David George Surdam

Business Ethics from Antiquity to the 19th Century

An Economist's View

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I later taught courses in business ethics at Loyola University of Chicago and the Graduate School of Business, University of Chicago. Many of the ideas for this book emanated from these courses.

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Contents

CHAPTER 1

You Can't Live (Well) Without Business Ethics

You can't live (well) without business ethics. Business ethics matter greatly and affect our lives on a daily basis. Without reasonably high business ethics throughout the marketplace, people throughout the world would not enjoy high standards of material well-being. The necessity for businesspeople and consumers to interact in ethical fashion has drawn the attention of a wide variety of thinkers, including Athenian Greek philosophers, Islamic and medieval theologians, secular scholars, businesspeople, consumers, and legislators. What people considered ethical differed across times and societies. The evolution and development of business ethics across societies and through the ages are fascinating topics.

Some people have told me that a book on business ethics throughout history would be the "world's shortest book." The assumption underlying the witticisms is that business ethics are completely lacking. One need not make much effort to find examples of unethical behavior by businesspeople, as major ethical lapses attract much attention. The nightly news frequently publicizes the really spectacular lapses, such as Bernard Madoff's Ponzi scheme or the sub-prime housing loan debacle.

The nightly news is not the only forum highlighting lapses in business ethics. With the fall of the Soviet Empire, Hollywood has had to cast for new stock villains, and businesspeople fill the niche. Motion pictures and television shows depict businesspeople as being beyond rapacity and duplicity, such as that 1980s' icon, J.R. Ewing, of *Dallas.* Apparently, J.R.'s chief negotiating tactic was to bellow, "I'll pay you any amount of

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money," for something he wanted; he must have failed "Negotiating 101." Children's cartoons and movies rely upon businesspeople for stock villains (right up there with evil scientists), especially businesspeople engaged in despoiling the environment.[1]

In the world of literature, the lack of ethics in business is a common plot device. Mario Puzo's epigraph to his *The Godfather* reads: "Behind every great fortune there is a crime."[2] The Corleone family ran a business of sorts, but few would laud or emulate their tactics. Arthur Miller's *Death of a Salesman* and *All My Sons* famously depicted businesspeople in an unfavorable light, with the recurring theme of an erring father committing suicide upon realization of his perfidy (Puzo [1969] 1978; Miller 1947, 1998).

The purveyors of fictitious depictions of businesspeople used crude caricatures. As economist Ludwig von Mises wrote in the 1950s, Hollywood's depiction of duplicitous businessperson portrayed, "all other Americans as perfect idiots whom every rascal can easily dupe. The [trick of feeding cattle salt and letting them drink water before marketing them] …is the most primitive and oldest method of swindling. It is hardly to be believed that there are in any part of the world cattle buyers stupid enough to be hoodwinked by it" (Von Mises [1956] 1972, 71–72).

The media's spotlight, though, may create a distorted view of business ethics in general. There is an asymmetry operating. Colorful tales of business corruption are attention grabbing. Many tales of business corruption are later debunked, but by then, the stories have assumed legendary status and the corrections are of interest only to a few academics and apologists. The media rarely report on the rather humdrum activity of millions of businesspeople earning dollars honorably and quietly satisfying customers by providing goods and services at reasonable prices and who treat their workers fairly.

Certainly the perceptions of business ethics, as measured by trustworthiness, appear dismal. The Gallup poll conducts periodical surveys, asking: "Please tell me how you would rate the honesty and ethical standards of people in these different fields—very high, high, average, low, or very low?" Nurses received the highest combined percentages (85%) of very high or high ratings. Pharmacists and medical doctors ranked second and third in the professions listed. Among the business professionals, funeral directors ranked highest with 44%. Accountants had 39% very high or high ratings. Bankers and building contractors each received 25% very high/high ratings, just between journalists (27%) and lawyers (21%). Real estate agents (20%), business executives (17%), stockbrokers (13%), advertising practitioners (10%), car salespeople (8%), and telemarketers (8%) ranked above or at par with members of Congress (8%) and lobbyists (7%). The *Economist* reported a poll after the Enron scandal, with its unethical accounting tricks, that showed that a majority of Americans who responded trusted accountants. Some three-quarters trusted people running small businesses (www.gallup.com/poll/1654/honesty-ethics-professions.aspx, viewed January 3, 2016, 1:20 pm. *Economist*, October 25, 2003, 3–4 and 7).[3]

A moment's reflection, however, should demonstrate that the vast majority of business transactions are conducted without complaint. You may be reading this book—that you perhaps purchased at an airport bookstore—as you hurl through the air at 550 mph in a metal object. You need hardly worry about the object crashing to the ground. You have faith in the airline's safety. Your employer sends thousands of your dollars each year to a group of financial experts to manage on your behalf. You have never met these experts (nor, for that matter, have you ever met the pilot of the jet plane); yet you entrust your life and retirement hopes to them. You go to an espresso kiosk and quaff some beverage. You don't think about the possibility that you might be drinking adulterated coffee. How often during the year does a typical American file a complaint regarding unscrupulous business behavior? Market forces, consumer and government vigilance, and the businessperson's own sense of honor and ethical standards usually induce ethical behavior. Social commentator Jane Jacobs describes our modern world as, "a great web of trust in the honesty of business…how much that we take for granted in business transactions suspends from that gossamer web" (Jacobs 1992, 5).

A World Without Ethical Business Behavior

Why do businesspeople's ethics matter? Aside from generating outrage and providing politicians ammunition for mobilizing public crusades, business practices, ethical or unethical, affect all of us. The American economy is, for instance, incredibly complex, and all of us rely upon our fellow residents to enable us to survive with a modicum of comfort and decorum. Life in America, for the most part, does not reflect Thomas Hobbes' characterization: "solitary, poor, nasty, short and brutish" (Hobbes, 95–96).

Ethical business behavior provides benefits beyond the direct exchange of goods and services. Commerce was beneficial in myriad ways. Peaceful trade enlarged acquaintance with people from other countries; widened people's mental vistas and dampened prejudice; and intertwined people. Others disagree, with philosopher Robert Goodin reflecting that the growing industrialization and complexities created new vulnerabilities in relations between people, such as customers and retailers or workers and employers. Over a century ago, Edward Ross, a sociology professor, described modern people's vulnerabilities: "The sinful heart is ever the same, but sin changes its quality as society develops. Modern sin takes its character from the mutualism of our time. Under our present manner of living, how many of my vital interests I must intrust to other!" The new complexity leaves us vulnerable to the wicked (Ross 1907, 3–4; Weisberg 1986, 57; Goodin 1985, 149–150).

If ethical standards fall low enough, many transactions may cease to be made. Declining trust leads to increased transaction costs of doing business, including the costs of finding someone with whom to conduct a transaction; negotiating a transaction; and monitoring and enforcing transactions. When businesspeople misbehave, they impose direct and indirect costs. Naturally, the defrauded or injured party bears direct costs, but other participants in the economy bear indirect costs. Each act of malfeasance makes other people more cautious, just as each act of honesty and integrity builds (or rebuilds) trust. Law professor Tamar Frankel characterizes this: "Mistrust corrodes the wheels of exchange and commerce and contaminates trusted professional services" (Frankel 2006, 5).

If suspicion of business practices becomes pervasive, transactions become less frequent, commerce is stymied, and economic growth might ultimately come to a standstill. Researchers worry that an absence of economic growth could ignite chronic violence between groups, as occurred throughout much of human history. Do deteriorating economic and social conditions trigger more business malfeasance or vice versa? The International Fraud Report of KPMG cites two major factors "affecting the level of fraud are society's weakening values and economic pressures" (Frankel 2006, 87; see also Porter, December 2, 2015, B1).

Social commentators often claim that unethical behavior by businesspeople may inspire or provide rationales for unethical behavior by nonbusinesspeople. "Whenever there is an economic dislocation, theft rises. We often fall in love with the little thief if there is a big one at work. The analogs of the robber barons and their rapacious greed are the small-time thieves in the underworld." Even the perception of widespread unethical business behavior molds attitudes. Television's depictions of businesspeople as "unscrupulous creeps," who are rich, affected young people's perceptions of business (Shteir 2011, 64, Shteir interview with Stephen Mihm, January 2008; Lichter et al. 1991, 300).[4]

Business Ethics in a Wider Context

The focus on businesspeople's ethics may be too narrow. Businesspeople operate in a mosh pit of conflicting self-interests—not just their own self-interest but also the self-interests of workers, consumers, reporters, and government officials. In addition, authorities—both religious and secular—and the general populace are often hostile to businesspeople and their activities, regardless of whether such activities are deleterious or beneficial. Businesspeople's activities are often misunderstood, but misunderstandings are sufficient to make them suspect in many people's eyes.

Workers want the most compensation under the best working conditions possible, including minimizing effort, tedium, and discomfort. Employee embezzlement, theft, and shirking are not uncommon. According to an AOL and Salary.com survey, employees wasted just over two hours per eight-hour day by surfing the Internet, socializing, conducting personal business, and other activities. Of course, salaried workers can argue that doing personal business during working hours isn't really stealing from their employers, as long as they complete their work.

Prospective employees sometimes embellish their resumes or leave out relevant but unflattering information about themselves. A slight majority of reference checks revealed discrepancies, whether through carelessness or premeditation, between what prospective employees and their references stated; some 10% of these were "serious" discrepancies. Prospective employees gamble that employers will not spend the time and effort needed to ferret out fictitious alma mater Obscure U. Firms have to expend more resources due to the mistrust of applicants; honest applicants bear some of the costs. Job applicants often omit or lie about drug rehabilitation, incarceration, or illness (Conner, January 17, 2012, no page numbers; Frankel 2006, 15).

Employee theft drained American companies of some $652 billion in 2003, or about 5% of corporate revenues and a much higher proportion of corporate profits (and, hence, shareholder wealth). One study concluded that "a key factor in the rationalization and incentive components of the fraud triangle: whether an employee is disgruntled with his or her employer.…Rationalization is the process of aligning an act of fraud with one's personal code of ethics." One way to combat such behavior is to scrutinize employee's e-mail messages, as employee comments that blame executives, demonstrate excessive anger, or are threatening are predictors of criminal action. Because many employee criminal acts involve collusion, monitoring e-mail and conversational comments can ferret out fraud (Holton 2009, 853–855). On the other hand, companies monitoring e-mail messages raise troubling ethical issues.

Consumers want high-quality products for the least amount of money. They are capable of driving hard bargains and of engaging in chicanery. Customers shoplift, return worn clothes for refunds, fraudulently use credit cards, and fail to pay bills. The National Retail Federation's 2014 Return Fraud Survey suggested that retailers lost over $10 billion due to return fraud. Most shoplifting was of an impulsive nature, and shoplifters favored high value, small bulk electronic devices. A Columbia University study found that shoplifting was more common "among those with higher education and income, suggesting that financial considerations were unlikely to be the main motivation" (Allen, December 29, 2014, no page numbers; Rainey and Hobbs, December 8, 2013, no page numbers; Sennco Admin, April 14, 2014, no page numbers).[5]

Journalists crave dramatic, sensational stories (which are sometimes false or exaggerated) that gain them notoriety and awards. Well-known journalists have been caught in various deceptions. Journalists certainly have their biases and must constantly struggle to maintain sufficient objectivity (Levitt and Dubner 2009, 126).[6] Editors and owners of news media seek profits and may resort to emphasizing sensational stories.

Government officials want to perform public service and to extend their bureaucratic power via larger staffs and budgets; these officials often have an incentive to exaggerate the severity and pervasiveness of perceived ethical "crises" by businesspeople. Politicians use false advertising via cosmetic surgery, Botox, and elevator shoes that enable them to put their "best face forward" or to literally gain physical stature. United States senators and representatives do not like competition for their offices, and they erect effective anti-competitive barriers to entry by third-party candidates. These barriers to entry would inspire the envy of nineteenth-century robber barons. Politicians use seniority, postal franking, gerrymandering, and other tactics to maintain their incumbency. I will often compare government officials' and businesspeople's ethics. There are built-in protections from unethical business practices that are not available in protecting the public from unethical government officials and politicians.

All too often, however, the interaction of government and business created opportunities for large-scale, damaging corruption. In the case of government largesse, where money collects, so will scoundrels; this shibboleth will be demonstrated frequently. Crony capitalism was and remains a longstanding tradition around the globe. The distribution of taxpayer money among interest groups by legislators and government officials has often been tainted by unethical behavior.

Legislators around the world and throughout history found the authority to grant exclusive or other rights lucrative, whether in terms of monetary gains or with regard to influence. Consumers and workers should beware of businesspeople seeking regulation. Businesspeople often complain about regulation, but they often seek self-serving legislation that is anti-competitive, provides subsidies for them, or uses the government as a "stamp of approval." Some businesspeople seem to adhere to the idea that capitalism is good…for the other person.

Many people laud non-profit agencies for their selfless service. Non-profit institutions provide many valuable services. There are, of course, unethical non-profit operators. Potential donors are urged to investigate non-profit entities, before they contribute. Natural disasters spawn non-profit charities, most of which operate to benefit victims. Some companies' officers, however, "may do well by doing good," as the saying goes. How "well" these officers should do can be a vexing question. Watchdog groups collect information on the ratio of spending on overhead (including officers' salaries, fringe benefits, and expense accounts) relative to providing services. A few of the newfound charitable projects are, in fact, fraudulent operations preying on the goodwill of people, with little, if any, of the proceeds reaching the putative beneficiaries. A recent example of allegedly self-serving, non-profit operations is the Wounded Warrior Project. Executives of that organization spent donations on lavish hotels and promotions; roughly 40% of its 2014 donations went for overhead. Other charities employ workers with limitations. The concept of employing people with disadvantages is a noble one, but the execution occasionally raises questions. Goodwill Industries and other non-profit organizations frequently pay their workers, who suffer from limitations, wages far below minimum wage. The organizations' CEOs claim that these workers simply are not productive enough for them to be paid the legal minimum wage. Although the economics of their argument is compelling, in other contexts, many people would consider paying workers less than a state-imposed minimum wage to be unethical (Philipps, January 28, 2016, A1 and A14; WBEZ91.5, May 28, 2013, http://www.wbez.org/print/107389, viewed September 22, 2013).

Changing Nature of Business Ethics

Businesspeople face challenges with regard to ethical standards. Business ethics are not static, nor are they standardized throughout the world at any particular time. What was considered ethical has changed over time. Sometimes opinions regarding mores change quickly. A businessperson may need to be nimble in order to adjust. What was ethical at the beginning of a businessperson's career may later be perceived as unethical at the end of their career. Because ethical standards have changed and because people's opportunities have changed dramatically, we should attempt to view their actions within the context of their times. Even such seemingly obvious strictures against lying, cheating, and stealing in transactions have, at times, been, if not explicitly approved, winked at or even openly boasted of. Imposing twenty-first-century mores upon people from the past would be unwise and unfair.

For example, raiding and piracy were often forms of enrichment; raiders, however, frequently evolved into traders (Jacobs 1992, 32). Piracy continues to infest some waters around the world. For most of history, owning slaves was considered desirable and respectable; only within the past 270 years has a concerted effort been made—primarily by British and American activists—to first repudiate and then to eradicate the institution.

Humanity's changing understanding of the world also affected the ethics of business transactions. Modern people take the germ theory for granted, but 150 years ago, the theory was new and controversial. Once the theory became widely accepted, some longstanding business practices no longer passed ethical muster. Technological progress also created new challenges for ethical behavior.

What to Expect

A business historian laments that "most contemporary writing on business ethics is ahistorical. Aside from the obligatory references to Immanuel Kant and John Stuart Mill, one rarely finds any serious discussion of concepts or ideas that date back more than a few decades. Greek, Jewish, Islamic, Catholic, and Protestant thinkers who devoted considerable thought regarding the ethics of business are rarely cited. One also finds remarkably few references in the contemporary business ethics literature to the works of scholars such as Max Weber, Albert Hirschman, and Michael Walzer—all of whom have written extensively about the historical roots of capitalism as an ethical system" (Vogel 1991, 49; see also Hirschman 1982, 1463–1484).

Business ethics is an ever-changing, vibrant corpus of beliefs, customs, and laws. At any given moment, people across the world hold varying ideas of what is ethical in business, based on their current economic situation, as well as their past. For hunter-gatherer groups worrying about how to obtain their meals, raiding and sharing made sense. For twenty-first-century Americans, stricter definitions of property rights with respect to food are efficient. Historical examples, therefore, illustrate evolving concepts of what is ethical.

These volumes represent a survey of changing business ethics throughout history. What follows is not a comprehensive catalog of infamous business practices through the years. Instead the volumes examine ethical beliefs and behavior—both good and bad—dating back to the so-called primitive people, although there is a marked concentration upon nineteenth- and twentieth-century British and American business practices.

Focusing on ethical flaws may distract us from the overriding ethical behavior that benefited consumers and workers. Along the way, we'll meet such ethical characters as a tenth-century Jewish banker turned Egyptian official—Ya'qub ibn Killis; Quaker merchant John Woolman; master showman Phineas T. Barnum; and twentieth-century retailer Julius Rosenwald. Certainly most businesspeople, as with people in general, have their ethical blemishes. There will also, of course, be many examples of scoundrels, some of whom have their charms.

Although I am not a professional historian, I have studied the history of professional team sports, leisure in America, and the Civil War. There are advantages from using historical examples. Readers are likely to be less passionate about long-dead people, as compared with the latest poster person for business lapses. In addition, the passage of time opens up archival material with which to study business ethics situations.

Economists and business historians have debunked many allegations of harmful or unethical behavior by businessmen; in other cases, they have exposed previously unrealized unethical behavior by businessmen.[7]

Business Ethics as an Academic Discipline

Business ethics has arisen as an academic specialty within the past few decades, although there have been some courses on the subject in business schools since the beginning of the twentieth century. Students learn basic approaches to thinking about ethics, including differences in ethics as applied to business compared with everyday life.

There are three categories of ethical theories. Teleological theories judge actions upon the "amount of good consequences they produce." Setting aside the sometimes contentious debates regarding the meaning of "good," such an approach undergirds Jeremy Bentham's utilitarian theory, among other theories. Deontological theories, such as Immanuel Kant's theories, emphasize duties. Greek thinkers, such as Aristotle, relied upon a concept of virtue in formulating their ideas regarding ethics (Boatright 1993, 32).

These theories, as with almost all theories, have strengths and weaknesses, especially in application. Teleological theories require that an individual be adept at recognizing and weighing the subjective and objective aspects of the benefits and costs of a decision upon themselves and also for third parties or for society. The calculus requires empathy and a clear-headed, unbiased assessment. Teleological theories also ignore duties owed to ourselves and others. Business decision makers must consider fiduciary duties to stockholders, so ethical thinking requires an assessment of the duties owed.

On the other hand, deontological theories have drawbacks. There are difficulties in agreeing upon universally accepted duties. Do such duties vary across time and cultures? Are there times that we should violate duties, such as lying to protect an innocent party (Boatright 1993, 58–60)?

The teleological and deontological theories need not be mutually exclusive; these two theories may reinforce each other with respect to promoting ethical behavior. For instance, if most people honor the duty to be honest, their behavior affects the marginal benefits and costs of decisions for themselves and others. The utilitarian approach may help assess whether fidelity to a duty is worthwhile in terms of costs and benefits. An ethical person should consider the costs their actions, including adhering to their duties, impose upon others.

The inability of any particular theory to satisfactorily cover all ethical situations and honest (and, sometimes, dishonest) disagreement regarding what is and is not ethical creates tension. Decision makers, therefore, may find themselves facing ambiguity regarding the ethical considerations surrounding their decisions. For these reasons, this book emphasizes that what is considered ethical in business differs across time and societies.

An Economist Looks at Business Ethics

I am an economist fascinated by ethics in business. I am not anti-business, but I am a friendly critic of business. I believe the profit-motive can be pursued ethically, although the means employed should be subject to scrutiny.

The fields of economics and ethics need not and, indeed, should not be strangers. Adam Smith, David Hume, and other early economists were keenly interested in morality. An ethical person should be interested in the costs and benefits of their ethical positions, not only upon themselves but upon other parties. Economics can illuminate many aspects of business ethics. Economic theories are useful in making decisions. The concepts of marginal benefit and marginal cost are compatible with both teleological and deontological ethical approaches. Economists weigh the objective and subjective benefits and costs; when the marginal benefits exceed the marginal costs, a decision maker should undertake the decision. Economists also incorporate a form of the now-popular "stakeholder" theory with their concept of externalities. In a simple transaction, such as a customer buying meat from a slaughterhouse, the consumer and producer should consider the marginal benefits and costs affecting third parties. If the producer dumps the meat waste products into a river, such pollution might adversely affect (third-party) resort owners. These theories often presuppose an absence of fraud, dishonesty, and so on. Some critics disdain economic theories, because such theories are said to rest upon prices determined by impersonal forces of supply and demand and not by any intrinsic ethical or moral values. Economists also address other pertinent questions. Why does the market foster or sometimes fail to foster discipline and good behavior? Why are some seemingly unethical situations not as dire as depicted?

I am not a formally trained ethicist, so I will not emphasize modern theoretical business ethics as applied to business practice or delve into the debates surrounding such theories. I am mainly interested in considering business ethics as practiced throughout the ages and across societies, along with contemporary discussion of what constituted unethical and ethical behavior.

Notes

1. Self-avowed American liberals S. Robert and Linda Lichter were skeptical of commentator Ben Stein's criticism of television's anti-business portrayals: "We were once inclined to dismiss [Ben Stein's comment]….No more. No immoral or illegal act seems too vile—or too unlikely—to be perpetrated by a television businessman" (Lichter et al. 1991, 132; see 209–210 for their remarks on J.R. Ewing).
2. Puzo ([1969] 1978, 9); some believe that Honore Balzac coined the phrase, but this appears to be disputed or is mistranslated (http://quoteinvestigator.com/2013/09/09/fortune-crime/, viewed May 8, 2015, 2:25; http://answers.google.com/answers/threadview?id=296588).
3. The findings of 2016 were roughly similar to those of a Gallup poll of "America's Most Trusted" dated January 1, 1997.
4. See the Lichter's amusing example of television business shenanigans—an episode of *Get Christie Love!* The plot line took absurdity to new levels (Lichter et al. 1991, 221).
5. Even Canada, lauded as an exemplary country, lost about 1.5% of the country's gross domestic product in 1997 to theft and fraud (Palango July 28, 1997, 10).
6. Levitt and Dubner described the case of Kitty Genovese in 1964 as an example of journalists letting self-interest get the better of them.
7. Throughout the text, the term businessman will be used instead of the somewhat awkward and less precise businessperson. As the discussion turns to eras where women participated more as business owners, the term businessperson will be used.

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CHAPTER 2

Overview of Business Ethics

Ethics is tightly interwoven with empathy: How does the other party feel about or view situations. A good imagination may be useful for businesspeople in developing ethical positions. Economics and ethics are also intertwined. One author wrote, "Far more than we ordinarily suppose, economic relations rest on moral foundations" (Firth [1951] 1961, 144). In this chapter, I shall define "business" and look at some basic aspects of business ethics.

A good definition of business is: "People do business when they transact, or trade. One engages in trade by alienating some property rights and acquiring other property rights by means of exchange. Business is, at least in part, a transaction-executing practice." Businesspeople often have to seek out transactional opportunities: "Finding transactional opportunities requires alertness to them and imagination about how best to exploit them….One engages in business by seeking to identify and implement profitable sets of transactions—seeking to yield something of value that was not there before the transactions were initiated." Businesspeople need not be motivated solely by profit. "It says only that people pursue their aims through business, rather than through other means, when they attempt to transact in a profit-generating (self-sustaining) way. Business, then, is a self-sustaining, transaction-seeking and transaction-executing practice." To clarify his point, Alexei Marcoux relates how a free clinic is not a business doer, as its transactions "are not intended to be self-

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sustaining." The free clinic has to elicit donations. "The sum of its activities may be self-sustaining, but its transactions are not" (Marcoux 2006, 59–60).

A simpler definition comes from Islam. Islamic jurists perceived trade and commerce to entail buying and selling. "Trade is the pursuit of profit by means of selling and buying and not by means of craft or manufacture" (Udovitch 1970, 185).

The Basic Transaction

Envy may be one of the seven deadly sins, but it is well-nigh ubiquitous. Two individuals meet up. Individual A has something Individual B would like to possess. Individual B has some choices: use force to steal or expropriate the item or to use exchange, by offering something that Individual A may wish to possess. A basic precept underlying business ethics—and it is a significant moral advance over using force—is to "shun force." Journalist Jane Jacobs makes this explicit: "When violence or intimidation enters a transaction, it's no longer trade." Under the shun force option, there is a set of choices: be honest or attempt to obtain the item by chicanery. Jacobs adds the corollary that to "be honest…[which] gives substance to voluntary agreement." A key element underlying transactions is trust. What are ways to build trust, especially among commercial people? Jacobs points out that receipts were used very early in the trading process. The receipts signified trust to the extent that they and bills of account were exchanged, based on a presumption of honesty and a view that fraud was disgraceful. Jacobs argues that when trust breaks down in large commercial cites: "Many people flee such places if they can" (Jacobs 1992, 34–36).[1]

With the development of marketplaces and an accompanying likelihood of repeated transactions between a pair of individuals, social scientists Daniel Friedman and Daniel McNeill observe that vendors' self-interest in inducing "complete strangers" to become permanent customers forces them to discover and to cater to customers' desires. Marketplaces become places where people gather to meet to make transactions. Although self-interest often dictated mutually beneficial transactions, in some cases, "bazaars also bred novel forms of cheating" (Friedman and McNeill 2013, 38).[2] Fraudsters, though, cheat not just their victims but also threaten the marketplace itself.

Added Benefits of Trade and Commerce

Companies that do not practice corruption may contribute to non-violence; researchers plotted corruption versus whether disputes were handled violently and found a positive correlation, which they noted was not causation. Companies practicing ethical business contributed to a sense of community (Fort 2008, 120–121).

Economists Daniel Friedman and Daniel McNeill relate how lower homicide rates are associated with more developed economies. Friedman and McNeill cite several factors that make such a case plausible. Wealthier societies have the resources to purchase crime prevention. When the bulk of people are relatively prosperous, the lure of crime is diminished. They also suggest that markets are associated with legal systems that reduce the prevalence of *honore* codes which often led to persistent cycles of violence. "Markets also broaden social webs, strengthen bonds, and foster moral behavior" such as patience and prudence. The American South was known for its feuds and well-developed sensitivity to insults that led to brawls. Friedman and McNeill laud bourgeois values, such as truthfulness, tolerance, willingness to work hard, and adhering to rules. These bourgeois values aid the market system. They describe how Spain was, in a sense, cursed by its New World riches, as it gave the Spanish rulers, "the luxury of retaining an antimarket honor culture, and of financing religious fanatics at home and halfway around the world." They argue that people assumed bourgeois moral codes, because these values "breed wealth and lift living standards." Critics find many faults with bourgeois values. True, the bourgeois values seem rather tame, although there remains a place for courage (Friedman and McNeill 2013, 160–161, 210).[3]

Samuel Johnson quipped that, "There are few ways in which a man can be more innocently employed than in getting money" or, as John Stuart Mill noted, "That the energies of mankind should be kept in employment by the struggle for riches, as they were formerly by the struggle of war, until the better minds succeed in educating the others into better things, is undoubtedly more desirable than that they should rust and stagnate. While minds are coarse, they require coarse stimuli and let them have them." Mill then concludes that commerce induces good behavior and ensures peaceful intercourse and progress instead of recourse to war. Alas, Mill's prediction was too optimistic (Boswell 1832, 323; Mill [1909, 1848] 1987, 581–582, 749).

Economist John Maynard Keynes believed that capitalism was morally objectionable but at least was more efficient at attaining economic ends than alternative systems. He also thought that, "There are valuable human activities which require the motive of money-making and the environment of private wealth-ownership for their fruition. Moreover, dangerous human proclivities can be canalized into comparatively harmless channels by the existence of opportunities for money-making and private wealth.… It is better that a man should tyrannise over his bank balance than over his fellow-citizens" (Keynes 1936, 374).

Inculcating Good Behavior

A simple story of inducing good behavior revolves around the threat of punishment; a promise of reward; or ingrained beliefs. Every civilization has created or used "externalized morals" to maintain acceptable behavior in the marketplace. Although traders might have self-regulated themselves or used peer pressure, often rulers erected a moral infrastructure based upon laws. Members of small groups could monitor each other and report unacceptable behavior. Members had an incentive to do so, as bad behavior threatened the group. The drawback to such peer pressure was that "it's pretty ham-fisted." As trading communities got larger, such as in medieval Europe, a more formal system arose—*lex mercatoria* (law merchant) (Friedman and McNeill 2013, 43–45).[4]

Sometimes people just need simple reminders of what the "right thing" to do is. Americans are pretty scrupulous about paying their income taxes. Researchers found that telling taxpayers that a large majority of citizens fully paid their taxes induced better compliance than a letter stating their tax returns were likely to be audited. "[P]eople will restrain themselves when they see that others do so." Unfortunately, research also suggested that people are willing to countenance terrible behavior on the part of the few, even though they, themselves, do not participate. Psychologists Craig Haney, Curtis Banks, and Philip Zimbardo's experiment, which may have skirted ethical boundaries for research, involved splitting college students into guards and prisoners. A minority of the guards quickly became abusive, while the other designated guards did not but also did nothing to prevent the abusive behavior (Frankel 2006, 82–83; Haney et al. 1973, 69–97).[5]

When confronted with a big insurance company, many Americans succumb to the temptation to "pad" their insurance claim. The Insurance