid no taxes in the period of 2008–2010, as the U.S. Congress is expected to adopt a tax reform policy. According to Drawbaugh in the same report:

Pepco Holdings Inc, a Washington, D.C., area power company, had the lowest effective tax rate, at negative 57.6%, among the 280 Fortune 500 companies studied. The statutory U.S. corporate income tax rate is 35%, one of the highest in the world; but over the 2008–2010 period very few of the companies studied paid it, said the report. The average effective tax rate for the companies over the period was 18.5%, said Citizens for Tax Justice and the Institute on Taxation and Economic Policy, both think tanks. (p. 1)

As exhibited in Figure 2, even ignorance of external benefits of certain business activities and operations, as well as those of household sector in the economy, would lead to less than efficient allocation of an economy's resources. It is socially more desirable to allocate more resources to production of goods and services that create more external benefits. More people are found in this research (through the survey to be discussed later) to prefer the goods and services that are produced while complying better with ethical standards. This is transpired by 95 out of 110 participants' responses to the sixth question of the survey in Figure 4, where a strong ethical preference is indicated.

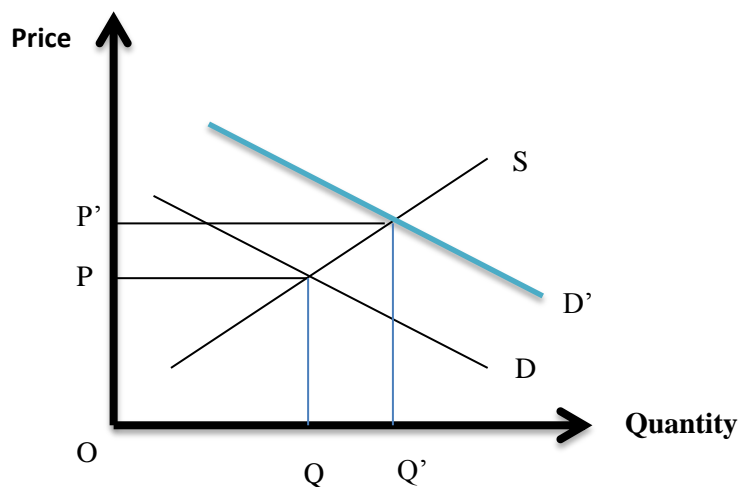


Figure 2: *Unincorporated External Benefits Would Lead to Less Production and Less Trade*

Also, as depicted in Figure 3, in an economy where more resources are allocated to overproduction of, for example, weapons, sophisticated financial instruments, and their derivatives (involving more information asymmetry), but less to education and/or healthcare, if not ethical values, the expected efficiency measures are probably compromised.

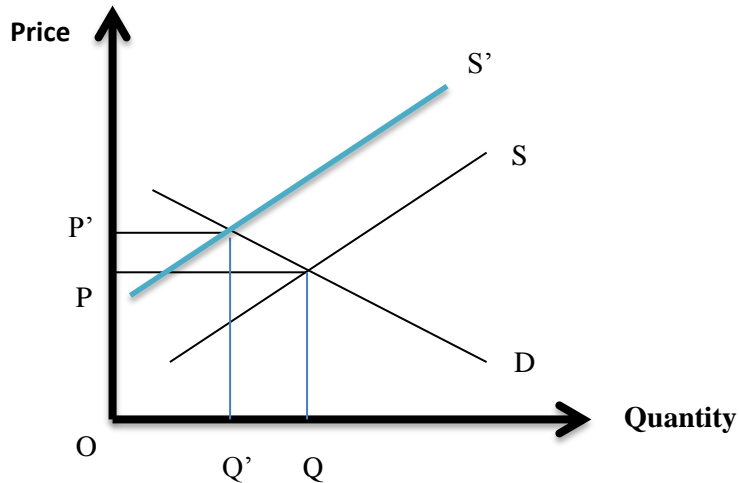


Figure 3: *Unincorporated External Costs Would Lead to More Production and More Trade Than Otherwise*

Great Recession, Corporate Social Responsibility, and Societal Change

Free market forces in the modern information age have more effectively forced revenue-oriented corporations toward accommodation of—and respect for—social sensitivities on important issues such as environmental protection, ethical values, societal improvement through grants and contributions. However, much more improvements are needed. The huge contributions from Bill Gates foundation and the Warren Buffet Foundation are just two good examples from the two richest Americans (Forbes, 2013). Private sector funds dedicated to research and development, scholarships, and the like are other forms of investment in societal development. According to *The Chronicle of Philanthropy* (2013), the 50 most generous donors of 2012 committed a total of more than \$7.4 billion to nonprofit organizations that year.

A Collective Perspective of Ethics and Market Economic System

How could various losses caused by fraudulent business practices, in absence of appropriate government regulations be assessed? The following table is copied from the U.S. Internal Revenue Service Website, which transpires an unfortunate systematic breach of all ethical standards even under the heavy control of the regulators.

Table 1: Corporate Fraud for Fiscal Years of 2009–2013

	FY 2013	FY 2012	FY 2011	FY 2010	FY 2009
Investigations initiated	60	80	110	116	123
Prosecution recommendations	66	67	79	91	86
Indictments/informations	60	59	81	80	90
Sentenced	40	78	82	61	72
Incarceration rate*	90.0%	83.3%	81.7%	77.0%	77.8%
Average months to serve	67	47	51	48	43

Note: *Incarceration rate includes confinement to federal prison, halfway house, home detention, or some combination thereof. Data Source: Criminal Investigation Management Information System: <http://www.irs.gov/uac/Statistical-Data-Corporate-Fraud>, Page last reviewed or updated: October 23, 2013.

Also, according to Michael Rapoport (2011),

The government's auditing regulator found deficiencies in 28 audits conducted by PricewaterhouseCoopers LLP and 12 audits by KPMG LLP in its annual inspections of the Big Four accounting firms. The Public Company Accounting Oversight Board said many of the deficiencies it found in its 2010 inspection reports of the two firms, released Monday, were significant enough that it appeared the firms didn't obtain sufficient evidence to support their audit opinions. The regulator hasn't yet issued its yearly reports on its inspections of the other Big Four firms. (p. 1)

In recent years, there has been some noticeable worldwide decline in workers' loyalty to their employers. In the following table, the results of a survey given to nearly 30,000 employees for the period of fourth quarter of 2010 to the second quarter of 2011 are reported (Mercer, 2011). The numbers show the percentage of workers in each geographic region that were seriously considering leaving their work places. This is used by Mercer as an index of employees' diminishing loyalty.

Table 2: A Worldwide Decline in Employee Loyalty

Australia	China	India	Singapore	France	Germany	Ireland
15%	16%	28%	3%	11%	2%	13%
Netherlands	Spain	United Kingdom	Brazil	Canada	Mexico	United States
13%	9%	8%	44%	10%	28%	9%

Note: Source: Mercer's *What's Working Survey*, 2011; data tabulation by the authors.

Defining Ethics and the Free Market

Ethics can be described as a moral philosophy that addresses basic questions of right and wrong, good and evil, and the like (Fieser, 2009). In a free market economic system, ethics should have an important role. As individuals, we all answer ethical questions in our personal and professional lives on a regular basis. In a free market, the government has a limited role in regulation. In some cases laws are set by government to answer questions of ethics. If it is wrong then it is most possibly against the law. What questions that aren't answered by law are left to individuals to answer.

Choice

Barro (1996), among other things, writes about property rights, government intervention, and free markets. Barro believes that ethical issues should and can be handled by individuals. Government, he argues, should stay out of making ethical decisions. He thinks that respecting property rights and enforcing the rule of law will promote economic growth. He indicates that government should provide private markets with a stable infrastructure, but other than that the government should stay out of the way. Barro does concede that government should ensure a level of education, provide a welfare net, and invest in infrastructure. Education should be ensured up to a certain level, he says, but it shouldn't be produced. A welfare net should be kept to a minimum or else it could stifle economic growth, he argues. He also asserts that government should invest in some infrastructure, which would promote economic growth. Ethics could be lacking, Barro would determine, when government won't let individuals decide what is right on their own.

Becker and Murphy (2001), among other interesting issues, analyzed a testable theoretical utility function in which people choices and behaviors, on the one hand, and the social environment, on the other hand have an interactive relationship and influence each other. In that case, an ethical environment would be more conducive to more ethical behaviors of people. Also, the higher moral intelligence in individuals could influence the social morality after all.

Markets Misbehave

Mandel (2001, p. 95), author of "Why Markets Misbehave," an article in *Businessweek*, interviewed three economists, George Akerlof, Michael Spence, and Joseph Stiglitz. All three have separate works on markets with asymmetric information. Asymmetric information occurs when both sides of a transaction do not have equal information about each other or the corresponding market news and forces. They claim that we live in a world where imperfect information is the norm. This is also an issue of ethics. Is it ethical for one party to not disclose relevant information to another party?

According to Mandel (2001), the three claim that markets behave in odd and surprising ways when there is unequal access to information. Under those circumstances, they think that there may be room for government intervention or regulation to make markets work better. They have offered up some unconventional ways to set policy. Mandel says that Akerlof's explains how a little inflation can actually lower unemployment. Akerlof has also argued, Mandel explains, that requiring developing countries, who are seeking loans, to cut wages and raise interest rates is bad policy. This is the opposite of what the International Monetary Fund has recommended for years. Mandel explains, despite having these different views they are still part of the economic establishment.

They have all received awards for their work on asymmetric information, most of which were on asymmetric information and were published in the 1970s and 1980s. The question they ask about markets' misbehavior is still very relevant considering the recent economic crisis.

Mandel (2001) points out parts of their work on Asymmetry in the health insurance market and credit market. Ethical questions are raised when considering information asymmetry in the market for health insurance. Adverse selection is a problem that affects this market's ability to function normally. The people with the highest demand for health insurance are also the most likely to use it. This increases the price of insurance for all, driving healthy people away from purchasing health insurance due to the higher cost. Healthy individuals can do this because they have more discretion on whether or not to buy health insurance.

According to the aforementioned three economists, referenced by Mandel (2001), it's not ethical for one party to have information hidden from them. This information asymmetry undermines the efficiency of markets and complicates the answers to ethical questions.

Inequality

Another ethical issue revealed in free markets is how wealth is distributed. Is it ethical for the majority of individuals to be either very rich or very poor while a small minority find themselves somewhere in the middle?

Thurow's (1975) *Generating Inequality* is about income inequalities in the United States and throughout other mainstream economies. Thurow attempts to explain the operation of American capital and labor markets. He also explains how they could be altered to achieve greater wealth distribution. Thurow's book came out when many people had the perception that social programs didn't seem to work anymore. Thurow finds that while education distribution had become more equalized, the income distribution had not. He concludes that what economist expected to come from marginal productivity theory of income determination had not come to pass. It is safe to say that the consensus is that great income inequalities are bad for society from both an ethical and economic viewpoints. Thurow would advocate government policy that would reduce income inequalities by redistribution. Where markets fail to distribute income in a manner to society's best interest, government is there to redistribute it in a way that satisfies the greater good.

In Defense of Capitalism

Capitalism, another name for freely competitive market economic system, is universally viewed as one in which private ownership of means of production, physical capital, human capital, financial capital, brand-name capital, and social capital, raw materials, land, and its mineral deposits are all protected by law. Private property rights, in all forms, are legally protected and assigned to entrepreneurs, producers as well as consumers who have legally acquired those properties.

In his research, "Recovering the Case for Capitalism," Levin (2010, p. 131) acknowledges that capitalism has not had an easy past couple of years. Levin indicates that capitalism is under attack, but not from socialists, instead by "misguided" technocrats. Technocrats are the ruling class of experts who think they can outsmart the collective wisdom of the markets. He associates these technocrats with the left and says that they have a longstanding distaste from the free market. The technocrats are the architects of two rising threats to capitalism: a close relationship between Washington and big financial institutions, on one hand, and a welfare state expanded beyond its fundamental purposes of helping people, on the other. Levin discusses how Social Security benefits once meant that the retired wouldn't have to live in poverty, and that now a vast quantity of money flows to the already affluent. He claims that this welfare state today will lead to a loss of freedom for Americans in the future in using their earnings the way they would prefer. When Americans are forced to contribute a portion of their earnings to a pay-as-you-go system that may not be there for them in the future, they've lost freedom in regard to where and what they could have spent that money on.

Levin (2010) makes references to Adam Smith to support his argument. He says that Adam Smith understood that everyone pursuing his or her individual interest would benefit the whole. Levin thinks that the ideal of the free market is inherently democratic, and that it is moral. Prosperity leads to a decent society, which may only be achieved through capitalism. He claims that the free market could put a comfortable life within reach of most, thus fostering more sympathy among neighbors.

According to Levin (2010), capitalism has been criticized for being unjust to the poor, making inequity the norm. He acknowledges that markets do allow inequalities to exist, but that this is how people are rewarded for their hard work. Capitalism, he argues, has created more wealth for everyone, the poor and the rich. He claims that without capitalism the poor would be much worse off. He argues that it makes no sense to dismantle an economic system that has done so much for the poor.

Levin (2010) addresses the criticism that capitalism renders social life of its meaning. He declares that our society is one characterized by excess rather than restraint. He makes the argument that capitalism could instill certain virtue within people. These virtues include prudence, restraint, industry, and frugality. These would be instilled by making these virtues profitable. He concedes that capitalism cannot provide sufficient moral authority on its own. He believes that family, religion, and tradition are important in keeping these moral aspects instilled.

Levin's solution (2010) is for the government to take an aggressive pro-market stance. He thinks that firms should be favored over technocrats when deciding what policies to adopt. He boils the fight over capitalism down to a fight over democracy, one in which capitalism and democracy must coexist. He states that if technocrats are given their way, they will overturn democracy. He believes they will claim authority based on their science and expertise. Levin would like to see ethical issues implemented by firm and ultimately the individuals running the firms. He'd like to see government step out of the way and let the democracy of the free market reign supreme.

Capitalism and Caring

One may assume that greed is a mainstay in our society, and many wouldn't argue against it. Capitalism can usually channel this greed into mutually beneficial behavior. When is greed too much though? William Niskanen's (2009, p. 559) article "The Undemanding Ethics of Capitalism" describes the ethics of capitalism. He believes the 2008 financial collapse was a result of policies geared toward home ownership. Both political parties have supported this policy. Home ownership is part of the American dream, many would argue, and it's perfectly understandable that politicians would support what the majority of America supports. Niskanen says that other factors contributed to the increased demand for home ownership. Banks have been pressured and even forced to lend money to those with poor credit rating, which are more likely to be poor individuals.

A decrease in the price of something will lead to an increase in the quantity demanded, given all other influential factors. The housing market is no different. When credit is made available to those who previously were unable to obtain it, they will utilize that credit to buy houses. This is another issue of ethics. Should the poor be deprived of what so many Americans enjoy, being a homeowner? Or should we make every effort to create as many homeowners as possible, no matter the consequences?

Niskanen (2009) points to three types of relations that are involved in human interaction: caring, exchange, and threat. He says that capitalism is the least dependent on caring. Exchange is what makes capitalism possible. Exchange is in relation to capitalism because individuals consensually exchange goods and services in a free market. Niskanen admits that capitalist economies aren't error free, but that most errors are caused by bad judgment rather than greed. He asserts that in human interaction government relies on threat. They threaten individuals with reprisal if they do anything against the law.

Conscience

In “Capitalism with a Conscience,” D’Souza (1996) describes what the critics of capitalism have to say. She calls the critics of capitalism “Communitarians,” who concede that capitalism is the quickest way to generate economic growth and prosperity, but that it erodes traditional values and leaves individuals without a moral code. D’Souza claims that this view is helped by the traditional left and traditional right. She says that numerous popes have called for the preservation of traditional values against the destabilizing influences of modern technological capitalism. She indicates that Joseph Schumpeter worried that the affluence produced by capitalism could weaken virtues like hard work and deferred gratification.

She references Adam Smith’s “A Theory of Moral Sentiments,” having conceded that capitalism had some social costs. D’Souza argues that Smith thought selflessness, restraint, empathy, and the like were all part of what made us human and that capitalism wasn’t for that.

Justice as Fairness

How do we determine what is just? Justice is an understanding of what is right based on the consensus of ethics, law, fairness, and equity. As cited by MacKinnon (2009, p. 295), Rawls (1971) explains how justice is primary in his “A Theory of Justice.” Rawls maintains that it is unjust for a minority to lose freedom because it may benefit the welfare of a majority. Hence, he explains, equal citizenship is accepted without protest, and our rights are permanent and are not able to be changed by political statute. Rawls explains that injustice is only tolerated when it saves us from greater injustice.

Rawls (1971) sets up a situation of an original position, a scenario in which no one knows his or her economic situation. They shouldn’t know this, he explains, because knowing one’s situation leaves them vulnerable to some biases. In this original position, what would people want? Would they want egalitarianism and paternalism to be paramount, or would they want individual freedom and efficiency to reign supreme? If one is put in this original position, one may believe that the former should be adopted as a precaution to a situation in which one is underprivileged and doesn’t have the means to provide for oneself a comfortable life relative to those who do have the means. But that person may believe he or she is destined for greatness; therefore, she doesn’t want anything standing in her way, diminishing her opportunity of a comfortable life. This person may then choose the latter. Rawls gives the example of a man that knew he was wealthy, as cited in MacKinnon (2009, p. 296). The man may choose to advance the idea that progressive redistributive taxes are unjust and that if the man were in the opposite position, he would advocate that it is just.

Rawls explains that we can come to a consensus on some ethical issues pertaining to justice, but other we can have much less assurance about, as cited in MacKinnon (2009, p. 297). He says that we are confident that religious intolerance and racial discrimination are unjust, and the conception of their unjustness is unlikely to be altered by our own interests. On the other hand, we are much more divided when it comes to what is the correct distribution of wealth and authority. Our own situations in life would influence what we feel is the correct distribution.

Rawls explains how theories of what is just are like scientific theories. Theories must stand up to criticism. Theories on justice, when found to be wrong by a consensus, must be altered, or, if they are too wrong, society must get rid of them completely. For example, bondage was once thought of as a better alternative to death, therefore relatively more ethical, and therefore, considered just. As time went on though, people came to the consensus that slavery was unethical, unjust, and wrong!

Rawls then states what principles of justice he believes would be chosen in the original position, as cited in MacKinnon (2009, p. 298). He breaks the principles into two groups, from which he explains how they would be applied to society. His first position is that each person is to have an equal right to basic liberties. These liberties include political liberty, intellectual liberty, liberty to own property, and freedom from abuses inherent to a disregard for the rule of law.

His second position pertains to social and economic inequalities. Rawls maintains that the distribution of wealth and income do not need to be equal, but the opportunity to achieve greater levels of the two must be equal. He also maintains that access to positions of authority must be equal.

Rawls' argument can be simplified to a friction between equity and efficiency. A society in which one overwhelms the other is often considered undesirable; therefore it is imperative that we find a happy equilibrium of the two.

Distributive Justice

In a capitalist mode of production the market is believed to distribute supply of something. This begs the question; did the market distribute everything correctly, or fairly? Do we need someone to redistribute what has already been distributed once as to achieve a higher level of justice? Robert Nozick, author of "Distributive Justice," (1974) says there are three major topics on the subject of justice in holdings, as cited in MacKinnon (2009, p. 301). He uses holding to refer to what has been distributed to people. The first topic is the original acquisition of holdings, how something unheld comes to be held. The second topic is about the transfer of holdings from one person to another as cited in MacKinnon (2009, p. 302). The third topic is the rectification of injustice in holdings.

The first topic on acquisition of holdings is about the transition of those things that are not held by anyone to being held by someone. The second topic on the transfer of holdings is about the transition of what is already held by someone to someone else. The third topic adds the element of justice to the two former topics.

Nozick sets forth three criteria for the justice of holdings, respective to the first two topics. First, respective to the first topic, he says that if the world were a completely just place in terms of holdings, a person who acquired his or her holdings in accordance with the principles of justice would be entitled to those holdings. In respect to the second topic, Nozick says, a person who acquired holdings in accordance with the principle of justice in transfer, from someone else entitled to those holdings, is entitled to those holdings. Thirdly, he says that you are only entitled to your holdings if you meet the requirements of the first two criteria.

The third, topic he sets forth is about past injustice, injustice as a result of not meeting the requirements of the three criteria. This topic attempts to address what should be done to rectify these injustices. Nozick doesn't address what should be done to rectify past injustices, realistically, no one can know with any great accuracy what injustices were done (as cited in *Ethics Theory and Contemporary Issues*, 2009, p. 303). One, because records weren't kept of all injustice, and two, because justice is subjective; therefore the principles of justice are subjective. No one could be right in trying to rectify all injustice.

To answer the questions posed in the first paragraph, Nozick would apply his principles of distributive justice. If the market distributed the holdings of someone justly, through acquisition or transfer in agreement with the principles of justice, then yes, the market distributed things correctly and fairly so there is no need for redistribution. If the market did not distribute things correctly and

fairly, then Nozick would say we would need to rectify that unjust distribution by redistributing it in a way that satisfies the principles of distributive justice.

Contest Between the Two Parties of a Trade

Who wins in the battle between labor and management? Why do they win? And is it ethical? According to Adam Smith (1776) in his “An Inquiry into the Nature and Causes of the Wealth of Nations,” management beats out labor because it is easier for management to conspire to lower the cost of labor, laws are more likely to favor management, and when pitted against each other, management is in a better position to wait out labor, as cited in Heilbroner (1996, p. 91).

Smith is convinced that it is easier for the masters, or management, to combine because there are far fewer managers than laborers; therefore, it is much easier to conspire against labor. He maintains that laws also help management; they authorize, or at least do not prohibit management from combining. In Smith’s time laws were stacked in favor of management, it was often illegal for labor to collectively bargain for higher wages, but it was not illegal for management to collectively demand lower wages.

In contrast of the two groups, Smith assesses that Management is often better prepared to wait out labor. Management usually has savings and credit to allow them to survive without income longer than the often relatively unprepared laborers who lack the means to survive long without income. He sums up, though that in the long run, management needs labor just as much as labor needs management, but in the immediate labor needs management more.

Smith suggests that we rarely hear of management combining, but often hear when labor collectivizes. He says that those who think management rarely comes together are “as ignorant of the world as of the subject,” as cited in Heilbroner (1996, p. 91). He says that management, the world over, is always conspiring to lower the cost of labor. He says they do this with extreme secrecy just until they are about to execute their plan to lower the cost of labor. When management’s demands are thrown onto labor, and they concede to the demands of management it is felt severely by those laborers, Smith indicates, as cited in Heilbroner (1996, p. 92). Yet, labor often fights back. They often collectively bargain for higher wages, Smith indicates, because they incur higher cost of living, or they see that management is making exorbitant profits off of their labor. He states that when labor tries to bargain they are met with verbal uproar, and sometimes violence. They face a tough situation of either going hungry or frightening management into giving into their demands. Management, according to Smith, is quick to call upon government for assistance, by way of enforcing those laws that so often favor management. Smith says that labor rarely benefits from the uproar or violence that ensues.

So, is this ethical? Smith would most certainly think that this situation is unethical. Smith may have appeared to be on the side of labor in regard to his critique of management, but Smith was on neither of the two sides. Smith thought that anyone, management or labor, conspiring to lower or raise the price of labor was meddling with the market, to which he clearly opposed (Heilbroner, 1996).

Two Surveys and Assessments

Economics and Religion: Trends in Church Attendance

The impact of religion on society’s value system is another way of inclusion of ethics in economic analysis. Laurence R. Iannaccone (1998) maintains that

Religion seems to affect both mental and physical health. Despite the nonempirical Freudian tradition that blames religion for neurosis, prejudice, and authoritarianism, empirical studies consistently find that high rates of religious commitment and activity are associated with mental health, reduced stress, and increased life satisfaction. (Ellison, 1993; p. 1476)

Despite various reports, church-attendance rates have gradually fallen in most developed countries. Among some possible factors, “lack of motivation, negative media coverage of religion and boredom during the services” have been identified in various research works as main reasons (NCLS Research and Edith Cowan University, Perth, 1998). However, two sociologists, Presser and Chaves (2007), studied about whether there had been a linear decline in church attendance. They found that at least in America, church attendance since the 1990s has remained stable at 25%.

According to some Gallup Polls (e.g., Saad, 2009), church attendance records among Catholics and Protestants have been different. Protestants’ records have remained stable at about 45% since 1955. In contrast, a major drop of 30%, from 75% to 45% has been reported among Catholics, but it has remained stable since 1995.

It is found by Warren Bird and Stephanie Jackson (2012) that salaries for senior pastors and church sizes follow a consistent direct pattern. They reported that for each additional 1,000 church attenders, senior pastors’ annual salary increased by roughly \$8,000 on average for large churches. Religious values in the market economic system seem to be determined in a similar way to those of other goods, services, and resources in the economy. Religious services, creating mental and physical health and stability, seem to create value and benefit due to the same supply–demand forces. Such values, conducive to more decency and respects for others may even create positive externalities, which could be enhanced and promoted by governmental tax-exemption policies.

Survey 1 – Perception: Religion and Economics

The following survey, which is entirely listed in the Appendix, was given to 117 undergraduate students of Business, Economics, and Ethics classes. The questions and the corresponding statistically reported responses are presented below. Possible choices for responses were a (*strongly agree*), b (*agree*), c (*not sure*), d (*disagree*), and e (*strongly disagree*), which are ranked numerically as 1, 2, 3, 4, and 5, correspondingly.

Figures 4, 5, and 6 reflect that respondents believe in strong role of religion in people’s economic behaviors and a little less so for their own cases.

1. Religion is an important foundation for people’s economic behaviors.

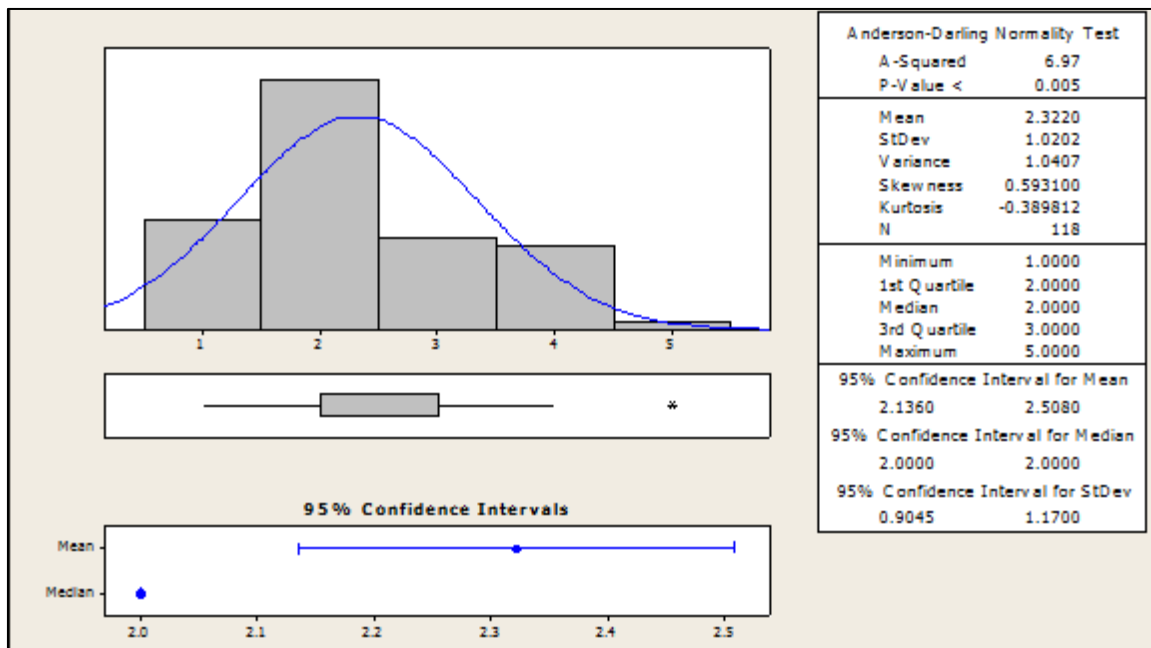


Figure 4: Summary for Question 1

2. Religion is an important foundation for my economic behavior.

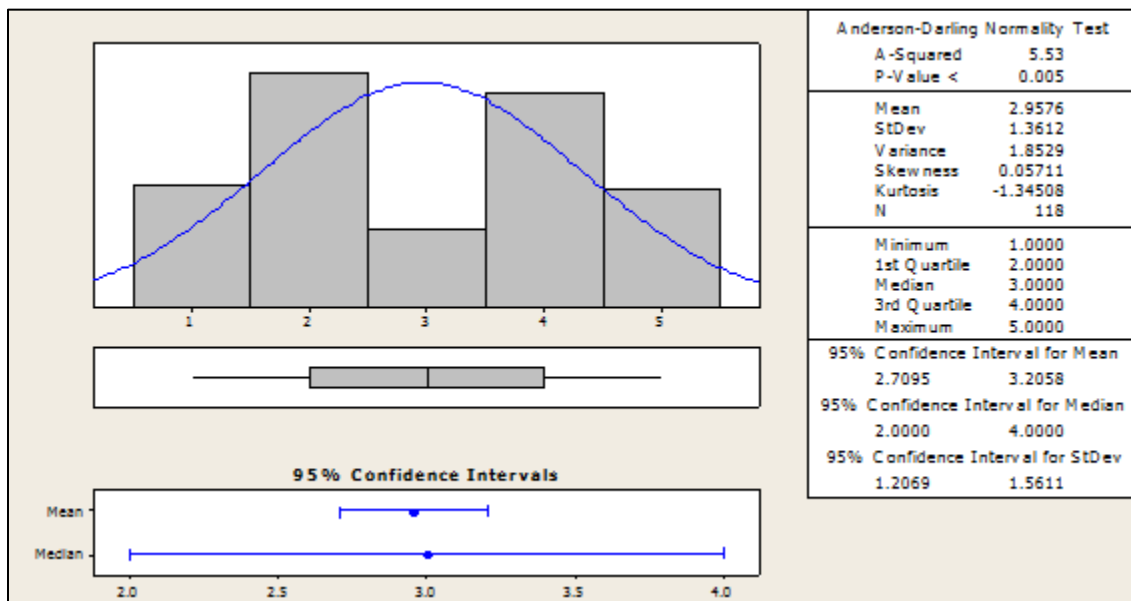


Figure 5: Summary for Question 2

3. Religion adds to ethical issues of trade in the market place.

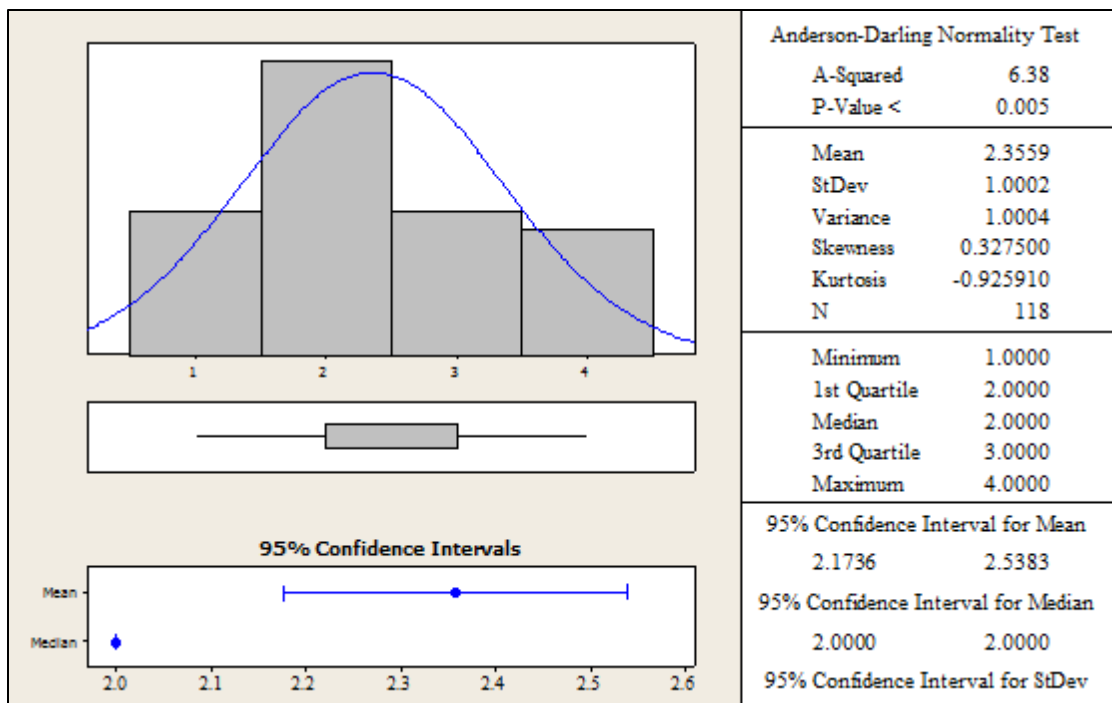


Figure 6: Summary for Question 3

However, there is a stronger belief that trade's efficiency and prosperity could be hindered by religious values (Figures 7 and 9), and that economic performances were impacted positively by religious revolutions, such as Protestant reformation (Figure 8).

4. Religious values could be impediments to more efficient trade and prosperity.

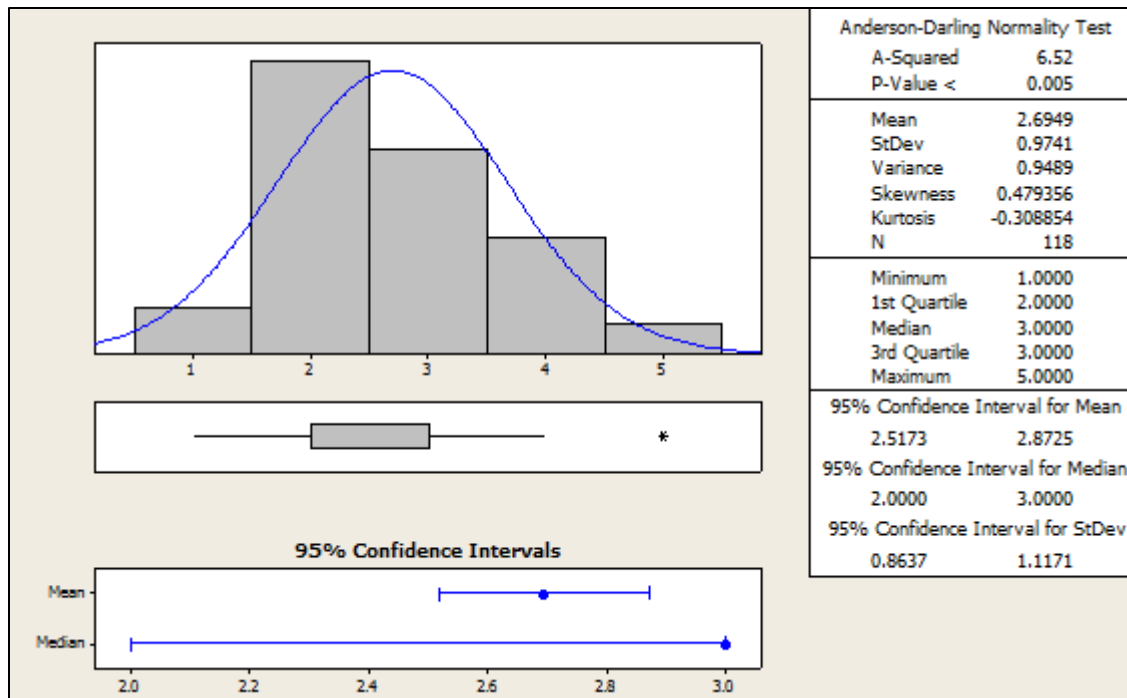


Figure 7: Summary for Question 4

5. Religious revolutions, such as Protestant Reformation, have impacted economic behaviors for the better in the past century.

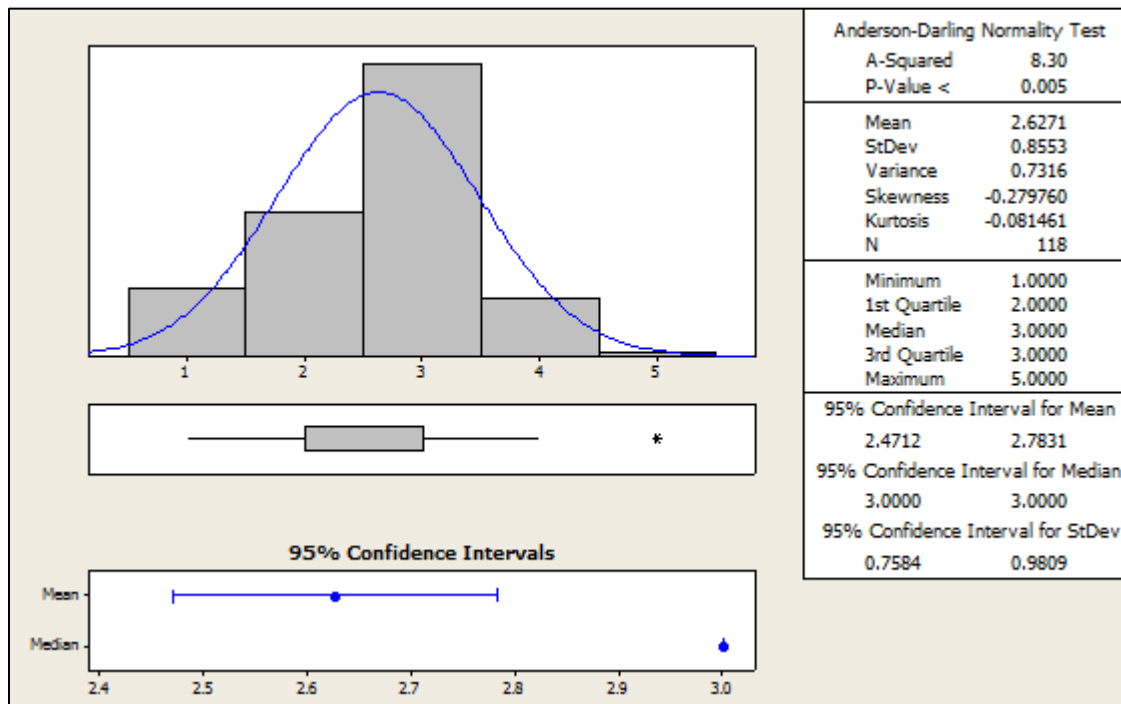


Figure 8: Summary for Question 5

6. Traditional religious values most specifically emphasize on importance of personal diligence, frugality and thrift, and a resistance against greed.

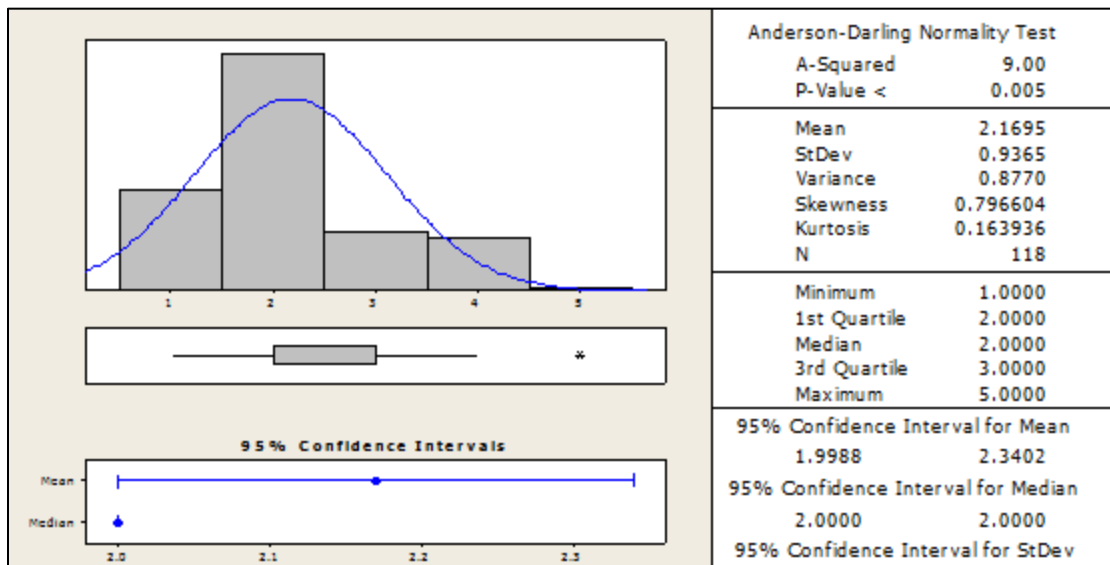


Figure 9: Summary for Question 6

Although not overwhelmingly so, but, excluding those who revealed to be unsure, more of the participants agreed than disagreed that the 2007–2009 Great Recession had nothing to do with any less of religious-ethical influences on businesses' and individuals' economic behaviors and/or operations.

7. I believe the 2007–2009 Great Recession had nothing to do with any less of religious-ethical influences on businesses' operations.

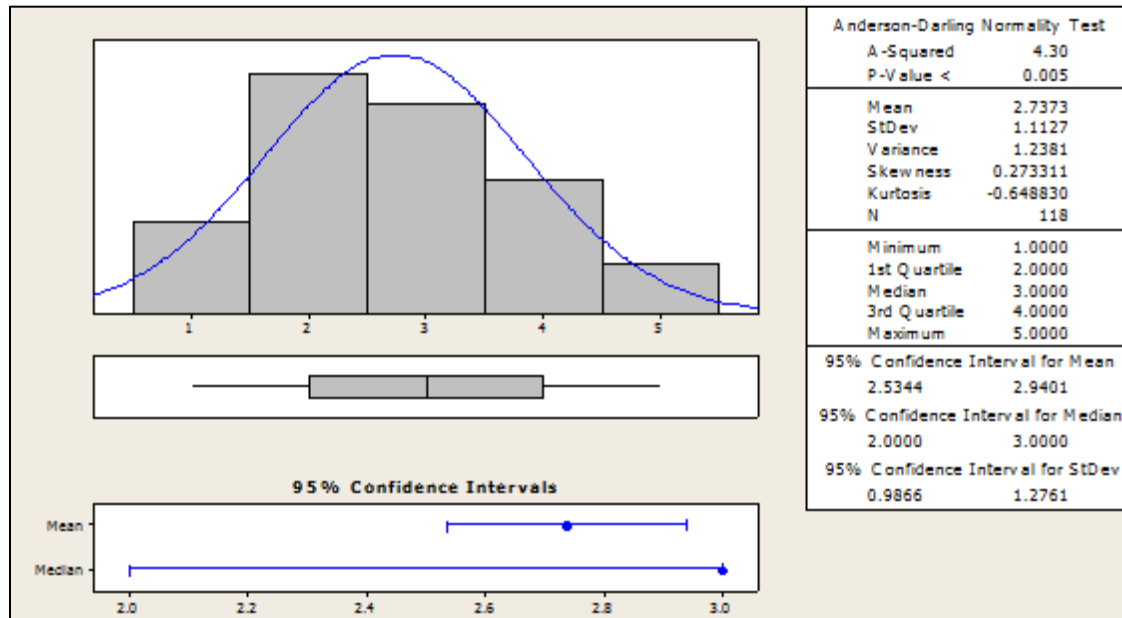


Figure 10: Summary for Question 7

8. I believe the 2007–2009 Great Recession had nothing to do with any less of religious-ethical influences on individuals' economic behaviors and/or operations.

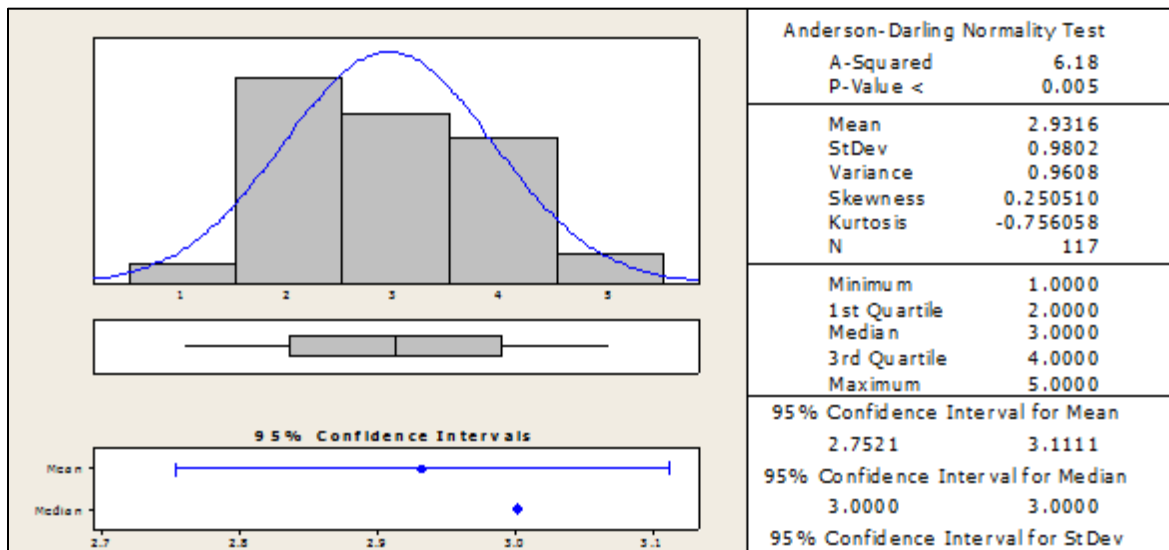


Figure 11: Summary for Question 8

On the issue of religion, as a foundation for ethical value system, a great majority of participants agreed that “Ethical standards are mainly transpired through religious values and beliefs” (Figure 12), and that “Religion is an important foundation for people’s economic behaviors” (Figure 4). However, more of them responded to “I regularly attend the weekly church (or other religious temple) ceremonies,” by selecting “disagree” and “strongly disagree” (Figure 13).

9. Ethical standards are mainly transpired through religious values and beliefs.

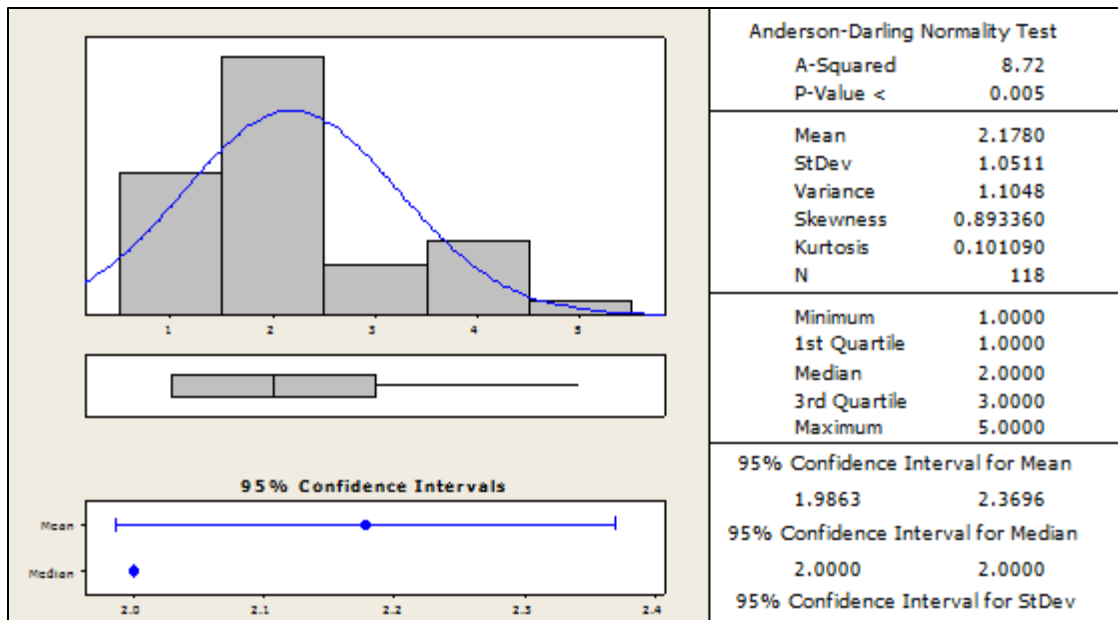


Figure 12: Summary for Question 9

10. I regularly attend the weekly church (or other religious temple) ceremonies.

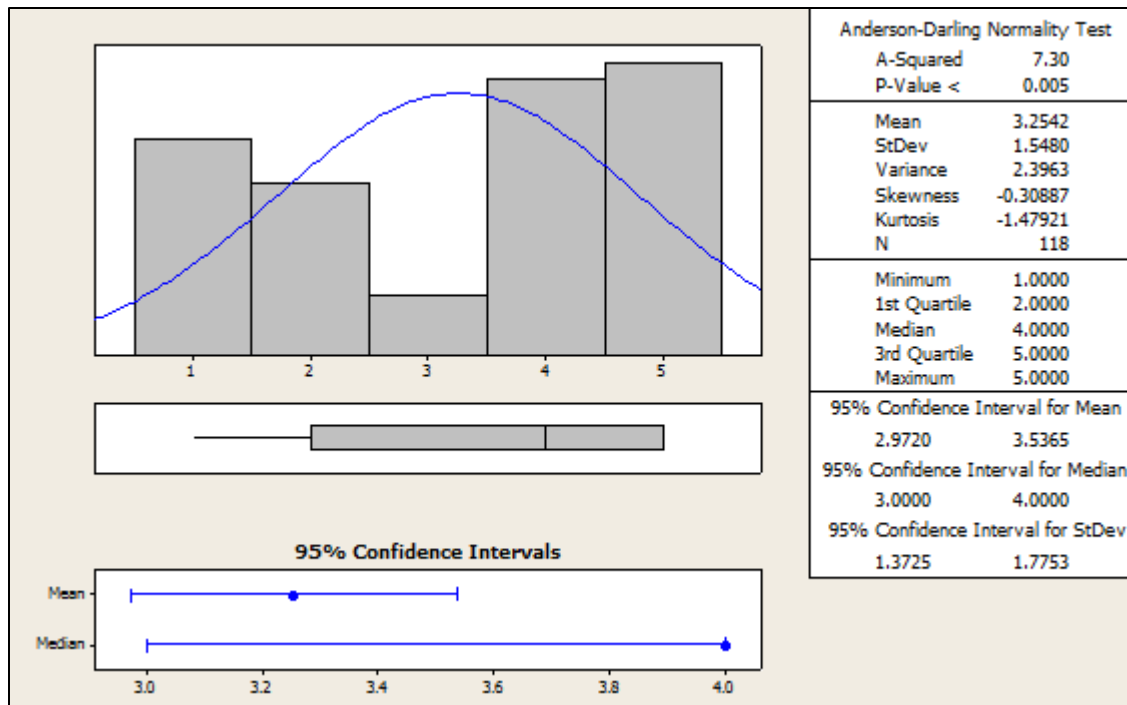


Figure 13: Summary for Question 10

11. According to a recently published research, for each additional 1,000 people in (church) attendance, annual salary for large church senior pastors increased by roughly \$8,000 on average. Some economists argue that religious positive impacts on mental and physical health and societal stability, like other goods and services, must be appraised by the same cost-benefit standards and analyses. How do you feel about that?

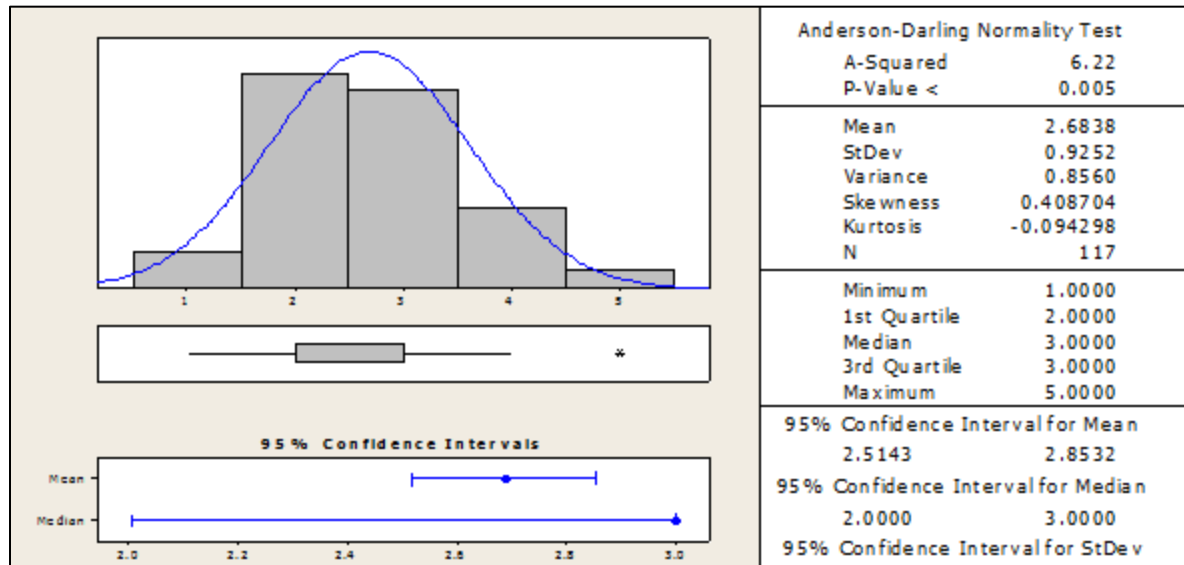


Figure 14: Summary for Question 11

Question 11 and the corresponding response would imply that market-determined values should not necessarily contradict religious services valuation (Figure 14).

In Table 3, to check the participants' consistencies in responding to various questions, a correlation matrix is presented to verify the correlation coefficients for responses to some related questions. In other words, if two questions that would - more or less - transpire the same information are tangibly correlated, then there should have been consistency in the overall responses of the average participants. That would add to the credibility of the collected survey data (i.e., their responses).

Table 3: Estimated Correlation Coefficients: A Verification of Participants' Consistency and Truthful Responses

	Q1	Q2	Q3	Q4	Q5	Q6	Q7	Q8	Q9	Q10
Q1	0.607									
Q2	0.000									
Q3	0.247	0.281								
Q4	0.007	0.002								
Q5	-0.021	0.022	0.077							
Q6	0.824	0.810	0.405							
Q7	0.168	0.199	0.146	0.057						
Q8	0.069	0.031	0.113	0.538						
Q9	0.229	0.321	0.172	0.038	0.165					
Q10	0.013	0.000	0.062	0.679	0.074					
Q11	-0.188	-0.216	-0.100	0.020	-0.283	-0.055				
Q12	0.041	0.019	0.283	0.829	0.002	0.552				
Q13	-0.176	-0.203	-0.195	-0.003	-0.092	-0.156	0.591			
Q14	0.058	0.029	0.035	0.975	0.322	0.093	0.000			
Q15	0.321	0.501	0.354	0.095	0.112	0.386	-0.186	-0.222		
Q16	0.000	0.000	0.000	0.305	0.225	0.000	0.043	0.016		
Q17	0.424	0.601	0.167	-0.061	0.182	0.265	-0.219	-0.193	0.545	
Q18	0.000	0.000	0.070	0.508	0.049	0.004	0.017	0.037	0.000	
Q19	0.018	0.162	0.065	0.038	0.142	0.053	-0.246	-0.109	0.021	0.025
Q20	0.844	0.081	0.488	0.688	0.127	0.572	0.007	0.245	0.826	0.789

Note: Bold typeface indicates rather high and strongly significant correlation figures.

The rather high correlation coefficients reflect the participants' consistency in their responses to some different but related questions.

Survey 2 – Perception: Ethics and Economics

The following survey was conducted through 110 doctoral, undergraduate senior, sophomore, and freshman business and economics-majoring students in the period of September–October 2011.

The Adopted Questionnaire

For each of the following statements, please mark the best ranking between 1 and 8 that reflects your opinion, where 1 represents the strongest agreement and 8 represents the strongest disagreement.

1. Economics and ethics contradict each other.
2. Capitalism is intrinsically in violation of ethical values.
3. Capitalism must be saved from the greedy capitalists.
4. More money is the key to more happiness.
5. Competition in markets and among individuals is conducive to unethical consequences.

6. If you are offered with one of the two services or goods for the same price, you would prefer one complying better with ethical standards.
7. I have had enough training and exposure to ethical values and principles.
8. In Economics profit maximization rules contradict ethical values and standards.
9. Capitalism is OK, rules and regulations must be implemented most strictly by governments.

In Figure 14, the black “Agree” plot represents the summations of participants’ selections of 1–4 rankings for their agreements with each of the 9 statements of the survey. The red “Disagree” plot represents the summations of participants’ selections of 5–8 rankings for their disagreements with each of the 9 statements of the survey.

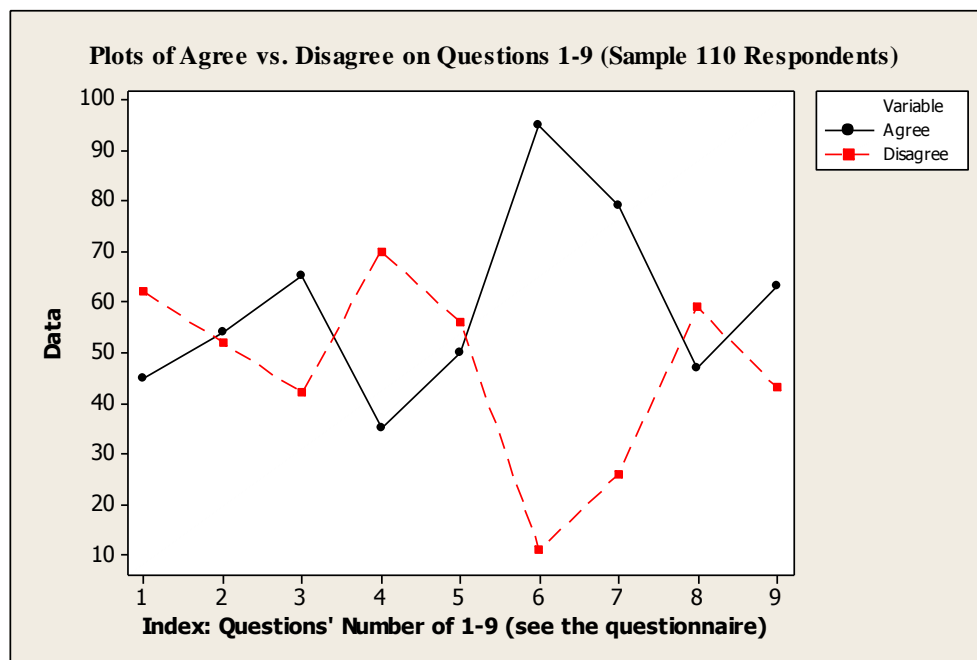


Figure 14: Plots of “Agree” vs. “Disagree” on Questions 1–9 (Sample 110 respondents; source: Hamzaee’s primary data compiled through the aforementioned questionnaire for this study)

What is most apparent is a strong agreement among the participants (about 95 from 110 of them) on the sixth statement, “If you are offered with one of the two services or goods for the same price, you would prefer one complying better with ethical standards.” Also, a strong agreement was revealed on the seventh statement, “I have had enough training and exposure to ethical values and principles.” These two statements were highly and directly correlated, with a correlation of 0.867 with a p value of 0.002. This would have an encouraging policy implication for business schools’ curriculum designation, and that more ethics-related courses would help in enhancement of ethical values of the prospective business organizations.

There were more than 70 people who disagreed on the fourth statement, “More money is the key to more happiness.” More than 65 agreed on the third statement that “Capitalism must be saved from

the greedy capitalists.” Also more than 60 revealed to agree with the last statement that “Capitalism is OK, rules and regulations must be implemented most strictly by governments.”

In Table 4, the estimated correlation coefficients among the responses to every two questions of the questionnaire are listed. As an example, for R1 and R2 (responses to questions 1 and 2), there is a highly significant positive correlation, estimated to be 0.893. That would imply as participants’ responses on the two questions: “Economics and ethics contradict each other” and “Capitalism is intrinsically in violation of ethical values” were highly correlated: Their agreements on each were highly tied up to those on the other. Also, answers to each of those two questions were negatively and highly correlated with their responses to the fourth question: “More money is the key to more happiness.” That implies that the stronger they agreed on the first two statements, the stronger they would disagree with the fourth statement.

Table 4: Correlations of 8 Responses (n = 110)

	R1	R2	R3	R4	R5	R6	R7
R2	0.893						
	0.001						
R3	0.170	0.446					
	0.662	0.229					
R4	-0.801	-0.761	-0.175				
	0.010	0.017	0.653				
R5	-0.688	-0.699	-0.287	0.486			
	0.041	0.036	0.454	0.185			
R6	-0.771	-0.835	-0.570	0.607	0.432		
	0.015	0.005	0.109	0.083	0.246		
R7	-0.764	-0.940	-0.521	0.679	0.559	0.867	
	0.017	0.000	0.150	0.044	0.117	0.002	
R8	-0.592	-0.692	-0.690	0.274	0.408	0.690	0.619
	0.093	0.039	0.040	0.476	0.275	0.040	0.076

Note: Pearson correlation figures along with the *p* values (below).

Most possibly, if one disagrees that “Economics and ethics contradict each other” one would also disagree that “Capitalism is intrinsically in violation of ethical values,” but would agree with the fourth statement that “More money is the key to more happiness” and also with the sixth statement that “If you are offered with one of the two services or goods for the same price, you would prefer one complying better with ethical standards.”

It also appears that responses to statements sixth and seventh are positively and significantly correlated, implying that their tastes for compliance with ethical standards and the extent of their exposures to and training on ethical values and principles are directly and significantly interrelated. This would have a clear policy implication in favor of ethical training and educational opportunities in enhancement of ethical foundations for a market economic system.

Scope and Limitations

While, as researching economists, we would have liked to conduct an empirical study for this inquiry, the main scope, as dictated by data limitations, have diverted our goal towards more of historical review and exploratory approach, facilitated by the results of two survey instruments that we have designed for this study. In addition to the data limitation involving ethics in—and of—the market economic system, certain common assumptions about free competition are too strong to hold in the

real world. To offer just some selected examples, one would find it easy to recognize that prices are not always perfectly flexible, information is often less than perfect, and decision makers are not always applying the rules of gain maximization properly.

Conclusion

In this research, as an introduction, the authors have provided a report on some unethical practices of many U.S. businesses, a reference to loss of employees' loyalty to their employers and an analytical discussion of ethics and market economic system. Three surveys are cited and analyzed here: Employees' loyalty, how differently banks and businesses reacted to events of recent Great Recession of 2007–2009, and public perception of market economic system along with ethical values.

Through a recent survey, it was reported that the more training received in the context of ethics, the stronger the preferences for goods and services produced through incorporation of ethical standards. In how to maintain a capitalistic economic system, more than 65 respondents (close to 60%) agreed on the statement that "Capitalism must be saved from the greedy capitalists." That is more appropriate government regulations are favored in saving the economy. On the issue of religion, as a foundation for ethical value system, a great majority of participants agreed that "Ethical standards are mainly transpired through religious values and beliefs," and that "Religion is an important foundation for people's economic behaviors." However, more of them responded to "I regularly attend the weekly church (or other religious temple) ceremonies," by selecting "disagree" and "strongly disagree."

Lastly, more of the participants believed that the 2007–2009 Great Recession had nothing to do with any less of religious-ethical influences on businesses' and individuals' economic behaviors and/or operations.

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Appendix A

Survey 1

Perception: Religion and Economics

Please mark only one answer for each question according to your best judgment. There is no right or wrong answer and the overall responses will be anonymously used for the research purpose with no impact on any judgment about you, your values, or your grade for the course (if you are one of my students). Please avoid writing any comments in case you have alternative views or tastes. This researcher, fully aware of weaknesses and strengths of some of these questions, is trying to tie this part to the comparable published works in order to re-assess them.

1. Religion is an important foundation for people's economic behaviors.
 - a. Strongly agree
 - b. Agree
 - c. Not sure
 - d. Disagree
 - e. Strongly disagree
2. Religion is an important foundation for my economic behavior.
 - a. Strongly agree
 - b. Agree
 - c. Not sure
 - d. Disagree
 - e. Strongly disagree
3. Religion adds to ethical issues of trade in the market place.
 - a. Strongly agree
 - b. Agree
 - c. Not sure
 - d. Disagree
 - e. Strongly disagree
4. Religious values could be impediments to more efficient trade and prosperity.
 - a. Strongly agree
 - b. Agree
 - c. Not sure
 - d. Disagree
 - e. Strongly disagree
5. Religious revolutions, such as Protestant Reformation, have impacted economic behaviors for the better in the past century.
 - a. Strongly agree
 - b. Agree
 - c. Not sure
 - d. Disagree
 - e. Strongly disagree

6. Traditional religious values most specifically emphasize on importance of personal diligence, frugality and thrift, and a resistance against greed.
 - a. Strongly agree
 - b. Agree
 - c. Not sure
 - d. Disagree
 - e. Strongly disagree
7. I believe the 2007–2009 Great Recession had nothing to do with any less of religious-ethical influences on businesses' operations.
 - a. Strongly agree
 - b. Agree
 - c. Not sure
 - d. Disagree
 - e. Strongly disagree
8. I believe the 2007–2009 Great Recession had nothing to do with any less of religious-ethical influences on individuals' economic behaviors and/or operations.
 - a. Strongly agree
 - b. Agree
 - c. Not sure
 - d. Disagree
 - e. Strongly disagree
9. Ethical standards are mainly transpired through religious values and beliefs.
 - a. Strongly agree
 - b. Agree
 - c. Not sure
 - d. Disagree
 - e. Strongly disagree
10. I regularly attend the weekly church (or other religious temple) ceremonies
 - a. Strongly agree
 - b. Agree
 - c. Not sure
 - d. Disagree
 - e. Strongly disagree
11. According to a recently published research, for each additional 1,000 people in (church) attendance, annual salary for large church senior pastors increased by roughly \$8,000 on average. Some economists argue that religious positive impacts on mental and physical health and societal stability, like other goods and services, must be appraised by the same cost-benefit standards and analyses. How do you feel about that?
 - a. Strongly agree
 - b. Agree
 - c. Not sure
 - d. Disagree
 - e. Strongly disagree

Appendix B

Some Key Definitions

Capitalism: An economic system in which private ownership of means of production, physical capital, human capital, financial capital, brand-name capital, social capital, land, and mineral deposits are all allowed and protected by law

Externalities: Appearance of either costs or benefits, realized by third parties, who have not been involved in a trade

External costs: Any costs imposed on an individual (third party) who has not been involved in the corresponding trade, such as traffic congestion, air pollution, noise pollution, etc.

External benefits: Any benefits enjoyed by an individual (third party) who has not been involved in the corresponding trade, such as a society's higher educational level, lower crime rates, more economic prosperity, etc.

Capital: A major resource or means of production, which could appear in various forms

Types of capital: Physical capital, financial capital, human capital, social capital, and brand-name capital

Social capital: Certain social affiliations conducive to business (or even individuals') performance enhancement

Brand-name capital: An earned brand name after some market recognition would bring about more sales opportunities than otherwise

Marginal approach in decision making: It is mathematically proven that marginal rules of decision making, in which one has to limit one's extent of operation and/or consumption to the limits where the corresponding marginal gains and marginal costs are equated

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