



## The World Today

### Ethics and Economic Development

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Small, developing countries have limited resources, and must therefore use these resources efficiently and wisely to achieve economic development. Unethical behaviour wastes limited resources and, thus, is detrimental to growth. Waste due to unethical behaviour can make the difference between growth, stagnation, or decline in a small developing country. From a purely practical perspective, then, Caribbean countries must make efforts to promote ethical behaviour at every level.

The following scenarios illustrate that *unethical behaviour, even when minor, can divert scarce resources, and result in inefficiencies.*

1. A Caribbean hotelier wants to expand in the region, and selects 'Queen Island' because of government subsidies. A variety of partners are under consideration and one suggests that the hotelier and family stay at an all-inclusive hotel, owned by the potential partner. The hotelier accepts, spends an enjoyable and productive week at the all-inclusive, and decides to partner with the owner of the all-inclusive, because he enjoyed their business and social meetings and feels they can work well together.
2. The Prime Minister of a small island is known as 'Mr. Small Percent', because you need to give him a gift to have projects approved. The Prime Minister believes he is doing nothing wrong, because he makes decisions that are best for his country, and gifts enable him to do so more effectively than he otherwise could.
3. An importer develops good relationships with customs' agents, to ensure their help when she clears items through customs. The agents will put aside what they are doing to assist with her shipment. She maintains the friendship and says 'thank you' by taking the agents out to meals from time to time, and giving them gifts at Christmas.

These are realistic situations - it is not uncommon in the hospitality industry to provide accommodations for potential partners; some people in positions of political power accept gifts; and, it is relatively routine for importers to reward those who assist them. Indeed, readers may feel it is actually appropriate to form a joint venture with someone you find socially amenable, that giving and accepting political gifts is helpful, and that customs officials deserve a little extra consideration.

Consider, however, the potential implications of these actions, *from an economic development perspective.*

In the first scenario: the provision of accommodations, and the friendship that ensued, likely influenced the choice of partner. However, another partnership may have been more beneficial for the country, and some partners may have been discouraged by the appearance of cronyism implied by the invitation. Additionally, the government of the state is providing subsidies for the project, and these subsidies should be used to generate the highest possible returns for the country. Subsidizing a project if it is not ‘the best’ is a sub-optimal resource allocation for the country.

In the second situation, the Prime Minister believes he has the good of the country at heart, and this may be true; however, the gifts can influence his judgment about which projects to accept and support, and which to reject. The Prime Minister has control over many of the country’s resources, and it is critical that they be used to maximize economic development potential. Again, supporting any project, which is not ‘the best’, or rejecting one that is, represents sub-optimal resource allocation. In addition, options which might have been presented by ethical firms may not materialize because of the need to pay the Prime Minister’s “commission”, and the Prime Minister’s actions will encourage others to behave in similar ways.

In the third scenario, the importer gets access to shipments quickly by ‘greasing’ the system, and she believes she is simply rewarding customs agents for their help. Customs agents in developing countries may be paid poorly, and will, not surprisingly, give better service to individuals who reward them; however, they may put aside work that is more important for economic development, in order to assist. This means that the areas that are most important from a development perspective may not garner the attention they need. Additionally, scarce resources are not used as well as they could be, and priorities may be misplaced.

If the hotelier accepted a payment of \$10,000, the Prime Minister expected a cash incentive to consider projects, and the importer paid cash for preferential treatment, the ethical issues would be more obvious, but events outlined in the scenarios can equally divert scarce resources and hinder economic development. From a purely practical perspective, therefore, small developing countries must seek to eliminate unethical behaviours, because these behaviours distort the efficient and effective use of a country’s resources, and are contrary to the national/societal interest.

A key to eliminating unethical behaviours may be *transparency*. For example, if the Prime Minister acknowledges all gifts, and they become the property of the state, rather than his personal property, the situation changes, as potential “bribes” are unlikely if they will be publicly acknowledged. If priorities and policies are clearly defined and well known, and decisions are open to public scrutiny, it is less likely that there will be unethical behaviour that leads to the inefficient use of resources.