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CAN ECONOMICS AFFORD NO AFFILIATION WITH ETHICS?

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ABSTRACT

Can economics be called an independent science, which has hardly anything to absorb from other disciplines, including ethics? What is the stand of economists today on this point? Can economics be value free? What are the ethical considerations pertinent to policy making in contemporary times? Would economics benefit from an innate engagement with ethics? What could be the rationale behind such an association? This paper raises and attempts to answer these questions. Takings cues from the available literature this paper is a study of the unavoidable association of economics with ethics, underlining the relevant ethical issues pertinent to economic decision making and hence, bringing out the rationale for such a dependence of economics as an evolved science on moral philosophy. This paper concludes that there are ethical issues in relation to both how and why economists undertake their work.

KEYWORDS

economics, ethics, policymaking, economic decision-making, moral philosophy.

JEL CLASSIFICATION

A13, B00, B41, I30.

1. INTRODUCTION

Ethics and economics share a distressed relationship. The trouble is that because ethicists have so many sensible complaints about economists they rarely take what economists do and how they think seriously. On the other hand, economists think ethicists are passionate with ascertaining mystical intrinsic values, at the expense of methodically thinking through their real world applicability. This blocks the scope for mutual learning.

Ethics at its best is all about perspective, about standing back from our first order intuitions about a situation or relationship in order to properly appreciate its intricacies and shades. Economics at its best is all about proportion, about looking closely at how important things really are when considered as part of a complex closed system. Good judgement needs both sense and sensibility, both proportion and perspective.

Much of the development of economics as an evolved science has been enabled due to its deliberate estrangement with ethics. This process involved making a convenient distinction between 'positive' and 'normative' economics and between 'economic welfare' and 'total welfare'. But such divisions are superficial and barely bear any foundations in reality. This is not to say that economics has been unserviceable; rather, it could have been richer and more fruitful by paying more attention to ethics. Arguably, the time has come to integrate economics and ethics, or at least bring them closer together.

Few would deny that hysteria has surrounded economics today. Some signs are obvious, other more debatable. It would be interesting pondering how economics reached into this state. One of the major causes is an ethical failure. What follows now is a brief discussion on the causes that rushed this failure.

First, economists claim to be scientists or technicians involved in the study of 'facts,' not values; they make 'scientific' studies and predictions. They claim that mathematical advancement, and the ability and willingness to use them (development of econometrics as an important branch in research), have allowed economics to far transcend all other disciplines in the social sciences (and the humanities). Yet, Global Financial Crisis was beyond prediction! It wouldn't be incorrect to say that the facts of the world have not supported the economists' models.

Second, most economists grapple with conceptualizing the ethical issues, conducting and reporting their work. It is not fairly simple to fit the historical data but to use it for future public policy formulation, can indeed prove to be fatal.

Third, the career advancement of academic economist encourages them to publish frequently. Some of this work is purely formal with little relevance to the practicalities of the theory. Other work, which seems relevant, might involve the use of questionable, highly simplified theoretical models. Further, it is never explained how normative conclusions arise out of positive analysis.

Fourth, the disappointment of students with economics is profound. They constantly complain about the poor quality of the teaching (promotion is based on research 'output') and the unrealistic assumptions that economists make.

The above-mentioned four observations fall into the category of obvious causes of failure of economics. With this discussion in mind, we now turn to the introduction of ethics in economics.

2. REVIEW OF LITERATURE: ENGAGEMENT OF ETHICS AND ECONOMICS

The relationship between ethics and self-interest in economic behavior was first studied in depth by Adam Smith, the father of economics, in his Theory of Moral Sentiments (Smith, 1759). He believed that self-interest of individuals can lead to the common good in a society, provided that there is sufficient competition and most individuals in society have internalized a general moral law as a guide for their behavior. Much earlier Aristotle advocated, "Every deliberate action or pursuit has for its object the attainment of some good". Thus knowledge of what is good is found necessary for us to conduct our lives. He considered ethics to be a part of politics as it is "the duty of a statesman to create for the citizen the best possible opportunity of living the good life".

According to Arthur C. Pigou (1952) "Economics is chiefly valuable neither as an intellectual gymnastic nor as a means of winning truth for its own sake, but as a handmaid of ethics and a servant of practice".

Present-day economists such as Hammond, Phelps and Sen have argued that human behavior cannot be analyzed solely in terms of individual self-interest. They regard important ethical motivations for action, such as altruism and the public interest, as distinct from and not simply products of self-interest.

Now, the pertinent question here is why should economists be interested in moral questions?

According to Hausman & McPherson (1993), economists should care about moral questions for at least the following four reasons:

Firstly, the morality of economic agents influences their behavior and hence influences economic outcomes. Moreover, economists' own moral views may influence the morality and the behavior of others in both intended and unintended ways. Hence, economists interested in the outcomes must be interested in morality.

Secondly, standard welfare economics rests on strong and contestable moral presuppositions. Assessing and developing welfare economics, thus, requires attention to morality.

Thirdly, the conclusions of economics must be linked to the moral commitments that drive public policy. To understand how economics bears on policy thus requires that one understands these moral commitments, which in turn requires attention to morality.

Fourthly, positive and normative economics are frequently intermingled. To understand the moral relevance of positive economics requires an understanding of the moral principles that determine this relevance.

In the famous book "Economic Analysis and Moral Philosophy" by Daniel M. Hausman and Michael S. McPherson (1996), Machlup clearly elicits that, "Economists need to understand some ethics to appreciate the objectives of policy makers." The core of the statement is that economics provides causal knowledge of the consequences of policies to enable policy makers to choose effective means toward their ends. Ethics determines the ends, and economics determines the means.

So there are a number of good reasons why economists need to think about morality. For only by thinking about morality can they understand why positive theory can be of so much moral importance, what values govern actual policymaking, what moral presuppositions govern welfare economics, and what moral factors influence economic outcomes.

For a striking example of the economic importance of moral norms, consider the work of Richard Titmuss (1971) concerning systems for acquiring and distributing blood for transfusions. Titmuss claims to show that voluntary blood donation systems, such as Great Britain's, are more efficient than any other commercial systems, and he argues that they embody and cultivate altruistic communitarian values. In a thoughtful and lengthy review, Arrow endorses much of Titmuss' case.

C. S. Devas in his 1897 work, 'The Restoration of Economics to Ethics', aptly states that, "Economics will seldom bear any fruit if there is no reference to the possible solution of the practical problems of life. This is the reason why eminent economists while scrupulously avoiding participation in the determination of policy have quite unconsciously been found to provide a means for the solution of important social problems with reference to ethical ideals".

Transition from utilitarianism to a distinct alternative can be attributed to Amartya Sen's work in philosophy and economics over many years. He has argued that the quality of life is best thought of in terms of the capability to lead a life which is valuable or which one has reason to value (Sen 1993 and 1999). The notion of 'capability' captures what people can do or be, and in this sense their opportunities, or 'positive freedoms' to lead flourishing lives. The immediate implication of this approach for development economics is that 'development' can be defined in terms of an expansion of capabilities, or freedoms (Sen 1984 and 1999). The approach also involves viewing poverty in terms of a failure to be able to be and do certain basic things, as well as thinking about egalitarian justice in terms of 'capability equality' (Sen 1992).

While the capability approach has made less headway outside development economics - in part because it poses a serious challenge to standard welfare economics - it is increasingly influential and has been one of the most successful varieties of re-engagement between ethics and economics.

Dasgupta's work is also exceptional in as much as it addresses important topics in ethics about population levels and future generations, which particularly raise problems for some forms of utilitarianism. But the literature in development economics is rarely connected directly to contractarian ethics, and more work is needed to fully appreciate its value to development economics.

3. ETHICAL CONSIDERATIONS PERTINENT TO POLICY/ ECONOMIC DECISION-MAKING

In recent times with the upcoming problems associated with applied economics, the subject of economics is drawn increasingly under the influence of ethics. For instance, in India the population is growing rapidly and the supply of labourers is huge in comparison to their demand, thereby resulting in low wages. An economist considers whether lowering of wages below a certain level will be in the interest of workers.

Some of the concerns that bother economists today include eradication and reduction of Poverty and unemployment, just distribution of wealth and income, minimizing consumerism, controlling inflation, controlling population etc.

In the words of Mahbub ul Haq, "No sustainable improvement in human well being is possible without growth. But, it is also wrong to suggest that high economic growth rates will automatically translate into higher level of human development." Per capita income may increase, and the GDP growth might be impressive, but many people may still remain poor, hungry, malnourished, and live without the minimum basic amenities of housing, sanitation and safe drinking water. Sometimes only the rich benefit, as the poor do not get to participate in income generating economic activities. Lack of education, skills and assets are the major handicaps of the poor. In addition, discrimination by class, race, caste, community and gender, widen the income differentials and perpetuate poverty and hunger.

However, there is no automatic built-in mechanism in the development process that reduces inequalities, and enables equitable sharing of the fruits of development. A close examination reveals that economic development in itself may not be the main force behind the reduction in income inequalities. A blend of economic development and methodical policy efforts for re-distribution of incomes and elimination of deprivation is needed.

A number of income transfers and social security measures, such as unemployment payments, free food, free housing, etc., which the governments commence on ethical grounds support the reduction of income inequalities, poverty and hunger. Similarly, substantial investments in conservation, and plantations of secondary forests, etc., are sought to tackle the problems of overexploitation of natural resources and environmental degradation.

Economic growth cannot be achieved with mere production and consumption. Taking care of the environment will help in retaining a livable environment for all. Thus, by itself, pure economic growth in terms of Gross Domestic Product (GDP) is incapable to take care of all the ethical dimensions of equity. Thus, in the light of this already existing subtle nexus between economics and ethics, a more pronounced argument for the need for viewing these disciplines in an interdisciplinary manner is what follows next.

4. NEED FOR INTEGRATING ECONOMICS AND ETHICS

Mark Blaug (1978), while reviewing New Welfare economics pleaded for extending the boundaries of economics in the following words, "... the long discussion on welfare criteria- from Pareto to Hicks, Kaldor, Scitovsky, and many others- have brought us no further in evaluating policy changes which benefit some people but harm others on purely positive grounds; efficiency cannot be separated from equity... true function of welfare economics is to invade the discipline of applied ethics rather than to avoid it".

Thus moral and social issues should assume an important place in economic discussion and policies as ethical considerations in turn lead us to the question of quality of life as an ultimate goal of economics.

4.1 INCORPORATING MORAL BEHAVIOR INTO ECONOMIC THEORY

Much has been written on whether there is a value-free economics, or a value-free social science for that matter. This paper does not add to that literature. Here, we are interested in the examination of why moral philosophy of ethics has a legitimate, indeed necessary, niche in the working of economics. moral philosophy.

4.1.1 EFFECTS OF MORAL COMMITMENTS

Moral norms may have significant impacts on the provision of public goods, voting, and activities involving the production of externalities. But perhaps the most sustained and illuminating treatments of moral influences on economic behavior have been concerned with work motivation and the organization of the firm. Economists like Marx and Mill, have recognized that worker performance is closely related to workers' perception of the legitimacy of authority and the fairness of distribution.

4.1.2 EVALUATING ECONOMIC ARRANGEMENTS

Distinguishing better from worse economic policies and outcomes is a central purpose of normative economics, and one that undeniably relies on moral judgments. Moral evaluations of economic arrangements are built into welfare economics and into the terms of policy debate. Because they seep into economics, it is meaningful to make these moral reviews as sensible as possible.

4.1.3 ETHICS FOR SOCIAL PURPOSE

The Ethics for Social Purpose includes biomedical ethics, nursing ethics, banking ethics, legal ethics, accounting ethics, engineering ethics, marketing ethics, or the military ethics, to name but a few.

4.1.4 ETHICS FOR ORGANIZATIONAL LIFE OR SYSTEMS ETHICS

Ethics for organizational life or systems ethics is the domain of the ethics structures, compliance systems, practices, procedures, and protocols necessary for a body of people to achieve shared visions in accordance with its core values and organizational culture. The thrust of organizational ethics is to increase human

energy, knowledge, and trust, and to drive out fear. Systems ethics applies to all organizational life, regardless of specific social purpose. It shapes the conditions of organizational life, the content of dialogue or conflict resolution, and the context for the ethical framing, choosing, and actions of the other circles. It is where ethical leadership may perhaps best be exercised, again at all levels.

4.1.5 ETHICS FOR ECOLOGICAL RELATIONSHIPS/ SUSTAINABILITY

Ethics for ecological relationships is the domain of the relationships between our species and world, of which we are an integral part. It is the most fundamental of all approaches to applied ethics. In general, sustainable development requires a good foundation of ethics and law, to ensure protection of the environment, macroeconomic stability, and safeguarding the welfare of vulnerable groups. The key word with regard to sustainable development is "responsibility" and this applies to environmental quality, political matters, use of economic resources, education, cultural, international affairs and most of all intergenerational concerns. Responsibility is of course embedded in ethics, leading to the conclusion that ethics are a fundamental dimension of sustainable development.

Given the striking increase in economic inequality over the last decade and the evident influence of wealth on election results, these questions are bound to become an increasingly important part of the normative agenda of economists. Few economists can avoid ever making appraisals of economic outcomes or institutions, and in making such appraisals they unavoidably rely on some moral philosophy. Economists concerned with evaluation have no option but to get their feet wet in the swamps of moral philosophy. Hausman and McPherson rightly suggest that the kinds of arguments that economists give are influential in society, and that therefore economists can help to make societies and individuals more moral if they incorporate moral arguments in their analyses.

Dr. Iwao Taka, a Japanese scholar in his report "Business Ethics in Japan" points out that in Japanese, the word 'economy' is read as *Kei Zai*. This is a compound word consisting of *Kei* and *Zai*, originally stemming from the Chinese word, *Ching-Chi*. *Kei* means governing the world in harmony; *Zai* means bringing about the well-being of the people. Therefore, in this sense, the word economy does essentially include morality or ethics in its wide and fundamental meaning and scope.

5. CONCLUSION

The recent growth of research at the borderlines of ethics and economics has already had a significant impact on development economics. Amartya Sen must take the credit for much of the progress. The economics of well-being has been one area which has flourished and explicitly re-engages ethics and economics.

What Marshall said about economics-that it is "not a body of concrete truth, but an engine for the discovery of concrete truth" (1885)- may be said about moral reasoning as well. An economist who is engaged actively and self-critically with the moral aspects of economics' subject matter cannot help but be more interesting, more illuminating, and ultimately more useful to the society as well.

In recent years, it has become extremely difficult for any economist to remain a theoretician, for economics, isolated from practical problems and their respective humanitarian solutions, is considered useless and barren. No doubt, economists are becoming more aware of their duties towards society and society is paying increasing attention to what economists have to say on matters of economic policy. Thus it would be appropriate to state that Economics would become richer by extending its analysis to cover the uncovered portions of behaviour where ethics has a dominant role to play.

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