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The Economics of Integrity: From Dairy Farmers to Toyota, How Wealth Is Built on Trust and What That Means for Our Future

Anna Bernasek

New York: HarperCollins, 2010 (193 pages)

With an economic backdrop of the American subprime mortgage meltdown and the global financial crisis of 2008 (and thereafter), business journalist Anna Bernasek addresses the critically important moral concept of integrity, and by extension trust, implicit in the millions of microeconomic transactions making up the operation of the U.S. economy. The true power of integrity, concludes Bernasek, comes not from the mere appreciation of its existence but from knowing how to create more of this economy-wide commercial lubricant. Economists do not get away unscathed, however. Bernasek argues that the economics profession has overemphasized the importance of the individual at the expense of cooperation in the nation's economic transactions. Where a commercial relationship of trust and integrity exists, amazing efficiencies result. Integrity, says Bernasek, is not simply a virtue but should be viewed as a shared asset that brings financial and economic rewards to a nation.

According to the Corruption Perceptions Index (CPI), calculated annually by Transparency International, the higher the CPI for a nation, the greater the perceived integrity. Bernasek charts the 2008 CPI for 180 countries against each nation's gross domestic product per capita, revealing both a strong correlation between corruption and wealth and that the higher the level of a nation's wealth the lower the degree of corruption in that country. She also emphasizes the need for companies to value and invest in integrity as an asset that leads to increased wealth creation. Trust, in an era where integrity has been violated, says Bernasek, needs to be rebuilt if the American economy is to emerge as the most powerful global economy. Because her book is a paean to America's "spirit of optimism and idealism," Bernasek further argues that reverting to a punitive approach of "catching the bad guys" is part-and-parcel of old, unproductive thinking. The new message should change from "do right or you'll get caught" to "do right and you'll benefit." The message here is that the "get ahead at any cost" philosophy that has been pervasive in American business in recent years is not the only way to operate in the economy. The new way of thinking about the economy—investing in integrity—is in fact a way of making the nation's economic pie even bigger.

Bernasek illustrates with real-world examples her argument of how important integrity and trust are to a nation and its companies' achieving long-term success. She begins with a simple yet illustrative example of the importance of trust in our economy by focusing on a consumer staple: a gallon of milk. Bernasek begins with the dairy farmer and takes us through the various steps in the production and distribution process that require both "trustworthiness"—that is, someone following the rules, telling the truth, and being careful on the job—and "trust"—that is, believing the seller's trustworthiness—in delivering a product in a way that ensures the public's health.

When it comes to company brands, the author focuses on Toyota and its emphasis on manufacturing quality products. According to Bernasek, a brand is a way that a company communicates its integrity to the marketplace, and if a company does not follow through on its promise, its sales will suffer. Until recently (with its safety-related recalls of different car models earlier this year), Toyota delivered on its promise of quality, resulting in the company becoming the number one automaker (by sales) in the world by 2008. As Bernasek posits, when a car is sold with defects, it communicates a reputation of dishonesty; on the other hand, a car sold without defects builds trust and creates a loyal customer base. The effectiveness of Toyota management's response to the company's most recent recall problems in the United States will decide whether it continues to maintain its loyal customer base and thus will retest Bernasek's hypothesis.

Another example, involving clothing retailer L.L. Bean, involves customer trust. L.L. Bean has maintained an unlimited merchandise return policy that sets it apart from most other retailers. The company has found that only a small minority of its customers have taken advantage of its unlimited return policy, and that the overwhelming majority of its customers deal honestly with the company, thus benefiting both parties in the commercial transaction.

The author concludes by discussing the "building blocks" of integrity, or the so-called DNA of integrity. Bernasek argues that designing integrity systems that are self-reinforcing and capable of growing by themselves will require replicating a genetic code for a system of trust based on the ideas of disclosure, norms, and accountability. Furthermore, a self-regulatory integrity system needs two additional factors: the power of long-term thinking and a mechanism that enables improvements (a feedback loop). As an operational example of her integrity model, Bernasek applies it to rebuilding the integrity of the U.S. financial system, outlining an approach that expands financial disclosure; clarifies standards of disclosure; rethinks penalties and enforcement efforts; and creates a feedback loop implemented through the financial system's supervisory institutions, the Securities and Exchange Commission, and the Federal Reserve.

While Bernasek acknowledges the normative importance of integrity and trust in society, her emphasis throughout the book is instrumental in nature. This is not necessarily a criticism, however. Without discounting the regulatory importance of the state, she argues that the market and free association are the basis of a successful economy. Integrity and trust cannot be legislated. These concepts need to be discussed and considered in the normal decision-making calculus involving economic transactions. I agree with Bernasek that there is a false choice between free markets and regulation, but there is an important debate on the degree of dependency on either market-related or nonmarket-related responses to specific industry-related activities. Integrity and trust should be identified with neither a politically left or right philosophy but should be fundamental to the competitive success of a nation and economic institutions.

Bernasek has written an informative book explaining the positive practical implications for a nation (and its institutions) when it actively incorporates the essential moral precepts of integrity and trust in its society.

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The Aid Trap: Hard Truths About Ending Poverty

R. Glenn Hubbard and William Duggan

New York: Columbia Business School, 2009 (198 pages)

All of us who are concerned about the eradication of world poverty can congratulate Dean Hubbard and Professor Duggan for their penetrating analysis of poverty and their pro-business solution to it. *The Aid Trap* is a concise, beautifully written, stimulating, profound, and up-to-date reminder to all of us who are deeply concerned as to just why our traditional aid programs continue to fail us.

The beauty of the book is that it focuses attention on the need for the creation of local business activities, the neglect of which the authors prove to be the fundamental reason why most entrapped nations cannot escape persistent poverty. It demonstrates convincingly that the standard remedies have failed to solve the problem. Foreign aid, culminating in the currently fashionable Millennium Development Goals, though it has achieved some meager results, seems destined to perpetuate the age-old problems of forever sustaining the self-same corrupt recipients of foreign aid, as George Ayittey describes them: "… stodgy, pudgy, and wedded to the old colonialism/imperialism paradigm with an abiding faith in the potency of the state." The governments of most poor countries "are mostly anti-business, and the aid that rich countries give them overwhelmingly supports government agencies and nongovernmental organizations (NGOs) rather than business." It is the