Chapter 68
The Law and Economics of Integrity as Social Capital:
Practical Ethics in a Capitalist Market Economy

George Steven Swan
North Carolina A&T State University, USA

ABSTRACT

Individual responsibility is a critical feature of any successful market economy. Moreover, moral commitment is a crucial element of managerial authority in a capitalistic environment. For ethics, trust and integrity constitute social capital whereby an economy can thrive. For example, deserved earned trust lowers an interest rate. An atmosphere of integrity can minimize parties' confidence-malinvestment. In addition, integrity as social capital engenders a virtuous-circle feedback-mechanism respecting the character of a citizenry overall. This examination of the law and economics backdrop to these realities is informed by an array of insights from several Nobel laureates in economics and of a Father of Management Science, Peter F. Drucker.

INTRODUCTION

Contemporary research methods and practices embed in a contested ethical context. The following pages acknowledge that law, ethics, and markets rightly are close companions. An economic system runs the more smoothly supposing honesty, honored commitments, and trust: Douglass C. North, it will be found, teaches that any system's perceived legitimacy cuts the cost of its perpetuation. Competition, agreeably, can reinforce honest dealing: Milton Friedman, ominously, recognized our world as one which is, practically, more socialistic than was that of 1947. Meanwhile, managerial bureaucracies themselves had best point to moral commitment as an authority-grounding.

As a kind of social capital, trustworthiness minimizes monitoring and enforcement expenses. Instilling integrity societywide minimizes an economywide, negative feedback toxic to the future of a market

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economy, according to, e.g., the late Ronald Coase. A felt imperative is the ethical duty of departments of research and development, and of their respective managers personally, to supply quality products to their own consumers. Yet integrity is not a personal characteristic integral to all. That said, what administrative response could be incumbent respecting challenges undercutting the social capital of trustworthiness?

In such regard, scholars of law and economics such as David W. Barnes of the Seton Hall University School of Law, and Lynn A. Stout of Cornell Law School, long-since have hearkened to the famed legal scholar and longtime United State Supreme Court Justice Holmes:

Oliver Wendell Holmes, in The Common Law (1963)…, argued that it makes no sense to incur the administrative costs of inserting the government into private disputes unless there is something to be gained: '[T]he prevailing view is that [the state's] cumbrous and expensive machinery ought not to be set in motion unless some clear benefit is to be derived from disturbing the status quo. State interference is an evil where it cannot be shown to be a good.' The possibility of a more efficient allocation of resources provides an argument that state interference is a "good" (Barnes & Stout, 1992a, p. 27n.1, quoting Holmes, O. W., Jr. (1963). The Common Law, p. 77).

Relative to state intervention as "good," it is argued that absent any state, individuals would rationally maximize only their own well-being. Such egoism must inflict costs (external to those individuals' own decisionmaking) upon innocent others. Societywide, those costs would be wasteful. Such externalities would frustrate well-being societywide. Hence, social contract theory (Barnes & Stout, 1992b, p. 418).

In light of the foregoing, the objective of this inquiry is investigation of the economic background to: markets and moral commitment; social capital in a capitalistic economy; and integrity as social capital. Hence does it open with examination of individual responsibility in a market economy. It then more closely focuses on particular issues relevant to managerial authority and moral commitment. In perspective thereof, this investigation recognizes the meaning and value of social capital. For in a capitalist economy, integrity is itself a social capital component. It is a highly profitable asset. The social capital of deserved trust lowers interest rates. It will be seen that integrity can minimize confidence-malinvestments by the populace. Prosaic, or even gritty, realities of environmental regulation mentioned herein should remind the citizenry of this mighty yet simple truth: The sometimes rather abstract topics probed herein prove of pressing practicality. Meanwhile, Daniel Kahneman grasps that even honest businesswomen and men can overreach, to their stockholders' sorrow. It is from this perspective that this chapter proceeds.

BACKGROUND

Working definitions, adequate to clarify the thinking herein, simply declare: ethics to mean, drawing upon esteemed philosopher (Scruton, 2014) Roger Scruton, any moral value-system posited as intrinsically meriting obedience (Scruton, 2007, p. 223); honesty as derivative from the Latin *honestus*: possessing good character (Black, 1988, p. 869); integrity as that personal quality whereby a person can be depended upon to assign to moral considerations a primary precedence (Honderich, 2005, p. 437); a norm as a behavior-pattern such that censure is elicited via departure therefrom (Scruton, 2007, p. 265); social capital as meaning, or at least to encompass, those accumulated social practices taught children by parents to fit them into society (Scruton, 2007, p. 641); and trust as a disposition to depend upon another to deal honestly and transparently (Scruton, 2007, p. 703).