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MARKETS, INTERESTS, INFORMATION AND LOBBY AS THE ISSUES OF ECONOMIC THEORY

Abstract: The issue of lobbying is currently one of the hot topics of discussion in social sciences. With the accession to the European Union, the issue has got into the spotlight of especially political scientists, economists and sociologists from the new member states. Generally, this is the basis on which we all agree on, that it is necessary in the negotiating process to set up and ensure greater transparency in lobbying, but the question remains how.

Discussion is conducted mainly in the possibilities of how to regulate lobbying. In the following article we try to show that some solutions not having a regulatory character, allow the rehabilitation of the market for the exchange of information related to lobbying, which is seen as an essential intermediary market activity, where interests of individual subjects are promoted in information market.

The starting point of our considerations is the fact that the standard economic exchange on the political markets is replaced by non-market, bureaucratic decision-making, and in this type of decision a free market for information is overbearing. Lobbying regulation is presented as solutions that conform to the market and which regulation do not completely replace, but bring new perspectives and opportunities.

Question ensuring transparency is not whether regulation is needed or to believe in spontaneous market forces, but on the degree of understanding within a combination of both options, and then the only question is how.

Keywords: lobbying, transparency, regulation, market of administrative measures, social responsibility.

JEL Classification: H83, K23, K42

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Introduction

The purpose of this paper is to highlight some market aspects of lobbying, that are understood for the purposes of this text as an indispensable intermediary market activity, where the interests of individual subjects are promoted within the mediation of information market. Generally, the lobbying is believed that it is needed¹, it is harmful² and that it should, in the spirit of transparency, be regulated³. The fundamental part of the text is the final passage, which pays attention to the market solutions of lobbying transparency which is spontaneously and naturally, as if "sneaking through the back door", put into the behaviour of stakeholders. The text begins with an attempt to define the nature of the problem, which is then graphically displayed (Figure 3). This graph is considered in terms of further exploration as the key, but not definite one. Its interpretation should, or could be included in a subsequent discussion or criticism. Following subchapter dealing with the theoretical foundations is only an indication of some possible explanations and theoretical approaches to solving the problems in the spirit of outputs of this paper. The fundamental problem is the decision on transparency: Is regulation needed, or is the faith in the spontaneous market forces enough? Probably a combination of both; and then only question is how to combine the two options.

The nature of the problem

Following the previously publishable texts⁴, the text focuses on the possibility of using some of the latest findings of economic theory in

¹ "Lobbying is a specialized and professional presentation through a wide range of resources, which in principle exclude corrupt exchange of services" Graciano L.: Lobbying and Public Interest, p. 43

² For example, expert disputes on lobbying, organized by the magazine Respekt in 2015- see www.respektinstitut.cz/expertni-stoly-o-lobbingu/ brought the finding that only 4.4% of citizens disagree with the statement "lobbying leads to corrupt conduct," and only 21.7% consider lobbying as a legitimate form of communication. Other available data indicate that only 7% of those questioned expressed negatively about the thesis that the "bribery and corruption affects political decisions" and only 15% of those questioned expressed a negative attitude to the statement that the "interest groups and lobbies influence the decisions of politicians." See: CVVM - influence on political decision - March 2015 see www.cvvm.soc.cas.cz.

³ Lobbying regulation is not the subject of this text, but it cannot be overlooked in the framework of objectivity. For the complexity of view we can recommend the following two publications: Charo R. Hogan, J. and Murphy G.: *Regulating Lobbying: a global comparison*. Manchester University Press, 2010 ISBN 978 0 7190 7923 8, in Czech: K. Muller, Laboutkova, Š. and Vymětal, P.: *Lobbying in modern democracies*. Grada 2010 ISBN 978-80-247-3158-0

⁴ Laboutkova, Š.: *Promoting the interests of the EU: National and specific interests as a legitimate means of influencing the formation and decision-making of economic policy in the European Union*. 1st ed. Praha: Economics Institute Josef Hlávka (NÚJH), 2009. ISBN 9788086729534. Laboutkova, Š., Zak M.: *Lobbying in the European Union and the Czech Republic. The Political Economy of 1st ed. Praha: Oeconomica, 2010, Vol. 58, no. 5, p.579 - 594 ISSN 0032-3233.*

the description of the behaviour of individual economic entities in the process of lobbying. As shown in the following figure (Figure 1), basic subjects in the economy are considered state, businesses and citizens.

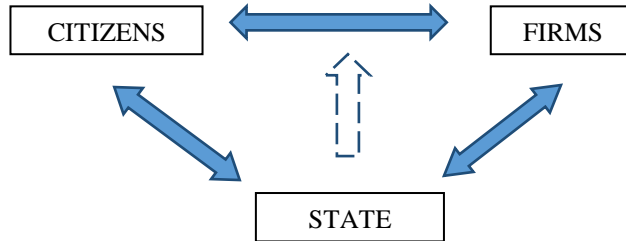


Figure 1. **Schematic representation of the linkages in the economy (a basic model)**

Source: Own construction

Based on the links given in the graph the following relations can be described. A simple model of purely economic markets, where market relations work, is among the companies and the citizens. Citizens act as consumers, businesses like manufacturers and citizens like workers and companies operate as employers. Adding relationships with politics, we are getting into areas of non-market decision-making and into the functioning of political markets. Political markets can be characterized as⁵:

1 Primary political market. Market among politicians and citizens. There are traded public policies, respectively competing political agendas during elections.

2 The market of administrative measures. Market among politicians and bureaucracy.

3 The market of executive policy. Market among executive politicians and groups affected by the policy. Commodity consists of any executive action changing the position of the groups.

Simply we can say, as the list indeed shows, that information is basic tradable on political markets. The information here acts as goods serving organizations to promote their own interests. Promoting the interests and information market are the basic factors that should be discussed in the following considerations. The following questions are being offered: Is the information market perfectly competitive, respectively where it is or where it is not? What is the role of non-market decisions? What is the role of asymmetric information? How do individual entities promote

⁵ See Gregor M.: *New Political Economy*, Carolinum, Prague 2005, ISBN 80-246-1066-3, p.21

their interests? Does the entity's behaviour differ in the short and long term, and how? Are there mechanisms to ensure "socially preferable" balance? Is it possible to define this balance?

Analysis of linkages among entities

In relation to the focus of research on specific subjects related to lobbying there can be added additional links, such as intermediaries of communication, to the simple above mentioned system of relationships as shown in Figure 2.

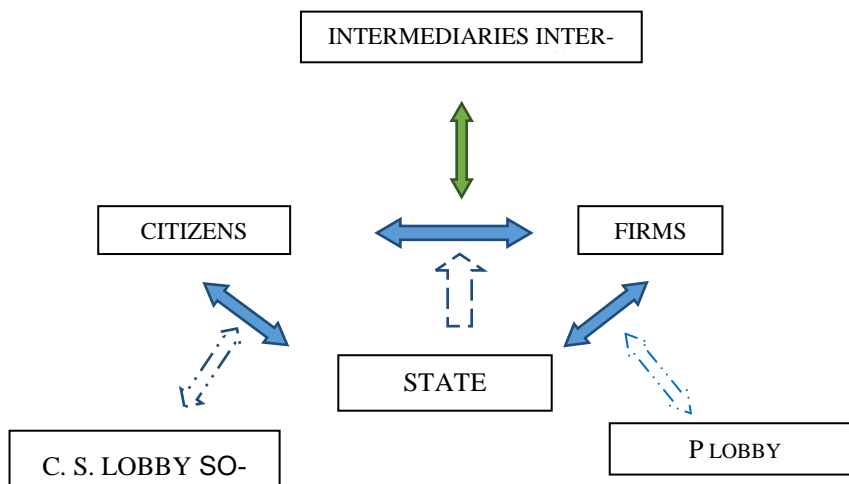


Figure 2. **Analysis of links with the inclusion of mediators (an extended model)**

Source: Own construction

We can extend the Figure 1 by the following relations to create Figure 2.

The first relation is mediating activity (*combined arrows*) entering the standard market among businesses and citizens.

More complicated are the state interventions into the natural market mechanism (*central dashed arrow*). These interventions into natural market mechanism are generally characterized as non-market decisions and can have a dual nature - regulation or liberalization.

The right arrow points to the relationships that arise in decision making process and where a special kind of interest groups - professional

lobbying organizations (P lobby) participate in trading with information. Their role is perceived positively in the sense that they can fill the gap in information for decision-making on the one hand; on the other hand (negatively), it is necessary to see that they pursue their own interests (or the interests of those who finance their activities).

The left arrow, affecting relations between citizens and the state (citizen initiatives) has the same nature as professional lobbyists, complicating factors is the fact that citizens are not only voters but also, to a large extent, the state employees.

The extended model raises further questions. Before we proceed to the formulation, let us try, in *the first step*, summarize the basic characteristics of the listed entities (see Box 1). *In the second step*, select the ones that are typical for the problem of lobbying. *In the third step*, look for solutions in contemporary economic theories.

The results of the first and second steps are displayed in Box 1. Individual items are presented in Box 1. Highlighted are those that are typical for the description of the issue from our point of view.

Box 1. Characteristics of subjects from Figure 2

STATE

- **It is a bureaucratic institution, and it determines the rules - legislation for economy;**
- It has the power, and thus the opportunity to provide, but also impose services;
- In markets – it regulates or liberalizes. It tries to solve real or alleged market failure;
- **In non-market decision – it gains mandatory information (statistics), or purchases it for decision making.**

LOBBYISTS

- **are interested in selling information and somehow "extra" promote the interests of "tenants";**
- **are hired and paid for promoting the interests of companies – they seek rent from state;**
- **tend to influence decisions - fulfilling task of companies and implementing rent;**
- **their activities may be limited – controlled;**

FIRMS

- implement production to markets and create jobs;
- are subject to the rules of the state;

- **they strive for market dominance and care about their own reputation;**
- **hire a lobby to promote their interests and finance them;**

CITIZENS

- are employable (looking for work) and buy goods;
- are not only consumers, but also voters. The state employs a large part of them.
- affect (specify?) the government decisions - the electoral cycle;
- **in period between the elections the decision-making may be influenced by: interest groups, civil society.**

Note: Bold characteristics correspond to the second step

Source: Own processing

The list of possible activities in Box No. 1 is still too general. Highlighting some of them we can get the next list, in which the activities are numbered and under the same number they appear in the model of relationships (Fig. 3). The model can be regarded as a fundamental basis for further investigation.

- The state is a bureaucratic institution determining the rules - legislation for economy;
- The state in non-market decision compulsorily acquires or purchases information for decision making;
- Lobbies are hired and paid for promoting the interests of companies – seeking rents from the state;
- Lobbies tend to influence the decisions of state – via filling tasks of companies and implementing rents;
- Their activities may be limited – regulated;
- Firms may seek market dominance and care about their own reputation;
- They hire a lobby to promote their interests and finance them;
- Citizens can influence the decision making between elections - interest groups of civil society.

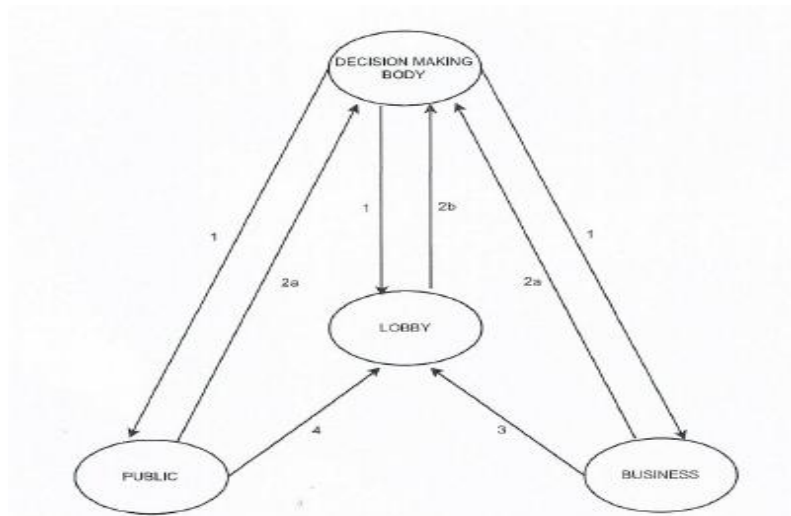


Figure 3. **The basic model of relations in the process of lobbying**

Source : Laboutková Š., Žák M.: Transparency of Lobbying: a Theoretical Approach, a paper at conference: „Economics Policy in EU Member Countries“, September 15, 2016 Petrovice u Karviné, Czech Republic

Based on the Figure 3, there can be deduced relations (1, 2a), which may acquire a character of purely market transactions on the one hand; on the other hand there are mediated links (3-2b and 4-2b) where the element allowing the transaction are the lobbies (lobbyists, lobbying groups, corporations).

The basic requirement for the operation of this intermediation is maximum transparency in all transactions. If this is secured, it raises the question of whether lobbying needs or does not need to be controlled. The decisive factor in this decision (to regulate or not) should be cost.

From the perspective of decision-making authority (the state) it is not a serious problem - it does not matter whether it is accepted by adding a few laws, the cost of governance does not significantly change. In all other cases, it concerns a choice: Will the transparency be improved by regulating, and if so, is it worth it?

Moreover, the whole issue should be understood not only as a short-term issue, but also in the long term.

The decisive factor in this process is a purely economic issue - cost and revenue allocation among the monitored entities.

Theoretical foundations and explanations

Focusing attention on the creation, functioning and problems of lobbying in the search for theoretical foundations one can get more out of the mainstream economic thinking. This division is associated with the knowledge that the current economic theories are increasingly trying to use the knowledge of other social sciences (history, political science, sociology, psychology, etc.). It offers an interesting view for example the concept of harmonization of social forces, which is based on the division of society on cultural, political and economic sectors. The cultural sector formulates values and ideas, the political sector law and social order and economic sector prosperity. The harmonization effort leads to expansion of view, according to the author, that in addition to mainstream economic theory there originates a school of public choice in terms of policy; cultural perspective is then broadened by a new institutional economics. Starting with the scheme of social forces harmonization (Fig. 4), we can get the basic framework for determining the theoretical approaches.

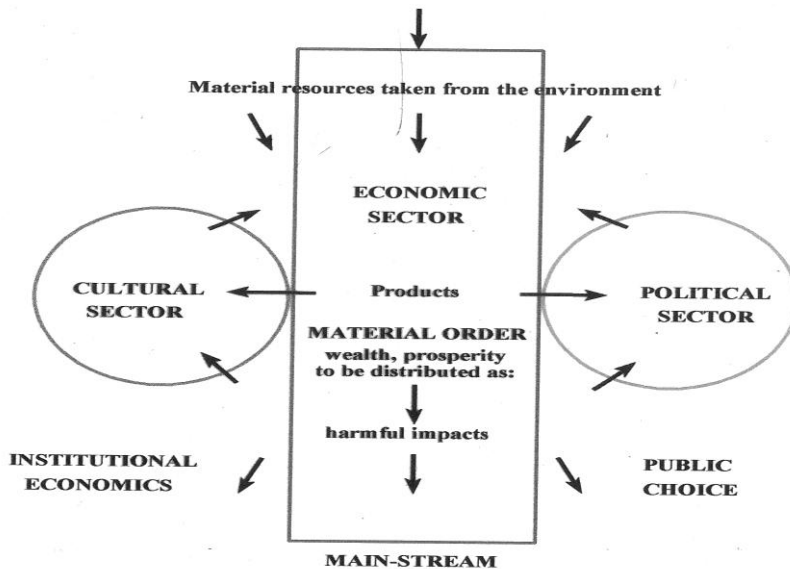


Figure 4. **Harmonization of social forces and expansion of theoretical perspectives**

Source: Malaska Pentti: Democracy and Social Evolutionary Forces, Conference Paper, WFSF-PFI Conference, Islamabad, Pakistan 1996, own processing.

Mainstream economic theory in relation to the issues of lobbying gives answers to questions about how market works with information -

the capital goods exchanged among stakeholders. It gives answers to the market structure and the possibility of market failure and temporal context in the long and short terms. Here we are interested mainly in the behaviour of companies and their social responsibility in the long term.

Based on the application of the so-called "Prisoner's dilemma", it can be demonstrated that in the long run it pays to cooperate - having a good reputation is more than short-term gains. It means ultimately the creation, promotion and acceptance of ethical rules and principles by the actors exchanging information. Markets are not inherently unethical; unethical conduct is committed by those who exploit possible market failures.

In the late 20th century there began to shape attitudes outside the mainstream in the context of economic theory. Fig. 4 shows two important directions, the first is institutional economics now presented as the "new institutional economics", saying simply, engaged in the question of why well organized structures (states) do not work similarly, but their performance is different. Explanations are being looked for within the quality of the institutional environment and its comparison, in formal and informal institutions and their historical development, and dependence on this development (path dependency).

In terms of exploration of lobbying most important is considered overall development of institutional quality (measured by the combined sets of soft and hard data, for example in the project Governance Matters⁶ of the World Bank), as well as temporal relation to potential institutional changes and not least the dynamics of institutional changes. Approaches to new institutional economics opens up a wider scope for examining how the companies promote the interests of individual economic entities in the broader social context.

On the other side, there are approaches including and expanding pure economic theory from the field of market decisions into the areas of political science. These are the questions dealt with the economic theory of politics. It includes the above-mentioned lobbying as a major area of concern, especially how the political markets work using the theory of bureaucracy, theory of interest groups, regulation theory - addressing the issues of rent-seeking, behavioural models of representation and bringing the possibility of moral hazard in a world of largely asymmetric information.

⁶ <https://openknowledge.worldbank.org/>

Why lobbying should not be regulated

If the lobbying is approached as an activity which is an essential part of modern society, and the openly and ethically conducted lobbying is a legitimate tool for the development of society⁷, then the question arises to what extent it should be regulated. In the discussion of this issue we can rely on the description of the reasons for the regulation or liberalization.

Arguments (and therefore the reasons) for the regulation can be summarized in the following points:

- There are promoted the private interests of companies and interest groups at the expense of society (although this interest cannot be accurately defined) via lobbying;

- Lobbying is perceived negatively by the public;
- Lobbying is not transparent and leads to corruption.

Arguments against the regulation are the following:

- Every regulation moves the economy away from the direction that would not be spontaneously used (both positively and negatively);

- Every regulation, as opposed to liberalization, serves "local" interests - it is a process of redistribution, where there are not only the winners, but also the "losers";

- Regulation, unlike the liberalization, brings the cost for its implementation, it is not free.

The reasons (we want to consider in this chapter) why not to regulate lobbying, can be briefly summarized in the following two parts (sub-chapters).

The first can be called *institutional changes in society*, and is essentially a return to the principle of the "*invisible hand*" of Adam Smith, return to perception of the market as a spontaneous adjustment and coordination mechanisms, where markets alone are ethically neutral⁸. In other words, it is a long-term and spontaneous development of positive (morally acceptable), informal rules in the society.

The second part is of today's prevailing market participants attempting to long-term contracts, where good reputation is sought and supported. Moreover, this trend is supported by research based on the analysis of repeated discussions in the so-called *Nash equilibrium*, where

⁷ E.g. already quoted Luigi Graziano says: "As representative of particular interests a lobbyist supplies information and technical and professional expertise that can be useful and sometimes critical in defining legislative and administrative control" p. 43.

⁸ E.g. L. v. Mises (2006) wrote "there is no difference between moral duty and selfish interests" p. 356, quoted from Sigmund, T.: Relationship between ethical and economic behaviour, Political economics 2/2015, p. 235.

repeated prisoner's dilemma leads to the understanding that working together pays off⁹. The original scheme is as follows in Table 1.

Table 1. **Prisoner's dilemma**¹⁰

		Prisoner A	Prisoner B
		confess	Plead not guilty
Prisoner A	confess	a ten-year sentence for both	B – life imprisonment, A is free
Prisoner B	Plead not guilty	A – life-imprisonment, B is free	a one-year sentence for both

Source: The Economist 2016, Volume 420, Number 9003, p. 54

Generally, the prisoner's dilemma is a game of incomplete information, non-zero sum game, symmetrical and non-cooperative and the original version was one-round game. Repeating with an unknown number of transactions, on the contrary, it becomes the game, which leads to cooperation.

Cooperation is based on free choice; such cooperation is characterized by the fact that it is a non-zero-sum game, which can be documented even by how society grows richer in the flow of time. With a market transaction there takes place satisfaction of both actors, seller and buyer¹¹, which should also be applied to the information market. This market where lobbyists are acting as intermediaries is the classical market. Subject to the exchange is the information that is "*blood*" or "*currency*" of bureaucratic processes and thus fulfils the same role as money in the standard market relations and as such it is measurable.

The key problem here is the functioning of the market that is not perfectly competitive. Complicating factors can be simply divided on the influence of interest groups (both civil as well as professional) and the behaviour of intermediaries. Both of these entities (interest groups and lobbyists) acting on the information market are exposed to moral hazard due to the fact that they work in an environment of asymmetric information. Defence against moral hazard is on one side spontaneously growing possibility of enhancing transparency thanks to the development of new technologies (networks), on the other hand, degradation of unnecessary

⁹ Prisoner's dilemma is in its original form one-round game that has a single point of equilibrium - non-cooperation. This led to belief that it points to the very essence of predatory capitalism. Further investigations have shown that the equilibrium point of non-cooperation is true except for one round games also for repeated games with a known number of moves, but it does not apply when repeated game with an unknown number of moves, which in turn leads to cooperation.

¹⁰ in professional literature there are a number of possible displays; the one used here is from The Economist, Volume 420, Number 9003, p. 54

¹¹ We proceed from the assumption that information asymmetry is a realistic picture of the circulation of information and that market transactions are not immoral, it may just be their participants (moral hazard).

regulations that are in the general concept expressed as an expansion of economic freedom¹².

Another, interesting argument against regulation is currently boom in the movement, which we collectively refer to as the pursuit of social responsibility. Figuratively speaking, this is actually a return to morality in economics via the so-called "*back door*" without regard to the above mentioned facts on the development of freedom and benefits of cooperation in prisoner's dilemma model. The characteristic feature of social responsibility is a fact that fills Smith's doctrine of the invisible hand. Social responsibility¹³ has a variety of forms, of which the most important may be considered¹⁴:

- Corporate social responsibility,
- Ethical Responsibility.

Corporate social responsibility (CSR) is defined as the voluntary integration of social and ecological aspects into everyday corporate operations and interactions, which in addition to primary orientation on profit satisfies a long-term socially advantageous tracking of interests within the meaning of the so-called *threefold responsibility* (economic, social and environmental) in an effort to create a more favourable business climate. In this context there arise "*codes of business conduct*", which are focused on the above three areas - economic, social and environmental:

- Economical - meaning rejection of corruption, transparency, good relations and intellectual property protection;
- Social – covering philanthropy, human rights, communication with the environment and compliance with labour standards;
- And environmental – consisting of friendly production, protection of natural resources.

Corporate Ethical Responsibility is a global movement that focuses its attention on the global responsibility of business to implement sustainable development objectives. The key role of this initiative is played by CAUX Round Table¹⁵ (CRT) - an association founded in 1986

¹² The rate of economic freedom is currently monitored through the Indices of economic freedom (IEF) and three independent organisations such as Freedom Institute, Fraser House and Heritage Foundation. Indices consist of wide range of partial indicators using hard and soft data; and based on their long-term development it can be stated that the rate of economic freedom in the world is growing.

¹³ See e.g. L.v Mises (1981) stated "that everyone lives and wishes to live for themselves as it does not undermine social life, but supports it because of higher fulfillment of individual life is possible only in and through society. This is the real meaning of the claim that egoism is the fundamental law of society, p. 402.

¹⁴ A more detailed overview can be found in such works as of Remišová A.: Current trends of business ethics (in Slovak), Volters Kluwer Bratislava 2015, ISBN 978-80-8168-213-1; or Seknička P., Putnová A.: Ethics in enterprising and market values, (in Czech) GRADA Praha 2016, ISBN 978-80-247-5545-8.

¹⁵ <http://www.cauxroundtable.org/>

by Frederick Philips, former President of Philips Electronics in Caux, Switzerland. The basic idea is that there is a moral capitalism¹⁶. This idea is manifested in the assertion that it is necessary to "*re-institutionalize*" principles, which represent a unique market power, and that governments, business and civil society must work together, and the governments must follow the principle that "*public service is a public trust.*"

The practical steps and recommendations coming from the CRT can be summarized as follows:

- Better leadership - higher management culture.
- Better education - our values and ethical awareness for our prosperity are more important than technical skills. Ethics should be taken seriously.
- Improved business - the mission of the business is to serve society and profit is the reward for this service - ethics is an integral part of the service.
- Better Government - necessary reforms will require legislative and regulatory intervention.

To complement this perspective let us look briefly to the situation in the Czech Republic. Organizational activities are best presented by the Society for Ethics in Economics, Business and Administration (SEEPS), which aim is to promote ethics in economic and social life and contribute to the cultivation of the overall environment and improve the atmosphere in the society¹⁷. Spontaneous reaction to the global trend is the growing adoption of codes of ethics, which are a form of self-regulation and the development of movements such as CSR. It is interesting that the ethical and moral principles are also at the forefront of a number of attempts to moderating the success of companies in the area of social responsibility¹⁸.

Conclusions

The aim of this paper was to point out some possible market context in resolving the issue of whether and how to regulate lobbying. Lobbying activity is understood as mediation, where information is goods through which interests of individual subjects are promoted and satisfied. The starting point of our considerations is the fact that the standard economic exchange on political markets is replaced by non-market (bureau-

¹⁶ Young St.: Moral Capitalism BK Publishers, Inc San Francisco 2003, ISBN:1-57675-257-7

¹⁷ www.seeps.cz

¹⁸ <http://www.businessinfo.cz/cs/online-nastroje/katalog-odkazu.html?subcategory=153> registers cca 50 competitions like Firm of the year, Safe company, Award for social responsibility, Czech GOODWILL, Trustful company, Gentleman's firm, Favourite firm, FAIR PLAY Company, Responsible company, etc.

cratic) decisions, and the market with information dominates in these decisions.

Reciprocal links in pursuing the interests and the use of the market information have been displayed in a simple graph, which we believe may not be the final and we are prepared to discuss it. The next chapter is dealing more extensively with arguments why not to regulate lobbying and arguments and reasons are being looked for rather out of mainstream economic theory. The centre of attention is thus put to spontaneous adaptation processes, ensuring transparency of transactions, regardless of the decisions of political authority. This is particularly the transparency that results from the development of new technologies (network), applications, and repeated prisoner's dilemma leading to the understanding that cooperation in observance of moral and ethical norms and rules pays off in the long run.

A separate part is then self-regulation through activities that promote natural relationship between economics and ethics. The result can be a statement that lobbying is indeed an integral part of the present economic system, and all decisions to ensure transparency, respectively its regulation, are in the hands of decision-making authority.

The authority would, however, in its decision, be looked for and it should most prefer market-based solutions to avoid policies preventing spontaneous development and reducing economic freedom, and it should liberalize more than regulate. Present society has a number of activities which indicate that when setting the suitable conditions, the market or market approaching solution seems to be the best solution.

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