

## **Jewish Law and Ethics: The case of the revolving door**

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### **Abstract**

This paper is about Law, ethics and optimal choice for society. This paper stresses that in contrast to the legal system, where matters of law should be absolutely regulated, and there should be zero tolerance for offenses, in regard to social norms, and ethics, we should not aspire to zero tolerance for offenses.

The main message of this paper is that policies related to ethical matters should not try to adopt absolute solutions. Ethical dilemmas are not solved by choosing extreme solutions. This applies, for instance, to lying and cheating; this paper has shown that it is also the case for the revolving door.

This paper has shown that governments find it optimal to allow the existence of the revolving door and the consequent red tape, and *bureaucratic capital*. While this is wasteful for society, there is still no need to bring it down to zero, as it enables bureaucrats to be more efficient,

Society cannot adopt categorical values. We should accept that most human beings lie a bit, allow some taxes avoidance, fudge into a queue, do not obey all traffic laws, and regulators produce bureaucratic capital. Nothing is absolute. However, if the society permits too much unethical behavior – when we lie constantly, cheat on our taxes, disobey traffic laws, or allow revolving door *en masse* – then our social system crumbles.

Keywords: corruption; ethics; legal system; revolving door; social norms

JEL classification: H10; H70; O11; O43

This paper is in honor and memory of Jacob Rosenberg [may he rest in peace]. I wish to thank Hanoch Ben-Pazi, Dan Ariely, and Warren Young for their comments and insights,

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## I. introduction

Jacob Rosenberg was my mentor. Our offices were in the same small cluster on the second floor of the Economics Building, and we met quite often, bumping into each other on our way to get coffee. For years we both taught macroeconomics and developed the syllabus of the course.

During the last decade, at the beginning of every academic year, Jacob gave the keynote address on Judaism and Economics. It was the event of the year that I anticipated. I knew that he would bring a new view on some specific *halakha* [Torah law], biblical text, or Talmud. Jacob's specialty was to show how *halakha* is based on rational and modern "economic thinking", especially on the importance of competition and incentives. Indeed, Jacob was a great believer in markets and in the rationality of markets.

It was always so refreshing listening to him. In a world of uncertainty, Jacob was a pillar of security, of rationality, of ethics, of intellectual honesty. I miss our discussions.

I got the idea for this paper after a discussion with Jacob. In one of his annual lectures, Jacob talked about the *hanukiah* [Hanuka candelabrum], and on the many changes of the elite during the Hasmonean period. Even back then, there was already some sort of revolving door of job turnover, which is the topic of this paper. The literature related to the revolving door discusses whether regulators using the revolving door are more vulnerable to bribery, which is clearly a legal problem, or are they more inclined to behave unethically, yet not illegally.

The duality between the legal and ethical system already exists in the Talmud. In Jewish law, as in the Western world, we have laws on one hand, and morals and ethics on the other. While in the Bible, there is little reference to social norms and ethics; in the Talmud, the book of Pirke Avot is dedicated to this matter alone. Indeed, Pirke Avot includes moral rulings and codes of ethics which, over the centuries, have also been adopted in the Western world.

While working on my paper on the revolving door, discussing the duality of laws and ethics, I found the following maxim in Pirke Avot (ch. 4, verse 5): Rabbi Tsadok said: "Do not use what you have learned to do to yourself a tiara, to show off, neither an axe to dig with it."<sup>1</sup>

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<sup>1</sup> רבי צדוק אומר: אל תעשם עטרה להתגדל בהם, ולא קרדם לחפור בהם.

This maxim has a simple message: Do not ask for money when you teach what you have learnt. A priori, that seems coherent because learning should be a value *per se*. But then, as economists, we understand that Rabbi Tsadok's admonition makes no sense: How can we ask of teachers, who spent effort and resources learning to teach, that they do so without being paid? Thus, in equilibrium, only the rich could teach, which of course is not rational.

So what is the meaning of Rabbi Tsadok's dictum? My interpretation is that Rabbi Tsadok did not want an individual to get a salary higher than the value of what s/he deserves, i.e., it is kosher for a teacher to earn a salary, at the level of average wage, but not higher than that. Higher-than-average wages would mean 'to flaunt a tiara' and exploiting one's reputation as a *talmid hacham*, [outstanding scholar] to receive wages that are over and above the market rate.

In this paper, I will show that this is precisely the problem of the revolving door. I hope that Jacob would approve my own interpretation, mixing Pirke Avot with ethical issues in our century.

## II. Laws and Ethics

From the dawn of human society, there have been laws expressing what is permitted and what is forbidden. Most countries have developed over time extensive jurisprudence containing multiple laws that have piled up over the ages. And of course, the legal system sets forth the punishments for violating the laws.<sup>2</sup>

But over time, alongside the law and the courts, societies have developed social and ethical norms. Ethics and moral norms are all the rules that we have developed in our society, and that are not part of the legal system. Why do societies need to develop these rules, in addition to a legal system?

An analogy will make it easier to grasp the idea. Think of health insurance: In many countries, citizens receive minimum health care by law. This is the smallest amount necessary to survive. But most citizens understand that this is not enough, as it is just the minimum, and they need to add to this minimum insurance more insurance in order to have peace of mind and quality of life.

The same applies to ethics and social norms: The legal system is the minimum necessary to subsist in a society to prevent chaos. But in addition thereto, each culture

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<sup>2</sup> However, sometimes the punishment is not presented explicitly, as is the case in the Bible with the verse "an eye for an eye", which is hopefully not applied literally.

has developed its own values, ethics, and social norms, to form a more cohesive society, or one that operates beyond the letter of the law.

Are there some clear “recipes” for the creation of a system of ethics and morals? On the one hand, we have Kant’s “categorical imperative”. The Kantian theory dictates absolute moral law. It argues that moral principles of right and wrong must contain **rigorous** truth. This is so because the occurrence of exceptions would destroy the universality that the theory presumes. Thus, for Kant, there is absolutism of moral law and ethics; it is a maximalist view.

On the other hand, for most philosophers and humanists, absolutism is not in the list of requirements for human beings. According to the deontological view of philosophy, we have a duty to behave in a way that is inherently good, such speaking truthfully, or following an objectively obligatory rule, but without absolutism.

Continuing with my analogy of insurance, Kant would probably have bought all the possible insurances, while most philosophers would argue that citizens choose the norms that they deem best.

The first goal of this paper is to define a taxonomy that will enable describing principles that express the fundamental differences between the legal system and ethics, the latter which encompasses moral values and social norms.

In other words, this paper will first explore how we might define what enters the sphere of the legal system, and what should remain in the sphere of ethics, morals, and social norms. We intuitively understand that the legal system must address offenses such as killing, raping, and stealing, while ethics and social norms encompass offenses such as lies, black markets, tax avoidance, and even matters related to work ethics.

Thus, our first goal is to draw a separation/categorization between the law and ethics. This will lead us toward a typology based on the non-absolute and non-dichotomous function of social norms. Indeed, what enables a clear distinction between laws and ethics is whether the rulings in each follow a **continuous** linear function, or rather a dichotomist function.

It is thus necessary to define a functional form of the utility and welfare of society.<sup>3</sup> If the solution to a choice takes a dichotomist form, then it is law. A simple example would address killing: Killing is not acceptable, even a little bit of killing. The answer regarding killing, then, is dichotomist, i.e., yes or no.

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<sup>3</sup> While economics defines its main tool as a ‘function’, other scientific fields, such as mathematics, would describe it as ‘choosing a metric’.

The same non-continuous and dichotomist form would apply to rape, torture, and theft. In our Western civilization, the boundaries between right and wrong regarding law are clear. There is no such thing as killing being 50% bad, or stealing being 60% bad behavior. Thus, the metrics that we define would allow obtaining an answer of 0 or 100%, always corner solutions.

Does the same apply to facts related to ethics and morals? No. While killing an innocent person is obviously wrong, lying is not always wrong. In the ethical sphere, nothing is **absolute**; the borders are blurred: While lying is unethical, a little lie can be a way to save face, for instance.<sup>4</sup>

Could the same be said about other ethics domains? Let us address workplace ethics. Are there absolute values in the workplace? To answer to this question, let's observe the behavior of human beings in a work of fiction, such as the TV series *Emily in Paris*.<sup>5</sup>

Emily, a young American working in Paris has a clash with her boss and her colleagues. Emily tells her colleague that she loves working, be efficient, and succeeding; these make her happy. Her French colleague replies that to be more productive, to make more money, seems to him to be a catastrophe. He says, "Thinking that work makes you happy is *foolishness*, that wanting to live to make money is a horror and goes against French values. Making money to live is good, but what Americans consider success, should be considered a punishment".

While this is obviously not a clash of civilizations, it is a disagreement about work ethics. There is no way to judge who is wrong or right in this instance. Is it Emily who overvalues work? Or does her colleague suffer from a French touch of anarchism? This paper shows that the optimal behavior vis-a-vis ethics is moderation.

Thus, the difference between law and ethics is that laws are absolute, and follow a non-continuous function, while ethics describe human behavior in a way that is continuous. In ethic, extremes are not permitted: There is no 'zero tolerance'.

Indeed, in the domain of social norms, in contrast to law, extremes should not be tolerated, as zero tolerance is not sustainable. A world without lies, for instance, would be untenable. Could you imagine a world in which a woman asks her spouse, "Do I look old? Have I gained weight?" And imagine the fate of the unfortunate who dares to answer honestly. Would you like to live in such a world? Yet the other extreme is no less

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<sup>4</sup> See Ariely, 2013.

<sup>5</sup> Some intellectuals like to quote Stendhal's *Rouge et le noir* to showcase European culture. I choose to be more contemporary, and refer to a TV series of 2021 culture, *Emily in Paris* (Netflix).

chaotic: Imagine that we lie all the time: Our entire social system would collapse. When a word means nothing, the social system goes into a tailspin.

But why would an economist pay attention to the issues of law, ethics, and the difference between them? This is the topic of the next section.

### III. Why ethics matter in economics

Economics has investigated the relevance of the legal system regarding efficiency. The literature on economic development cites that lack of 'property rights' in particular, and the legal system in general, block economic development. In other words, the existence of a trustworthy legal system is the sine-qua-non for economic development.

What of social norms and ethics? While the importance of a good legal system is admitted by all economists, ethics have never been part of the economic game. Although Adam Smith was head of a chair in ethical matters, the goal of our economic system is profit and gain, and the *cursus* of an economist never asked for knowledge in ethics or philosophy. So when did the West begin to raise questions about ethical behavior related to economics?

Ethical behavior entered the economic scene when research showed that corruption has negative effects on economic growth. Then the modern world began to accept that corruption could be bad. The study that had a strong impact on policy was a paper by Mauro, 1995, titled 'Corruption and Growth'.

While this might surprise us today, it was revolutionary in the 1990s. But it is the case because for decades, corruption was even perceived as an efficient element of society.

In the 1960s, American political scientist Samuel Huntington espoused the economic and social virtues of corruption. He first suggested that corruption provides immediate, specific, and concrete benefits to groups that might otherwise be thoroughly alienated from society. Corruption may thus be functional to the maintenance of a stable political system.

Huntington's second argument in favor of corruption is more subtle. He argued (1968, 69): "The only thing worse than a society with a rigid, over centralized, dishonest bureaucracy is one with a rigid, over centralized honest bureaucracy." Huntington was not alone in his views about the positive benefits of corruption.

Then the wind changed direction. Views on corruption changed, and it became recognized that corruption harms the economy. The number of centers and NGOs addressing the negative effects of corruption are numerous: For instance, we all know *Transparency International* for providing data, the Norwegian NGO U4- anti-corruption

Center, *OpenSecrets* in the US, and *Corporate-Europe* in the EU. Economic theorists and practitioners of behavioral economics also began to analyze the effects of virtuous behavior on economic success and economic growth.<sup>6</sup>

Even the financial sector woke up to questions of ethics after the nightmare of 2008. Recall that without the intervention of the Fed, probably five or six financial firms would have shared the fate of Lehman Brothers, and on the way taking the whole world with them.

Who was guilty for this outcome? Clearly the greediness of the top bankers, i.e., their lack of ethics. But the US, which differentiates between law and ethics, did not find them guilty. Even worse, during the testimony of the five heads of banks before Congress, trying to explain the collapse of 2008, they swore that they did nothing wrong. They swore to tell the truth while they were lying and cheating, and they did not pay for their sins.

Clearly, there is a need to analyse economic decisions taking into account ethics. However, recall that we must take into consideration that the optimal level of ethical behavior will not be at an extreme; it is a continuous function.

An element that lately has been entering the sphere of ethics is the revolving door. In the next section, we show that as aforementioned, the optimal level of “unethical behavior” will not be in the extreme; it is indeed a continuous function. Ethical dilemmas do not have absolute answers. We show that the optimal solution will not be zero tolerance, as suggested in the previous section.

## **IV. Ethics and the Revolving door**

### **1. Introduction**

Let us first define what the revolving door is.<sup>7</sup> The “revolving door” is a practice quite widely in use in the United States, in which heads of state agencies, after completing their bureaucratic terms, are entering the very sector they have regulated. This phenomenon is also frequent in France, where it is coined “*pantouflage*”, and in Japan, coined “*amakudari*” (descent from heaven). Research conducted and data collected by the

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<sup>6</sup> Lately, game theorists are analyzing the success of societies wherein altruism is part of the system versus societies where it is not, but the goal is not the value per se of being moral and ethical, but rather the fact that when all people are altruistic, society benefits.

<sup>7</sup> This section is based on Brezis, 2017.

research group *Corporate Europe Observatory* show that this process is also significant within EU institutions.<sup>8</sup>

Are there legal as well as ethical problems with the revolving door? Indeed, yes. The main literature on the revolving door has emphasized the legal problems. This literature stresses the conflict of interest taking the form of *regulatory capture*, which focuses on fraud and unlawful behavior. *Regulatory capture* occurs when a former regulator is “captured” by one specific firm, and while strict with the others, she is lenient with this firm in order to be hired by it after leaving office. Note that this form of revolving door is unlawful in most Western countries.<sup>9</sup> It is therefore difficult to believe that most cases of revolving door, which are very numerous are explained by fraud and unlawful behavior.

A new literature put the emphasis on the ethical problems of the revolving door. In this literature, conflicts of interest arising from the revolving door are not *unlawful*, as is in the case of regulatory capture, but still lead to economic distortions, and to an ethical problem. This type of conflict of interest has been coined ‘*abuse of power*’ and encompasses the creation of excessive regulation while in public office. As defined by Transparency International (2011), this ‘*abuse of power*’ arises when “bureaucrats abuse their power to ingratiate themselves to potential future employers” (Do you recall the sentence from Rabbi Tsadok in Pirke Avot!).

The model in this section is related to ethics and focuses on the distortions due to the *abuse of power* that takes the general form of *over-regulation*. In other words, the bureaucrat takes actions and makes decisions while in office enabling her to cash in later on when joining a firm she has regulated. While her actions can take various forms, they all incorporate what is termed the creation of *bureaucratic capital*. (This is the notion of the ‘*axe*’ in Pirke Avot).

The most common manifestation of bureaucratic capital is investing in good relationships with the lower-level bureaucracy, ties which will help the senior bureaucrat in the future. *Bureaucratic capital* also takes the form of developing excessive regulation. These are the negative effects of the revolving door stressed in this paper.

But there are also positive effects to the revolving door: The revolving door enables recruiting *qualified* bureaucrats. Indeed, bureaucrats are heterogeneous in their abilities, and more able bureaucrats do a better job of regulation, so that allowing the revolving

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<sup>8</sup> See Charle (1987) and OECD (2009).

<sup>9</sup> Note that the wrongdoing arises while the worker is employed as a regulator, and it might be difficult to prove in court.



door enables recruitment of high-quality bureaucrats, leading to higher economic growth.

In other words, by incorporating positive as well as negative effects of the revolving door, and those that are not *unlawful*, this section enables us to analyze the net effects of the conflicts of interest, arising from the revolving door, on economic growth. This small model enables deriving two main conclusions:

The first is that it is not optimal to prevent this abuse of power, and to stop the revolving door, even if it is unethical. This is exactly the way we have defined problems of ethics: it is not optimal to be with zero amount of bureaucratic capital, as it is not optimal to be with zero lies.

The second conclusion is that in equilibrium, the revolving door leads to an excessive level of bureaucratic capital, which in turn leads to over-regulation and to lower economic growth. In other words, we are in a word, with too many lies (compared to the optimal one), too much tax evasion, and too much bureaucratic capital.

The main conclusion of this research is that since the revolving door is legal, but unethical, then its optimal amount will follow a non-linear function, and therefore the amount will not be the extreme – either zero or 1.

Let us start with a small framework who will permit us to analyze the effects of the revolving door. We first define what the regulators are doing. Then the firms. We then develop the optimality from the point of view of society.

## **2. The demand and supply of Bureaucratic capital**

The main novelty in this framework is the existence of a market for *bureaucratic capital*. Bureaucratic capital is supplied by the bureaucrats, while the demand comes from the firms.

Let us start with the bureaucrats, who are appointed by the government in order to regulate the economy efficiently. Yet the bureaucrats do not merely enact efficient regulation; they also create ‘bureaucratic capital’ by adding rules and regulations, and by investing in good relationships with the lower-level bureaucrats. As the architect of these rules and regulations, the regulator has insider knowledge of the system, including any loopholes that might exist (the *axe* of Pirke Avot).

‘Bureaucratic capital’ therefore enables the bureaucrat to cash in later thereon, after exiting the public sector and joining a firm in the sector she previously regulated. Thus, the bureaucrat can abuse her previous position to increase her own returns in a perfectly legal way, but unethical.

The regulator maximizes her lifetime income net of efforts, since the production function of bureaucratic capital,  $H$  is a nonlinear function of effort,  $E$ . So, the utility function,  $V$ , she maximizes is:

$$V = \Omega + qH - \lambda E \quad (1)$$

where her lifetime salary when appointed as regulator is  $\Omega$ . After leaving her job as regulator, the bureaucrat works in the industry that she regulated. She receives in top of her lifetime salary, a rent,  $qH$ , which is a function of the amount of "bureaucratic capital",  $H$  she has accumulated at price  $q$  less her effort,  $E$ .<sup>10</sup>

Taking the FOC of equation (1) with respect to  $H$ , when  $H$  is a function of effort, we get the optimal level of bureaucratic power she wants to accumulate.

The second player in this framework are the firms, which find the knowledge accumulated by the bureaucrat valuable. Thus, once the latter has left the civil service, she is offered a position such as joining a firm's board of directors, thereby enabling her to cash in on the *bureaucratic capital* she accumulated. In turn, this bureaucratic capital under the board's control enables increasing the firm's revenue.

These firms consist of monopolistic firms each with its own intermediate good, and in consequence, they are regulated by regulators nominated by the government (I follow the model of Romer, 1990 who got the Nobel prize for developing this framework).

The entrepreneurs maximize profits of the regulated firms. This will permit us to develop the demand of these firms for the "knowledge" of the "revolver" regulators, i.e., the bureaucratic capital,  $H$ .

So, the profit maximization,  $\pi$  for an intermediate good firm,  $j$  is:

$$Max\pi_j = p_j(x_j)x_j - rk_j - qH_j \quad (2)$$

Where the output is  $x$ , the price of the output is  $p$ . The two costs of factors of productions are (i) capital,  $k_j$  where  $r$  is the interest rate, and (ii) the bureaucratic capital,  $H$  at cost  $q$ . The last term in equation (2) is the amount paid to the regulator for her bureaucratic capital. Indeed, the bureaucrat who owns bureaucratic capital of level  $H$  will "sell" it to the firm, at price  $q$ , which is endogenously determined by supply and demand. Each firm maximizes profits by finding the optimal amount of output,  $x_j$  and bureaucratic capital,  $H_j$ .

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<sup>10</sup> In other words,  $\Omega$  is the lifetime salary of the regulator, which includes also what she gets after retiring from being a bureaucrat.  $qH$  is the 'bonus' she gets by the company which will hire her after leaving office, for her over-regulation.

From the side of the bureaucrat, we get the supply equation of bureaucratic capital (equation 1), and from the side of the firms, we get the demand for bureaucratic capital (equation 2). By equating demand with supply, we get the equilibrium stock of bureaucratic capital,  $H^*$  which is presented in Figure 1.

In other words, the creation of this capital has allowed the bureaucrats to cash in on their bureaucratic capital stock after leaving their public-sector regulator positions, and enter the very businesses they once regulated. The revolving door allows the creation of bureaucratic capital that is legal and not unlawful.

Is this level of bureaucratic capital optimal from the standpoint of the economy? In the following section, we show that it is not, but we also show that the optimal bureaucratic capital level is not zero.

### **3. The effects of bureaucratic capital on the economy**

The question to be asked is why does the government, for which economic growth is a priority, not find a way to prevent the bureaucratic elite from creating *bureaucratic capital*?

We now show that the government indeed does not act to eliminate the revolving door. On the contrary, they find it optimal to allow the bureaucrat to create a certain amount of *bureaucratic capital*. Solution to ethical problems will never be to go to the extreme.

The explanation behind this result is the following: Bureaucrats are heterogeneous in their abilities, and more able bureaucrats enable higher productivity and higher economic growth. In order to recruit high-quality bureaucrats, governments must pay them well. However, relative salaries in the public sector are not very high. An easy way to let regulators have high income, so that they will be of high quality, is by legislators' closing their eyes to the fact that the bureaucrats can cash in on the bureaucratic capital they create while serving as heads of agencies.

Thus, the government which want to maximize the rate of growth of the economy, faces a tradeoff between on the one hand, having high-quality bureaucrats, and on the other hand, letting the high-quality bureaucrats create *bureaucratic capital*.

In other words, if the government wants to hire a high-quality bureaucrat, her income must be high. Since wages in the public sector are lower than the reservation wage of the bureaucrat, they must let her accumulate bureaucratic capital so that she will be indifferent between being a bureaucrat or providing private services as lawyer or economist. This trade-off is the QH curve depicted in Figure 1.

This curve is therefore the production possibility frontier between bureaucratic capital,  $H$  and quality of the regulator,  $Q$ , and is depicted by an equation in the form of equation (3). The maximum amount of quality is reached at  $H=H^*$ .

$$Q_i = \frac{1}{\xi} \left[ \Omega - \lambda \frac{H_i^{1+\gamma}}{1+\gamma} + qH_i \right] \quad (\text{The QH curve}) \quad (3)$$

We are left with the question, which bundle of quality and bureaucratic capital is optimal for the country?

The rate of growth in the economy is a positive function of the ability of the bureaucrat,  $Q$ , and a negative function of the level of bureaucratic capital,  $H$ . In Figure 1, we present the iso-growth curve as a function of  $Q$  and  $H$ . In a simple model, we get that the rate of substitution is positive, and the iso-growth curves are concave. A possible functional form of the rate of growth in the economy,  $g$  (following a Romer model) is:

$$g = \delta(Q) \left[ 1 - \frac{r}{\alpha \delta(Q)} - \frac{q^* H}{\alpha(1-\alpha)\tau} \right] \quad (4)$$

So, the two main equations of this model are the QH function (equation (3)), which describes the production possibility frontier faced by the government in terms of quality and bureaucratic capital. The second one is the equation of the iso curves, equation (4), which describe for each  $Q$  and  $H$  chosen by the bureaucrat, what is the level of growth rate,  $g$  obtained in the economy.

In consequence, these two equations determine the rate of growth, and the level of bureaucratic capital. We now determine the amount of bureaucratic capital which leads to the highest rate of growth.

#### 4. Equilibrium

Let us focus on the iso-growth curves in Figure 1. As we move further to the right, an iso-growth curve depicts a higher growth rate (higher quality of a bureaucrat leads to higher growth). In consequence, the highest rate of growth which is also on the production possibility frontier is point M. This is the optimal solution from the point of view of the country. At this point, the level of  $H$  is positive, and non-zero.

In other words, the optimal level of bureaucratic capital is non-zero: It is in the public interest to allow the bureaucrats to create bureaucratic capital. The solution to an ethical problem is a non-absolute solution.

This result stresses that despite the negative effects of bureaucratic capital on the economy, the economy has an optimal mix of level of redundant bureaucracy and quality of the bureaucrat. While the political elite could restrict the possibility of the revolving door, this would mean reducing the quality level of the bureaucrats in the economy, which is not a good solution.

This result states that the highest rate of growth is attained when there is creation of bureaucratic capital which is non-zero. The reason for this result is that in order to hire bureaucrats of high quality, the government must pay them higher salaries. The way to induce higher income is to let the bureaucrats accumulate bureaucratic capital, which will enable them to “cash in” in the future.

Although the market economy reaches its highest economic growth at point M, we now show that the bureaucrats will choose a level of bureaucratic capital which is higher than the one the economy would prefer. The bureaucrat chooses to create bureaucratic capital at the level of  $H^*$ , which gives her the highest utility. Therefore, in a market equilibrium, the bureaucrats chose the amount of  $H^*$ , and the economy will be at point F. Comparing F to M, we obtain that at F, the amount of bureaucratic capital is higher, and the rate of growth is lower.

This fact stresses that the amount of bureaucratic capital chosen by the bureaucrats (and the firms),  $H^*$  is higher than that favored by the government, and the public. The equilibrium is at a point wherein ability is at its maximum. The public would rather have less bureaucratic capital, even at the price of having less able bureaucrats.

The reason we are not at the Pareto optimum of point M in Figure 1 is due to the social waste bureaucratic capital leads to. In consequence, we obtain that at the maximum growth rate (point M), the amount of H is not zero, which is the message of this paper. We also get that at F, the growth rate is lower, and the amount of H chosen by the bureaucrats is higher than the optimal one. Indeed, the market equilibrium will not bring the economy to the highest rate of growth, and the level of bureaucratic capital is higher than the optimal one. The reason is that while this bureaucratic capital is valuable to the firm, it is in fact a social waste.

In conclusion, the optimal solution is a non-corner one, wherein bureaucratic capital is created. This is the main message of the model. Ethical problems are not solved by choosing extreme solutions. We should allow some bureaucratic capital, as we allow some lies.

## V. Conclusion

This paper is about ethics and optimal choice for society. The main message of this paper is that policies related to ethical matters should not try to adopt absolute solutions. Ethical dilemmas are not solved by choosing extreme solutions. This applies, for instance, to lying and cheating; this paper has shown that it is also the case for the revolving door.

This paper has shown that governments find it optimal to allow the existence of the revolving door and the consequent red tape, or *bureaucratic capital*. While this is wasteful for society, there is still no need to bring it down to zero, as it enables bureaucrats to be more efficient. Indeed, governments could restrict the revolving door, it would mean lowering the quality of the civil servants, which would lead to lower economic growth.

In other words, this paper has shown that the creation of *bureaucratic capital* is necessary in order to attain equilibrium alongside higher economic growth. However, we also show that the level of bureaucratic capital selected is higher than the *optimal* level for the economy. This might be the explanation for the oft-cited admonition of Rabi Tsadok.

The conclusion of this paper is that in contrast to the legal system, where matters of law should be absolutely regulated, and there should be zero tolerance for certain offenses, in regard to social norms, and ethics, we should not aspire to zero tolerance for offenses.

Society (in contrast to Kant) cannot adopt categorical values. We understand that most human beings lie a bit, allow some taxes avoidance, fudge into a queue, and do not obey all traffic laws, and regulators produce bureaucratic capital. Nothing is absolute. However, if the society permits too much unethical behavior – when we lie constantly, cheat on our taxes, or disobey traffic laws en masse – then problems arise: Our social system crumbles.

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**Figure 1:** The amount of Bureaucratic Capital in equilibrium, and the Trade-off between Quality and Bureaucratic Capital

