3 The Economics of Ethical Leadership

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INTRODUCTION

In this chapter it is argued that culture has an important intermediating role in the relationship between business ethics and economic performance. Cultural intermediation is personified by the social or political leader, who promotes ethical values and is one of the principal beneficiaries of the improved economic performance that results from them.

Not all ethical systems improve economic performance, of course. An ethical system must have instrumental value in order to achieve this. This instrumental value is the prerogative of functionally useful moral values which reduce transaction costs within the economic system. The clearest example of this instrumental value is the way that an ethic of honesty engineers a climate of trust and so reduces the cost of trade.

This chapter is not primarily concerned with the difference between business ethics on the one hand, and ethics in general on the other. Its concern is not so much the problem of how to apply ethical principles to business as the problem of engineering ethical commitments and supporting ethical discourse in the first place. It is possible to attend numerous conferences and training seminars on business ethics, in order to learn how a business and its brands may appear ethical, without having any real commitment to confronting an ethical challenge which requires self-interest to be overridden.

THE DIVISION OF LABOUR IN THE SOCIAL SCIENCES

The main problem confronting any study of the relation of culture to economic behaviour is the unsatisfactory nature of the intellectual division of labour in the social sciences. Specialisation in academic research has cre-

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ated different disciplines. The performance of an economy in meeting material needs is studied by economics. Culture, on the other hand, is studied preeminently by anthropology. But any attempt to synthesise insights from these two disciplines runs into the problem that their dominant research methodologies are different. Economics tends to be quantitative and positivist, whilst anthropology tends to be qualitative and anti-positivist. Thus there is no unified methodology of social science in which the two disciplines are embedded.

Similar problems have been encountered before—for example, in synthesising economics with political science and with law. The response by economists in these cases has been to extend the domain of their methods of analysis by creating the new subject fields of public choice and the economics of law respectively. A similar form of ‘economic imperialism’ is adopted here (Buckley and Casson, 1993).

Previous attempts of this kind have achieved only limited success because many of the simplifying assumptions of economics have been transferred to the new subject area without proper critical scrutiny. Assumptions that are plausible in the context of markets are carried over to non-market environments where they may create unnecessary difficulties. It is particularly important to adapt assumptions when applying economic analysis to anthropology because of the very great differences in the relative weights that the two disciplines attach to the study of market and non-market institutions.

The principal change advocated here is to replace the concept of ‘economic man’ (or homo economicus of economic tradition), as commonly understood, with ‘ethical man’ (Casson, 1995, 1996). The main effect is that the instrumental rationality of economic man, which links ends and means, is supplemented by another rationality—value rationality—which explains the formation of ends. This concept of value rationality is inspired by the work of Weber (1947) and Knight (1935), although it is not claimed that the particular interpretation of value rationality offered here is directly implied by their work.

Ethical man, like economic man, still prefers more to less, but he or she prefers more ‘good things’ rather than just more pleasurable things. Thus ethical man may wish to increase his consumption of ‘good things’ and decrease his consumption of ‘bad things’, even though the bad things are more pleasurable than the good ones. A calculus of maximising a combination of moral legitimacy and material pleasure therefore replaces the conventional calculus of maximising pleasure alone.

The moral values that are introduced in this way are not mere opinion and prejudice; they have a logic of their own. Ethical man is not necessarily an ethical individualist, whose values are expressed purely in terms of what is