Ethical Principles of Old Testament Economics: Implications for the Teaching of Business Ethics

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Contact Details:

Dr. Sigmund Wagner-Tsukamoto

School of Management

University of Leicester

University Road

Leicester LE1 7RH, UK.

Email: saw14@le.ac.uk or sawt444@aol.com
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ABSTRACT: The paper reviews ethical principles, including certain theological principles that have been drawn from the field of economic research on the Old Testament. It critically examines the type of lessons that can be learned from adherence to such principles for the teaching of business ethics, and how such principles can subsequently inform and be incorporated into management practices.

In terms of ethical assessments, on the one hand the paper connects to the Judeo-Christian tradition, and to institutional and constitutional economics on the other. The paper reviews several stories from the Old Testament and extracts ethical principles on good management practice, in particular from the stories of Joseph and Solomon. These stories appear to be especially rich in terms of ethical principles for business activity. Also, certain deficits of Old Testament based economics as compared with a contemporary economic approach to business ethics have been highlighted.

KEY WORDS: public good / societal wealth / mutual gains; fair laws; ethical capital; pluralism; homo economicus; dilemmatic interest conflict.
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*Has the Old Testament anything to say to man today – man living in a world of revolutions, automation, nuclear weapons, with a materialistic philosophy that implicitly or explicitly denies religious values? (Fromm 1967: 3)*

INTRODUCTION: A BIBLICAL PERSPECTIVE FOR BUSINESS ETHICS TEACHING?

The Old Testament or Hebrew Bible is the religious foundation for Judaism but also for other religions, most notably Christianity and, in certain respects, Islam too. The paper builds on ethical economic research on the Old Testament and discusses, on this basis, how business ethics teaching can be enriched. This project therefore contributes to the ongoing “struggle” (Yuengert 2011: 42; similarly Pava 1998; Ruhe and Lee 2008: 266) to ascertain ways of engaging economics with business ethics – in the present paper I do so specifically by merging economic research on the Old Testament with a social science perspective, i.e. institutional and constitutional economics. Using such a social science framework distinguishes the present paper from earlier research on Jewish business ethics, which largely examined the Decalogue and Talmud within a religious theological framework (e.g. Dorff 1997, Green 1997, Herman 1997, Tamari 1997; similarly, Ali and Gibbs 1998; Gustafson 2000). The present paper lays out various principles of an institutional and constitutional economic approach to ethics and inquires whether, and if so how, such principles can be aligned with the Old Testament when economic / business activity is described in the Old Testament text. On this basis, principles for the teaching of business ethics have been derived.
The paper concentrates, albeit not exclusively, on the stories of Joseph and the stories of Solomon. In these stories, wealthy societies are depicted by the Old Testament. These societies resolved problems of economic organization within business activity, with economic cooperation being successfully maintained not only within society, but also between nations. The paper critically investigates what lessons can be applied from such a reconstruction, conducted in economic ethical terms, to the contemporary practice of business ethics. The approach is therefore grounded in a scientific tradition in the first place rather than an explicitly religious or theological one (regarding the latter, see Gustafson 2000, and the other sources quoted above). Accordingly I have focused, in an institutional economic tradition, on key features of the market economy system and how the teaching of business ethics can inform about and intervene with such features. Disagreeing with Yuengert (2011: 52), the paper stresses that economics from Smith to Buchanan or Williamson here always have had a normative focus. In this connection, it will be especially interesting to see whether moral principles derived from the field of Old Testament based economics could only narrowly be recommended to students and managers who see themselves grounded, in a religious or ethical sense, in the Judeo-Christian tradition, or whether some wider practical recommendations for management can be established, possibly even in generic, universal ethical terms. The latter is called for by Ruhe and Lee (2008: 368) with regard to religious business ethics in an international context.

The paper also analyzes concepts of economics such as the model of self-interested choice (homo economicus), and a dilemmatic model of cooperation conflict and destructive anarchy, and asks if conceptually identified within the Old Testament text, could it have subverted the ethical stature of any business ethics debate which connects to Old Testament economics.
In the following, first, the paper asks how various conceptual principles of Old Testament economics can constructively advise the practice of business ethics. Second, supposedly “dismal” and possibly even “immoral” concepts of Old Testament economics, such as a model of self-interest and a dilemmatic, conflict-laden model of social interactions, are scrutinized regarding implications for the teaching of business ethics. A final part concludes the paper.


Principles of Old Testament economics can be projected to the teaching of business ethics. Such support of the teaching of business ethics can range from merely informative advice, which clarifies how Old Testament economics ascertains the ethical nature of managerial practice, to active, interventionist advice, which proposes strategies for management in order to strengthen the business ethics stance of a company.

In the following, I discuss four fundamental points that have implications for the teaching of business ethics, first, in terms of how ethical outcomes of governing a society in a capitalist tradition, i.e. regarding the goal of public good, can be aligned with the Old Testament text; second, in terms of principles on constitutional and institutional-legal governance as described in the Old Testament text; third, in terms of ideas on ethical capital creation that can be derived from the Old Testament text; finally, in terms of notions of pluralism that can be identified for the Old Testament text. All four lines of inquiry imply
that economics and an economic approach to business ethics is not as “value-neutral” or even “value-skeptical” as critics of an economic approach to business ethics seem to imply (e.g. Yuengert 2011: 42).

**Old Testament Economics and the Normative Goals of Public Good, Societal Wealth and Mutual Gains**

The normative goal of the institutional economic governance of a society in a capitalist tradition is, if put in a political macro-perspective, the creation of wealth, of public ‘good.’ Smith and Mandeville were equally outspoken and very clear on this normative stance of economics, and this position has been picked up very consistently by contemporary constitutional and institutional economics too (e.g. in the works of Buchanan, North, or Williamson; Friedman, too).

From the early roots of business organization theory, for instance in Taylor’s writings, this normative focus on creating shared wealth – then, among organization members – has also been equally clear (Wagner-Tsukamoto 2003, 2007b, 2008c). Here, at the micro-level of the firm, the macro-goal of societal wealth is contributed to in different respects: Profit-generating management is to yield mutual gains in economic interactions on the one hand, and it unintentionally contributes to generating public good in macro-perspective on the other (through creating employment, tax payments to governments, innovating new products, etc.).

This normative position on public good and mutual gains ethically legitimizes the market economy: It reflects that economic activity is to yield “public good” and wealth creation in society. In the classical understanding of Smith, this normative approach of
economics is predominantly conceptualized as a matter of unintentional outcomes stemming from merely self-interested choice by business; for instance, “even” merely profit-oriented management is to produce rising living standards over time. This ethical stance of economics is underestimated or overlooked by some commentators on business ethics, religion and corporate social responsibility, e.g. Ramasamy et al. (2010: 61). Here, the unintentional outcome of rising public good in the Smithsonian program, and the ethical quality of this unintended outcome, seems to be questioned by the kind of “moral economics” that, for example, Kohls and Christensen (2002: 225–227) or Etzioni (1988) advocate.

Before I delve deeper into the particular implications for business ethics teaching of this normative outlook of economics, I want to trace such a normative, ethical perspective of economics in the Old Testament text. Can we find ideas on mutual gains, public good, and wealth creation in the Old Testament? There are basically two avenues for developing this project: One approach is to look at stories where cooperation among different parties succeeded and then we examine reasons for and outcomes of this process, especially with regard to whether and why public good and wealth creation was realized in societal perspective. The other route focuses on contrary-examples which depict the break-down of cooperation, and then we ask whether and why societal wealth and public good suffered in the wake of derailed cooperation.

Key examples in the Old Testament, where cooperation succeeded in a society and even among societies, are the stories of Joseph and the stories of Solomon. In the Joseph stories, Joseph the Israelite, started out as a slave to Egypt, but then quickly ascended, because of his skills for economic governance, to the top of Egypt’s industrial hierarchies, ultimately becoming answerable only to the pharaoh. A prospering society is depicted in Genesis, with Joseph as political leader of Egypt’s industrial hierarchies creating a constitutional-institutional framework of free market exchanges, governed by bureaucratic
hierarchies (as explained in more detail below regarding Joseph’s tax policy and land reform). This enabled individual “entrepreneurial” members of this society to engage in economic activity that contributed – albeit unintended by individual members – to larger societal welfare (Wagner-Tsukamoto 2009a, 2010).

Once the Israelites relocated in the closing chapters of Genesis to Egypt, they shared in economic wealth creation in the Egyptian society. Jacob, the patriarch of Israel, confirmed this and praised Joseph as the “fruitful vine of Israel” (Genesis 49: 22). Undeniably, cooperation was established for this society, even in international perspective, with Egypt’s neighboring countries benefitting from Joseph’s policies too. Public good was realized, Egypt being an affluent society, the proverbial land where “milk and honey flowed.”

A similar outcome of public good being created in a blossoming society can be observed for the Solomon stories. As in the Joseph stories, Solomon institutionally governed his society through tall bureaucratic hierarchies. Governed in this way, entrepreneurial economic activity at the level of individual craftsmen and farmers was stimulated. Israel turned into a place where wealth for all was realized: “The king made silver as common in Jerusalem as stones.” (1 King 10: 27) And: “The people of Judah and Israel were as numerous as the sand on the seashore; they ate, they drank, and they were happy.” (1 Kings 4: 21–22) Even critical interpreters of the Solomon stories concede in this respect that prosperity increased for all, rather than just for an elite few (Jobling 1992: 61–62).

This short review of the generation of public good in the Joseph stories and Solomon stories has to suffice at this point (For details, see Wagner-Tsukamoto 2008a, 2009a, 2010, forthcoming/a). Counter-examples of stories, in which cooperation derailed and as a result public good suffered, provide complementary readings, e.g. the paradise story, some of the

It is apparent that conceptually, once reconstructed through institutional and constitutional economics regarding the goal of public good, these Old Testament stories mirror outcomes of the market economy system – outcomes as we associate them with Smithonian economics and equally with contemporary institutional and constitutional economics. What are the implications for the teaching of business ethics? Clearly, these stories offer in terms of the goal of public good and how institutional governance contributes to it (as reviewed in more detail below) many implications for political ethical governance. However, recommendations for political consultancy are not the purpose and the topic of the present paper. Rather, I placed the focus on implications at the managerial level of the firm: How does the identification of public good goals of the market economy system even for an age-old text like the Old Testament support the teaching of business ethics?

With regard to the goal of public good, this happens in a largely “informative” way: “Even” profit-generating management in the market economy system reflects business ethics (Novak 1996; Wagner-Tsukamoto 2005, 2007a, 2008b, 2012a, 2012c, forthcoming/b). This is one of the classical viewpoints that were implied by Smith regarding “business ethics”, and contemporary economists explicitly restated this, very outspokenly so in the case of Friedman (1970) or Buchanan (1975). A key task of business ethics teaching is in this respect to inform about the unintended societal welfare outcomes of profit-making. This fundamentally, but not exclusively, legitimizes the market economy system, and managerial and corporate activity at the micro-level of the market economy.
Institutional governance can impose ethical principles on a firm from the outside and from within. Externally, this is achieved through the political framework of constitutional and institutional-legal ordering that frames a market economy system. Smith was already very clear in this respect, in Books IV and V of the *Wealth of Nations*, stating that strong constraints needed to be institutionally provided to influence business activity and prevent potential undesirable outcomes as a result of unrestrained economic activity (Wagner-Tsukamoto 2005, 2007a, 2012c; Reisman 1998). Such constraints relate to customer protection, employee protection, the safeguarding of investor interests, the defending of governmental concerns, etc. Business ethics behavior of the firm in this respect usually manifests as law-abiding behavior.

The Old Testament text, when approached in this way from an institutional economic perspective, reveals ethical principles on constitutional and institutional-legal governance for business activity. Again, I regard the Joseph stories and the Solomon stories as the key examples (The Decalogue and its legal derivatives provide further, rich sources; see, for example, Tamari 1997: 46–49, 52–53; or Green 1997: 23–27, on Jewish Talmudic and halakhic teaching that constrain economic behavior). In both the Joseph stories and the Solomon stories, tax laws constrained business activity and contributed, through making the entrepreneur pay taxes, to public good. In the Joseph stories we find the barter tax system: a twenty percent tax that was levied on crop production (Genesis 41: 34, 47: 24, 26). The release of crop back into the economy in times of downturn had positive economic effects, lowering transaction costs and attack/defense costs for this society in various respects (Wagner-Tsukamoto 2009a, 2010). A similar effect can be observed in the Solomon stories where the various districts of Solomon’s state provided, in turn, monthly tributary payments
to the state court, funding this court and the various institutional functions it executed. This again contributed to public good by lowering transaction costs and attack/defense costs for this state (Wagner-Tsukamoto forthcoming/a).

The key counter-examples are the exodus stories. They illustrate institutionally economic, disastrous rule-making and rule change (Wagner-Tsukamoto 2008a, 2009a). In particular there were two rule changes at the beginning of these stories which escalated conflicting interactions between Egypt and Israel: changes to population management policies, i.e. the pharaoh’s genocidal order to kill all first-born sons of Israel, and rule changes to industrial management policies, i.e. the lengthening of working hours for the Israelite workforce and the new request to the Israelite work force to provide, on their own account, certain production inputs (straw for brick production). In addition to the pharaoh, Moses and the God of Exodus also exhibited considerably less cooperative behavior than the agents in the Joseph stories. The stories of Rehoboam, which follow the Solomon stories, tell a comparable line of societal disastrous rule change regarding taxation.

So, what are the implications for the teaching of business ethics once such institutional economic constraints have been identified in the Joseph stories and the Solomon stories? In this respect, Old Testament economics serves as an example of the ethical nature of law-abiding behavior. The examples of the Old Testament are simple and straightforward: Through conforming to tax laws, business activity contributes, through institutional economic mechanisms, to larger, societal welfare goals. Unlike the ethical quality of profit-making which arises as an incidental side effect (as reviewed above), this does not happen unintentionally; taxes are not paid without knowledge, accidentally, or randomly. Here, business ethics teaching needs to outline the ethical quality of law-abiding behavior: Information needs to be provided regarding how and in what respects modern laws contribute to societal welfare goals through codifying ethics. Approached in this way, laws are
perceived as constraining business activity and inducing, through their sanctions, law-abiding behavior of firms. This is not a small or detrimental agenda for business ethics teaching (see Novak 1996: 141; Wagner-Tsukamoto 2007a: 211–213).

In addition to externally imposed rule-following, rules can be internally self-imposed by the firm. With regard to their internal rules and organization structures, firms are quite free to invent and create them (Williamson 1975, 1985). The economic purpose of internal governance is to ensure wealth creation at the micro-level of the individual firm: Through incentivizing behavior, institutional structures are to “bind” all organization members, including the top management, to engage in organizationally rational but not merely individually rational or even opportunistic behaviour. Mutual gains are to be realized among all organization members, the realization of which also contributes to overall corporate goals. Taylor (1903, 1911) outlined this early on, and contemporary constitutional and institutional economics have continuously reinforced this theme (e.g. Williamson 1975, 1985, 2000, 2010; see also Buchanan 1975, 1987; Tullock 1985, Wagner-Tsukamoto 2003, 2007b, 2008c).

The realization of mutual gains at the micro-level of exchange interactions, and the organization structures which institutionally channel such interactions, reflect on concepts of fairness and therefore already possess ethical qualities. Business ethics teaching needs to inform and educate about these qualities. It needs to stress that institutional economic governance that ensures mutual gains in the firm also develops ethical qualities. Furthermore, and this relates to the point from the previous section, the realization of mutual gains and profit at the level of the firm subsequently contributes to larger societal welfare goals, although this occurs completely as an unplanned side effect of the firm’s operation.
Old Testament Economics and Teaching Business Ethics: Ethical Capital Creation

In the conventional understanding of classical or neo-classical economics, from Smith to Friedman, the market process as such was originally conceived as “moral-free” (as correctly assessed by Gustafson 2000: 443). Ethics was merely linked to the market economy system (a) in relation to the goal of public good, which was realized unintentionally by the individual participants of that system, and (b) in relation to law-abiding behavior, which in conventional economic understanding reflects the proper place of morality in a market economy system.

However, with the onset of green consumer behavior and ethical investor behavior in many modern market economies (at least from the 1980s onwards), market processes generally have increasingly become moralized too. For instance, with respect to the manufacturing of products according to environmental standards, fair trade standards, or animal rights standards *that surpass legal requirements*, the creation of ethical capital can be identified (Wagner-Tsukamoto 2005, 2007a; see also Wagner-Tsukamoto 1997). Such special ethical features of products or services can be marketed to consumers (or other stakeholders of the firm if involved) and ethics can in this respect rather actively enter the market process, being priced in relation to a product or service that surpasses legal requirements. In this regard, I can partially agree with Kohls and Christensen (2002: 232–233) that fair trade products deserve promotion but in contrast to them I would instrumentally, economically ground this argument for the firm, as a matter of capital creation.

Such ethical capital creation needs to be pursued for profitability reasons, possibly reinforced by ethical or religious convictions of managers. The latter could be viewed as a supportive though not as an essential requirement for stimulating ethical capital creation. If pursued with divinity in mind, ethical capital creation opens up a distinctively economic route
to intentional religious stewardship of the firm that concerns property; the idea of “property” can then be interpreted with regard to concepts of community service and ideas on being entrusted by God (regarding this understanding of “property”, see McMahon 1985: 344–345; Magill 1992: 133). This approach offers a different conceptual route to the one outlined by Pava (1998), who suggested to bring private religious ideals into business ethics programs by questioning the private versus public nature of firms.¹

Specifically, ethical capital creation, as advocated in the present paper, ensures from the outset that the profitability and competitiveness of the firm – understood as a “private” enterprise – are maintained, which Pava (1998: 1634) discussed as sources that prevent religion from entering business ethics activity.

These insights regarding ethical capital creation have implications for the teaching of business ethics, since the moralization of behavior in a religious or ethical sense at the personal, individual level of business students or managers is not necessarily directly intervened with, although this may support inclinations of managers to consider ethical capital creation (as noted above). Some of Gustafson’s (2000: 446–449) suggestions on how to reconcile personal ethics, personal world views and the business ethics position of an organization can be approached in this manner (Similarly McMahon 1985).

However, as has been emphasized, the approach to teaching business ethics outlined in the present paper is different to moral or religious pedagogy whose exclusive aim is targeting and educating personal character and deepening individual ethical or religious values (as for instance, examined by McMahon 1985; Gustafson 2000; Etzioni 2002; Conroy and Emerson 2004; Worden 2005; Ruhe and Lee 2008: 383). The need for such a different approach to the teaching of business ethics, which is not necessarily grounded in theology, may be even more pressing since prior research has found that business ethics courses that
directly aimed to deepen moral or religious character attitudes at the personal, private level of the individual were comparatively ineffective (e.g. Conroy and Emerson 2004: 385, 391, and the further literature quoted by them).²

Ethical capital creation may be conceptually problematic to identify for Old Testament stories for a number of different reasons, in particular this is so if one draws on the modern market economy system as the comparative yardstick. One could argue that problems of ethical capital creation did not arise among the societies depicted in the Joseph stories or Solomon stories because nearly all economic activities, constrained as they were by the limited technology of the time, were environmentally friendly, organic, animal friendly, and possibly even used fair trade acceptable production methods. These are all issues we associate today with ethical capital creation (Wagner-Tsukamoto 2005, 2007a).

For instance, as depicted in Old Testament stories, animal rearing was free-range, and air pollution or soil pollution as it occurred after the industrial revolution was basically non-existent. Ethical problems did not occur, at least not in the way we nowadays interpret such issues (i.e. as “market externalities” which then need to be brought back into an economic calculus, through institutional-legal regulation, ethical capital creation, etc.). Hence, there was no real identifiable need for the legal regulation of environmental pollution or animal rights protection in the societies depicted in the Old Testament (although the legal derivatives of the Decalogue do, selectively, cover certain animal issues, employment issues, etc.).

Poignantly one could argue that all capital creation and capital exchange in the market processes depicted in the Joseph stories and Solomon stories reflected ethical capital creation. Nevertheless, for these societies and their entrepreneurs the need to market and price ethical capital in any kind of significant manner did not exist, because there were no “more ethical” alternatives to choose from, and no awareness of more complex technologies that could have
made more choices possible. This is in stark contrast to modern markets where “conventional” production methods differ from methods that yield ethical capital. As a consequence, on modern markets ethical capital can be “traded” and therefore, on modern markets, we find multiple effects of ethical stakeholder economics and the institutional-legal regulation of it. The latter are pre-requisites for ethical capital creation.

Business ethics teaching can in these respects take the Old Testament as an illustration, and even as an utopian inspiration for understanding the nature of entrepreneurial activity and the societal organization of markets on which ethical capital is not scarce, or at least much less scarce than in many contemporary societies.

Old Testament Economics and Teaching Business Ethics: Pluralism as an Interaction Condition

As an unintentional by-product of the market economy system, pluralism as an interaction condition is quasi-automatically tolerated in society. The key reason for this is that the organization of economic activity is not grounded in personal values per se. Therefore, differences in personal value systems of participants in a market economy system, i.e. pluralism, do not undermine the functioning of that system.

On grounds of a fundamentalist moral, fundamentalist religious or fundamentalist theological point of view, pluralism may be contested, and may even be viewed as ethically undesirable or ethically dangerous. Nevertheless, on the one hand open-minded religious and theological thinkers, and on the other many modern philosophers who had somehow
connected to the tradition of the Enlightenment, would disagree with such alarming views, and attest to the ethical nature of the individual’s freedom of choice of values, i.e. pluralism.

Can we observe pluralism as an “accompanying” feature of the market economy systems for the societies depicted in the Old Testament? Again, the stories of Joseph and Solomon serve as an excellent example because they rather successfully established societies which exhibited features of capitalist systems. In the Joseph stories, the two key interacting parties are Egypt and Israel. Both nations, with little doubt, cherished rather different value systems, the Pharaoh-based religion of Egypt versus Israel’s religious belief system that derived its meaning from the patriarchal history. And yet Egypt and Israel not only peacefully coexisted in the Joseph stories but also maintained mutually beneficial economic relationships. Further pluralistic features of these stories are to be seen in the very figure of the Israelite “Joseph” as such: He governed Egypt’s bureaucratic hierarchies, and he was married to the daughter of one of the high priests of Egypt.

Similarly, in the Solomon stories, we find pluralistic religious dispositions for this society. Solomon was married to many different wives, who treasured different religions. Furthermore, he built temples for the different gods of his wives, and he even worshipped these different gods. More fundamentalist oriented commenters on the Old Testament have criticized these outcomes as the “folly of the Solomonic rule” (e.g. Childs 1985: 179–180; Finkelstein and Silberman 2002: 163). Working from a more enlightened perspective, here we can discern pluralistic features in Old Testament stories.

Counter-examples of Old Testament stories, in which pluralism as an interaction feature was lost, are the exodus stories and also some of the stories of Joshua’s leadership, in which the Israelites began to conquer the land which they considered to be rightfully theirs (Wagner-Tsukamoto 2008a, forthcoming/a). Other tribes and nations were then fought
against. This happened also, although not exclusively, because of religious fundamentalist issues; for instance, in the exodus stories, when the conflict interactions between Egypt and Israel began to escalate, the religious representatives of both Egypt and Israel became key antagonists. God’s involvement also changed, from the non-interventionist, tolerant approach in the Joseph stories, to a much more antagonizing role, being a key catalyst for the escalation of interaction conflicts between Egypt and Israel and the playing out of destructive value conflicts (Wagner-Tsukamoto 2008a, 2009a). A similar comment applies for the war-like interactions among the Israelites and the occupants of, and neighbors to, the Promised Land in the settlement phase (Wagner-Tsukamoto forthcoming/a).

So, what are the implications for contemporary business ethics teaching of having identified pluralism as an interaction condition for various Old Testament stories? For a globalizing world in which multinational corporations branch out worldwide, in which numerous political economic and trade inspired alliances among countries have sprung up on various continents, and in which supra-national institutional bodies increasingly organize trade and economic politics (WTO, OECD, UN, IMF, Worldbank, etc.), the implications of and the necessity for maintaining pluralism as an interaction condition are obvious. Furthermore, even within societies which we may consider modern in one way or another, cultural inhomogeneity, diversity and ethnic mix may be the rule rather than the exception. Pluralism is then a necessary interaction condition at the societal level and also for smaller units of a society, which need to be closely examined should they exhibit diversity in one way or another. Old Testament stories serve as useful pedagogic illustrations in this respect.

Business ethics teaching that connects to an economic approach in general, and to an economic tradition that is informed by Old Testament analysis in particular, here needs to emphasize and inform that pluralism, as an essential feature of the “modern” society and international community, is uncritical and not problematic for the market economy system.
Business ethics teaching in this tradition reflects the acceptance and endorsement of pluralism; it does not deny values but encourages tolerance and diversity of values, whether they differ because of personal, ethnic, religious, cultural, national backgrounds or others. If one accepts pluralism as ethically desirable, then an economic approach to business ethics teaching that connects to the market economy and that endorses pluralism exhibits ethical qualities.

PART II: IMPLICATIONS OF ECONOMIC OLD TESTAMENT RESEARCH FOR TEACHING BUSINESS ETHICS: HOMO ECONOMICUS AND DILEMMATIC INTEREST CONFLICT

In this section, I briefly assess concepts that methodically, heuristically drive and undergird institutional and constitutional economics – and business ethics theory and practice that draw on these methods. In particular, I look at the model of “economic man” (homo economicus) and a dilemmatic model of interaction conflict (such as the prisoner’s dilemma game), which can be said to be methodically constitutive for institutional and constitutional economic analysis (Buchanan 1975, 1987; Williamson 1975, 1985; Homann 1994; Wagner-Tsukamoto 2003). I outline the applicability and fruitfulness of these models for business ethics theory and business ethics practice that build on an economic approach in general, and on Old Testament economics in particular.

Ideas of self-interest play a key part in economic analysis: The organization of economic activity is to materialize gains for interacting agents and for society at large, even if merely self-interested agents are encountered. Here, one might be tempted to wrongly criticize the *homo economicus*, as done by a considerable number of researchers from the social sciences and arts and humanities (e.g. Pava 1998: 1645–1646; Yuengert 2011: 52), as an unrealistic, gloomy and even immoral image of human nature that supposedly glorifies self-interest (or worse: opportunism, and even deceit).

A number of comments apply. The idea of self-interest, as conventionally understood in economics from the works of Smith onwards, plays merely a methodical, heuristic role. It is not approached as a feature of human nature which is to be behaviorally, empirically inquired about. Smith (1776/1976: 25) clearly pointed this out and many others also stressed this point (e.g. Becker 1976, 1993; Machlup 1978; Buchanan 1987; Homann 1994; Wagner-Tsukamoto 2003; Heyne 2008). As a heuristic method, the *homo economicus* is beyond empirical and moral scrutiny, in any behavioral sense of investigating human nature. However, theory and practical intervention that is methodically guided by the *homo economicus* is, of course, open to empirical assessments and moral scrutiny. In these latter respects, economics has little to fear – as my analysis implied above, not only for economic research in general but also for economic research that “even” deals with religious text, such as the Old Testament.

So, for what purpose does economics apply the method “*homo economicus*”, which portrays agents as potentially driven purely by self-interest? The key purpose is to ensure that economic interactions (a) yield benefits for agents and for society at large with regard to
mutual gains and public good, (b) ensure institutional rule-following, and (c) encourage ethical capital creation (while (d), pluralism is maintained as an uncrirical interaction condition). In a sense, the *homo economicus* and a model of self-interest functions as a kind of crash dummy, helping to make the institutional organization of economic activity more resistant (“*homo economicus*-resistant”) to disastrous effects that self-interest can potentially develop in economic exchange.

Can we then project this line of reasoning to Old Testament economics, and then derive principles for the teaching of business ethics? For Old Testament economics, I have traced models of self-interest in depth elsewhere (especially, Wagner-Tsukamoto 2009a, 2010, 2012d, 2013). To briefly recapitulate, models of self-interest are widespread in the texts of the Old Testament. Instantly springing to mind are Adam and Eve in the very first story, who stole from the divine trees; or Jacob, who rather unscrupulously disadvantaged his employer Laban in various ways. For them, self-interest showed up in a rather dark way, which modern constitutional and institutional economics, in the tradition of Buchanan and Williamson, would probably label as predatory behaviour or opportunism (Wagner-Tsukamoto 2009b, 2010, 2012b, 2012d, 2013). For other agents, self-interest can be observed in a more constructive way: Joseph and Solomon enjoyed numerous gains, such as land, villas, chariots, etc., as rewards for their skillful institutional ordering (Wagner-Tsukamoto 2009a, forthcoming/a).

The teaching of business ethics can in these respects extract models of self-interest from the texts of the Old Testament. The purpose would be two-fold. On the one hand, the methodologically constructive role of applying the *homo economicus* to (institutional) analysis can be pedagogically illustrated: Then, the range of ethical principles discussed above in relation to the Old Testament text (on mutual gains/public good; constitutional and institutional-legal ordering; ethical capital creation; and pluralism as an interaction condition)
can be linked to the instrumentally useful role the *homo economicus* plays in realizing these principles in economic terms.

On the other hand, business ethics teaching that draws on (Old Testament) economics needs to highlight that the practical realization of the aforementioned ethical principles is conceptually accompanied by another heuristic method: by explicit or implicit analysis of (actual or assumed) dilemmatic conflict, which may even draw on darker shaded models of self-interest, such as models of predation or opportunism. This connects my assessment of heuristic elements of economic analysis directly to the second component that methodically underwires economic analysis (including an economic approach to business ethics, and an economic approach to business ethics that connects to Old Testament texts too). I discuss this in the next section.

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*Old Testament Economics and Teaching Business Ethics: A Model of Dilemmatic Interest Conflict*

A model of self-interest (*homo economicus*) would not be applied in isolation to methodically organize economic analysis. The other element required, and possibly even more significant, is the idea of dilemmatic interest conflict. It “incorporates” the model of the *homo economicus*, projecting *homo economicus* behavior in social perspective: Interest conflicts and rationality problems are examined in this way for a group – when agents interact as *homo economici*.

In one way or another, this idea of dilemmatic interest conflicts is constitutive not only for institutional and constitutional economics but also for most social philosophy, or
even theology. The studies of Hobbes are a key example: His conceptual construct of the “war of all” illuminates that a group or society loses catastrophically if self-interested behavior escalates. In a Jewish theological tradition (when examining questions of business ethics), Tamari (1997: 45) figuratively speaks of the analytical “… problem of controlling desire and preventing economic evil” that may lead to “… theft and even bloodshed.”

Modern constitutional and institutional economics here draws on the model of the prisoner’s dilemma game, in which “rationally foolish” outcomes result for the group once agents solely follow self-interested choice strategies (Buchanan 1975; Tullock 1985; Homann 1994; Wagner-Tsukamoto 2003).

An economic approach to business ethics stresses in this connection, as for the homo economicus, that dilemma analysis plays a heuristic, methodical role. Dilemmatic interest conflict is invoked in thought experiments in order to anticipate its socially undesirable effects on group outcomes. Such thought experiments are conducted, in many cases, in order to learn how to prevent the very empirical occurrence of dilemmatic interest conflict in social interactions. Then, institutional intervention is able to contribute, through better institutional economic organization, to the realization of the various ethical principles discussed above.

Can we illustrate this heuristic approach of economic dilemma analysis for the Old Testament and then project this back to business ethics teaching? Possibly the most poignant story of dilemmatic interest conflict, which even closely mirrors the prisoner’s dilemma, is the very first story of the Old Testament in which social interactions are discussed. In the paradise story, institutional structures set economic incentives in a way which, on the grounds of prisoner’s dilemma analysis, made theft (“defection”) by Adam and Eve nearly a foregone conclusion (Wagner-Tsukamoto 2009b, 2010, 2012b, 2012d). A similar comment can be applied to the Jacob stories (Wagner-Tsukamoto 2009a, 2010, 2013). Even for the stories in which cooperation led to great successes i.e. the Joseph stories and the Solomon stories, an
implicit and resolved dilemma of potential interaction conflict can be assumed. From a methodological point of view, this is apparent – and in the Old Testament it is also made textually “obvious” – by what happened in the immediate aftermath of the Joseph stories and Solomon stories: Then, dilemmatic interaction conflict breaks out in the exodus stories, and in the stories involving Rehoboam (Wagner-Tsukamoto 2008a, forthcoming/a).

Analysis of Old Testament text yields an important insight regarding an economic approach to business ethics teaching, namely that the methodical, heuristic application of a dilemmatic model of interest conflict, as for instance illustrated by the prisoner’s dilemma, somewhat ironically actually helps with the very prevention of socially disastrous effects of interest conflicts for a group. If not applied, ethically desirable outcomes such as mutual gains / public good, the upholding of constitutional and institutional-legal ordering, ethical capital creation, and maintaining pluralism as an interaction condition can be placed in jeopardy. The paradise story, and the Jacob stories are illustrative; the Joseph stories and the Solomon stories imply the same by anti-thesis (i.e. by what happened in the aftermath of these stories when interest conflicts escalate and “actual” dilemmas break out).

With regard to the heuristic nature of a model of dilemmatic interest conflict and of the *homo economicus*, the advice for business ethics teaching is largely informative but it turns practically interventionist once heuristic analysis is projected to the managerial generation of mutual gains, institutional ordering of organization structures in the firm, and ethical capital creation by the firm.

CONCLUSIONS
Old Testament economics can ground the teaching of business ethics in a number of ways. On the one hand, one can project the ethical principles derived from the field of Old Testament economics, as they were discussed above, to a religious approach to teaching business ethics. Concepts of public good, mutual gains, law-abiding behavior, ethical capital creation, and pluralism are in this tradition approached with divinity in mind. Therefore, the teaching of business ethics relates directly to Old Testament based religions, whether it is of Jewish, Christian, Islamic or any other origin. An academic field of a “religious business ethics” opens up, as called for by Herman (1997: 5, 15). A “new generation of religious thinkers [about business ethics]” (Herman 1997: 15) can here take inspiration from the present paper. Religious views of organization members can be merged with economic principles on business ethics, as substantiated in this paper through Old Testament economics. In this regard, business ethics can build on private, religious viewpoints of organization members – as long as this can be negotiated within the economic terms delineated.

As an example, the various ethical principals extracted above can be projected to a Jewish business ethics that examines “… the relation between law and moral obligation beyond legal requirements” (Herman 1997: 15). The constitutional and institutional economic analysis of rules, and why and how they work to constrain economic activity, substantiates – from an institutional and constitutional economic perspective – Jewish perceptions about “the law” and how this leads to more ethical behavior. Or, concepts of ethical capital creation substantiate, again from an institutional and constitutional economic perspective, Jewish perceptions about “moral obligations beyond legal requirements”, as Herman put it (similarly Tamari 1997: 50–51). Also, Jewish positions on the legitimacy of wealth and profit-making (Green 1997: 22–23; Tamari 1997: 47–48) can in this way be further explored with regard to Smithsonian economic ideals of public good and the “wealth of nations.”
On the other hand, ethical principles of Old Testament economics can be approached in secular, non-metaphysical terms, grounding them in concepts of economic humanism (Wagner-Tsukamoto 2009a) or other enlightened moral philosophical doctrines. This latter route sidesteps, in the first place, questions of divinity, although ultimately it may have to face such questions too (then answering either by fully denying the relevance of divinity for business ethics research and teaching, or grounding, in meta-theoretical and meta-philosophical terms, a debate on business ethics research and teaching in potentially universal, generic principles of divinity).

To recapitulate, the four ethical principles extracted above from Old Testament economics on public good/mutual gains, law-abiding behavior, ethical capital creation, and pluralism, are as such neither unavoidably loaded with divinity nor is it an “absolute must” to interpret them exclusively in secular, non-metaphysical terms. This multiplicity of approaches is not a weakness of grounding business ethics teaching in Old Testament economics rather it is a strong point: The multiplicity of approaches ensures a generic, universal relevance of teaching business ethics with Old Testament texts as an outcome. Business ethics teaching in this way provides different frames of reference that can accommodate differences in personal, private ethics of organization members. Ethics remains a matter of private choice in this respect. Equally, from an organizational point of view, different types of institutions, corporate organizations or non-corporate ones, can tailor Old Testament economics as a more divinely inspired approach or as a more enlightened, non-metaphysical, secular approach to business ethics pedagogy. Macfarlane and Ottewill (2004: 341–342) identified such institutional, context-dependent variation of business ethics teaching, with specific reference to Church organizations; Dorff’s (1997: 36) suggestions on how Orthodox Jews and Reform Jews approach the Torah can also be projected in this direction. Alam’s (2010) discussion is in this respect more one-sided, favoring the normative
grounding of business ethics in religion (e.g. Old Testament based religion; see Alam 2010: 157). Less extreme is Fort (1997: 271–272) who sides with a moderate approach to the religious grounding of business ethics.

The approach to business ethics teaching we ultimately arrive at by connecting business ethics pedagogy to Old Testament economics is partial; it cannot set out a fully formed program for business ethics. A key reason for this is that economics as a scientific discipline “only” selectively applies its specific methods and concepts. Critics can here rightly claim that some kind of interdisciplinary cooperation with other scientific disciplines, philosophy, and/or theology is essential and should be sought out when setting out economic routes to teaching ethics (e.g. Yuengert 2011: 43, 45–48, 53).

A critical question for basically any economic approach to business ethics research and teaching is whether the method *homo economicus* and the methodical model of dilemmatic interest conflicts, such as the prisoner’s dilemma, subvert the very ethical stature of business ethics research and teaching. I argued against this suggestion. Regarding this methodological aspect of economic research on ethics, exemplary examples may be found among the works of Buchanan (1975, 1987), Homann (1994), or Heyne (2008) too.

Even so, we must critically ask from a fundamental, meta-theoretical point of view whether these very economic methods do not empirically instigate the kind of behavior they are meant to “remedy.” From “within” economics, such criticism can be dismissed, as I outlined. I made the figurative comparison to the car crash test scenario and the crash dummy, which respectively measure up well to a dilemma scenario and a shortened portrayal of human nature. Nevertheless, to further play on the crash test analogy, if improved structural features, which make cars safer, entice drivers to drive even faster or behave more recklessly, serious questions would have to be raised – but would we give up the crash test
requirements for car design because of these findings, or favor different kinds of intervention to remedy this problem, e.g. through the better education of car drivers or institutional intervention with traffic laws and other laws?

The parallel conclusion we can draw from an economic approach to ethics is similar. Only if it could somehow be ascertained that cooperation undermining effects of self-interested choice could be completely eliminated from human nature, could a research program on ethics and economics be shelved. In this case, however, any kind of somehow “economized” religion, theology, or moral philosophy which draws on comparable, self-interested or even “darker” images of human nature would need to be critically re-examined.

The key, open question here is how to (re-)enter a utopian paradise in which free will is still a feature of human nature but self-interest cannot derail social interactions and no test for self-interest is required (through models of the *homo economicus* and dilemmatic interest conflicts). Old Testament based ethics and pedagogy, and business ethics that draw on these, are comparatively silent in this respect because of their rather non-utopian but “economized”, “down-to-earth” nature, which mirrors concepts and features of the market economy so well.

**NOTES**

1. From an institutional and constitutional economic point of view, following the research traditions of Buchanan and Williamson, I question Pava’s (1998: 1637–1640) three lines of inquiry on monopolies, externalities, and lobbying, as to why firms should be conceptualized as *quasi-public* institutions rather than private institutions. Hence, I would not subscribe to Pava’s further analysis regarding why and how religious ethics could or could not be
reconciled with the governance of firms (which is grounded in Pava’s concept of the firm as the “quasi-public” institution).

2. I do not generally question that religiosity as such, especially intrinsic religiosity, has a positive ethical effect on economic behavior of students, managers and other stakeholders of the firm (as confirmed by various studies, e.g. Ramasamy et al. 2010, Schneider et al. 2011). However, I question whether business ethics courses that aim to raise intrinsic religiosity are highly effective, and this may be even more the case for courses at “secular” universities and colleges than for courses at Church-oriented or otherwise explicitly religious-oriented educational institutions.

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