Ethics, moral philosophy and economics

Frédéric Teulon

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IPAG Business School
184, Boulevard Saint-Germain
75006 Paris
France

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Abstract

Seemingly, the economic relations have nothing to do with the morality. The economy claims to be able to be a science; yet in the other scientific disciplines one does not arise this type of questions (we do not wonder if the physics of particles is moral either or not or if the composition of such molecule obeys ethical principles. The analysis led here on Bernard Mandeville’s papers which showed the ambiguous relationships which the vice maintians with the virtue. However the paradox is that the economy cannot work without a certain shape of morality. The economy is made by individuals endowed with a capacity to know right from wrong. While the economy and capitalism may be amoral, individuals are not.

Keywords: Economics, Moral philosophy, Ethics, Economics of welfare.

NB: We complete here two texts which were initially published under the following shape:
Introduction

Lionel Robbins’ definition of economics as “the science which studies human behaviour as a relationship between given ends and scarce means which have alternative uses,” leaves little room for ethical considerations. The judgment which we can concern on the moral conduct of the actors depends closely on the reserve criterion. The moral value of an action can be defined either according to its intention (conformity or not with values), or according to its consequences. This brings us to Mandeville’s fable of bees (1714).1 The theme of the fable is simple: in a hive that mirrors human society, the bees live in avarice, luxury and prosperity. They then begin to yearn for honesty, virtue and the revival of lost morals. When their wish is granted, the hive languishes and dies out, since, as vice disappears, activity and prosperity is replaced by boredom and chaos. Mandeville described a prosperous but dissolute hive which decides to become virtuous, transforming the bees’ prosperity into extreme poverty. He presents greed and avarice as driving forces that can generate great wealth, and concludes that human passion needs to be liberated in such a way as to contribute to the general interest. Speaking about morality inevitably brings to mind the distinction between good and bad, fairness, and the belief that the common good is a value which should be used as a benchmark in public decision-making. Morality also means respecting individuals as human beings as well as the basic rules of life in society (i.e., the principle of having obligations towards others). The German philosopher Kant (1788) argued that morality involves always seeing others as an end and never simply as a means: “act only in such a way that you can will that the maxim of your action should become a universal law.” Public opinion often views economists in a negative light, considering that they systematically leave moral issues out of the equation. Economists are accused of sanctioning self-interest (Clark, 1885) and of neglecting the role of values (honesty, respect, etc.). Already at the time of Mandeville, Bishop George Berkeley, on reading the satire entitled The Fable of the Bees, exclaimed that it was the most wicked book he had ever read. Financial scandals such as exorbitant salaries for traders, sub-primes, the collapse of Lehman Brothers investment bank, manipulation of Greece’s public accounts by Goldman Sachs, etc. lead us to the question raised by Aristotle on the proper use of money, in other words, its economic use as a means of exchange, and its improper, ‘against nature’, or chrematistic use. Our judgement on the moral conduct of players is closely linked to the criteria used. The moral value of an action may be defined according to either its intentions (conformity or non-conformity with values) or to its outcomes. Do we need to arbitrate between prosperity and transgressions against virtue? Who needs to be moral? Is there a contradiction between efficiency and morality? Does morality concern all economic activities or is it restricted to forms of distribution as enacted by the government? Can we moralise with respect to capitalism? Is socialism viable if citizens are not ready to put public interests before their own self-interest?

The rest of the paper is organized in the following way. In section 1, we present the individualist consumer and producer behaviour. Section 2 is about the ambiguity of individual behaviour. In section 3, we examine the public decision making. In

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1 The Dutch philosopher, Bernard de Mandeville 1670-1733) was the author of a famous satire in verse entitled The Grumbling Hive, or Knaves Turn’d Honest (written in 1705), better known as The Fable of the Bees: or Private Vices, Public Benefits (published under this title in 1714), in which he attempted to show that personal, selfish motivations can have positive outcomes for the community as a whole.
section 4, we show that market is an impersonal mechanism far removed from policies underpinned by good intentions or principles of solidarity. In section 5, we demonstrate that economics is not a neutral science. Finally, section 6 shows that immorality challenges the capitalism's efficiency.

1. Individualist consumer and producer behaviour

From the end of the XIX\textsuperscript{th} century, the economists put forward the scientific character of the economy to avoid the ethical questionings (this approach considers the ends as being given and tries to optimize the means allowing to reach these purposes). In the standard model of economics (Walras, 1874; Friedman, 1953): 1/ consumers and producers are assumed to be purely self-seeking, rational, selfish and money-oriented; this is the "original sin of capitalism" (Comte-Sponville, 2004). Mandeville spoke of an unquenchable thirst for wealth and material goods; 2/ choices are made according to a personal cost/advantage calculation, in other words, according to the sacrifices made and the potential benefits; 3/ The choices of an individual are not affected by the existence of interdependences between his own decision and the decisions of others to reach their own well-being (the prisoner's dilemma illustrates this situation); 4/ The ethics is only a practical convention put forward sometimes by the individuals but still in the service of their interests.

The classic utilitarianism (Bentham) is based on the idea according to which a society is ordered well and be there even "just", when their major institutions are organized so as to realize the biggest total sum of satisfaction for all the individuals who are member of it. The utilitarianism corresponds in search of the biggest happiness for all. The utilitarian attitude makes of the utility the standard of any action.

Three remarks can be made in this respect:

- a/ the search for utilitarianism is counter to Kantian ethics which argue that morality cannot be based on utilitarian motives;
- b/ economic rationality has been defined as the "principle of acting appropriately to the situation" (Popper, 1967), but economic agents do not always worry too much about the means used to achieve their ends;
- c/ if an individual believes that the rewards from a legal activity are few compared to those from an illegal activity and that, in addition, the chances of being caught by the police are low (or if there is little aversion to risk), then the advantage/cost ratio may lead him or her to decide in favour of crime, an act that could be regarded as rational in the circumstances (Becker, 1968).

In business practice, morality is far from widespread. The search for profit is not always compatible with respect for moral values or with the desire for fairness. Business leaders try to pay the lowest salaries possible (Marx, among others, considered this kind of exploitation to be at the core of capitalism). Maximising profit can lead to an endpoint where employees are made to work till they drop for a wage that is just enough to stop them from starving. Employers want to be ahead of the competition, and are quite ready to relocate their production... As Adam Smith (1776) pointed out: "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." When conducting business operations, individuals seek to maximise their utility or their profits rather than comply with their moral obligations, and if both goals are achieved through the same action, it is from self-interest and not for moral reasons.

The various players are unlikely to defend values linked to solidarity or to protecting the environment (and the nonetheless legitimate interests of future generations) of their own free will. Ethical labelling used by business organisations, codes of ethics and studies on CSR (corporate social responsibility) all suggest that an ethical framework can only be imposed from the outside. The moral value of
rules and regulations set out in ethical charters is often close to zero: these shrewd arguments mainly reflect a new source of marketing development.

2. Ambiguity of individual behaviour

Adam Smith may be considered as one of the founding fathers of utilitarianism, but he was well aware that axiomatic utilitarianism was insufficient for moral issues to be taken into account (and so could not explain all human behaviour). His book *The theory of moral sentiments* is subdivided into a study on natural theology, ethics and, finally, jurisprudence. Smith attempted to resolve the paradox (highlighted by Hume) of the coexistence of self-serving and selfless motivations in human nature. He argued that humans are guided in their actions, not only by self-interest but also by the judgement of others, as our empathy with other people leads us to take on board the judgement of others.² If the individuals were only guided by their personal interests, how to explain the existence of the sense of duty?

Business leaders are often accused of being greedy, insensitive and ruthless. Yet some of them are genuine philanthropists. Sandy Weill (former CEO of Citigroup) recently announced that he was giving his fortune, estimated at 1.4 billion dollars, to charitable foundations, explaining that his decision was linked to "a deal I made with God." We could also mention Warren Buffet and Bill Gates, among others, who joined 20th century philanthropists like John Rockefeller and Andrew Carnegie. Max Weber (1905) noted that the capitalism which began in Europe was underpinned by protestant ethics (capitalist activity is based on value systems). The existence of markets depends on conceptions relatives to the morality. So Zelizer (1978) studied how the Americans came to consider the life insurance as morally acceptable. The market of the life insurance was able to develop from the moment were modified the representations of life and death. This change made possible the appearance of a market which seemed still inconceivable not much time previously.

Today, consumers seek to give meaning to their purchases, which is why many of them are ready to pay more for the moral added value of organic or certified products. Some authors like Baudrillard (1968) and Barthes (1970) explored the subconscious mind linked to our desire to be represented by what we consume. Morality transpires in consumption if it can alter the objective appreciation of goods and thus the value attributed by a consumer.

3. Morality frequently alien to public decision-making

According to the public choice theory (Buchanan & Tullock, 1962), politicians are not moral beings. Behind the screen of defence of public interests and the common good rhetoric, our lawmakers are calculating individuals who seek to defend their own interests (their re-election). The exercise of power requires a certain degree of dissimulation and secrecy, with transparency undesirable for reasons of State (*arcana imperii*, or state secrets). Max Weber (1919) brings into conflict an ethics of the conviction (*Gesinungsethik*) and the ethics of the responsibility (*Verantwortungsethik*). The first one establishes the individual action on a value without considering the consequences (case of the pacifist deputy who refuses to go to the war); the second envisages the action according to the only relationship between

² Adam Smith was strongly influenced by his master Adam Ferguson, scottish philosopher, professor of natural philosophy, then moral philosophy, at Edinburgh University, Adam Ferguson is a representant of the "Lumières" (XVIIIth century). He published : *Institutions of moral philosophy* (1769) et *Principlesof moral and political sciences* (1792).
means and goals (case of the politician which to reach a national goal, use means disapproved by the community).

How often have we seen politicians seek legitimacy through the ballot boxes, which ethical considerations would otherwise have denied them? We might say that they sell a product, namely, their own image (with public spending serving as a means of promotion). According to Buchanan, bureaucrats in power are defenders of the pyramid of privileges that form the very essence of the State. In his eyes, we should have no illusions concerning the way politicians act: “Good games depend more on good rules than they depend on good players.”

In India - an extreme case - numerous candidates who run for election are crime-related! The voters consider that they are more able to answer their expectations (press a corrupt administration). There is thus a real legitimacy of the criminals in politics in the name of the efficiency. We are very far from the principles of financial transparency, of ban on the candidates having a police record or of defense of the general interest.

Subjecting the economy to moral principles implies eradicating everything that is incompatible. For instance, the sex industry is an integral part of the economy, respecting the laws of supply and demand and giving rise to a flow of income based on services rendered. However, morality disapproves of prostitution. Attempts have been made to stamp out the trade for many years, but without success and with the risk that sex-related activities slip into the underworld economy, with all this implies for public health (a parallel may be made with prohibition in the USA in the 1920s and the sale of illegal alcohol).

4. The market as an impersonal mechanism

Whilst socialism claimed to put ethics into business (fight against inequality), the market economy does not have a moral basis a priori (which could work against the drive for efficiency in resource allocation). The totalitarian abuses of communist regimes were inevitable as they wanted to force through what collective morality did not manage to achieve. As Comte-Sponville (2004) points out: “the genius of capitalism lies in the fact that it adapts extremely well to selfish private interests. It does not require moral justification to exist, or even to succeed.”

Competition is based on rivalry between individuals who seek to achieve the same goals. The law of the market is far removed from policies underpinned by good intentions or principles of solidarity.

The neoclassical model presents the way markets operate from the perspective of mathematical relations (supply and demand curves with flexible prices). In this framework, bringing ethics into pricing makes no sense and the issue of a fair price (Saint Thomas d’Aquino, 1273) is viewed as without basis. Neoclassical authors reject the myth of a conspiracy or devious plot. The market does not impose its choice on individuals but, on the contrary, is the expression of the choices made by individuals who are free at all times to buy or not, consequently influencing prices. If prices fall, it has nothing to do with feeling sorry for poor customers.

“Nothing is more useful than water, but it will purchase scarcely anything; scarcely anything can be had in exchange for it. A diamond, on the contrary, has scarcely any use-value; but a very great quantity of other goods may frequently be had in exchange for it” (Smith, 1776). The famous paradox of water and diamonds provides a good illustration of the amoral character of pricing. Water is abundant, whilst diamonds are rare; it is therefore their scarcity that explains the high value of diamonds, and has nothing to do with ethics.

In similar vein, the theory of efficient markets (Fama & French) attempts to show that the markets correctly evaluate financial assets in respect to the public information available.
Price variations simply reflect the compensation for time, risk and, above all, the communication of new information.

5. Economics is not a neutral science

Economic theory is not morally neutral but also reflects a value system. When proponents of positive economics (Friedman, 1953) suggest that we need to separate questions linked to efficiency (did the decision meet its goal?) from those related to legitimacy (is action justified?), they criticise the use of value judgements, but at the same time they also submit a proposal that is itself a value judgement.

A philosophical movement like English utilitarianism, as promulgated by economists such as John Stuart Mill, contains a certain ideal of the common good, in other words, satisfying the largest number of people and increasing happiness overall. Moreover, as economics is based on production and exchange within human communities, it is largely dependent on moral values and social customs, and is interwoven with society (Beckert, 2006).

Sidgwick (1883) was among the first to differentiate between positive economics that simply states the facts (what is) as opposed to normative economics which expresses value judgements (what ought to be). The work by Sen (1985; 1987) falls into the field of normative economics research.

Normative economics may set out certain requirements, but above all it examines how different ethical principles (related to moral philosophy or the debate on contemporary society) place restrictions on social institutions (leading to conditional recommendations). These principles may include equal opportunities, the fight against inequality, and access to education, for instance.

Walras distinguishes between economic science, which explains how competition can ensure the development of wealth, and morals, which indicate how we should intervene to make the distribution of wealth fairer. State intervention is meant to establish a precarious balance between morality and economics (this is the goal of the economics of welfare (Pigou, 1920). This brings us to the general definition of social justice criteria (Rawls, 1971).

Mandeville (1714) called for “the skilful management of the dextrous politician” whose intervention is essential to transform “private vice” into “public good.” He believed that public action did not mean always getting involved and regulating everything in detail, but rather, defining the legal and institutional framework necessary for sound business operations.

There is nobody out of the community, no community without moral and religious beliefs. Under such conditions, it is to say whether it is the requirements of the individual or of the community must prevail, but whether the principles of justice that govern the basic structure of society may be neutral with respect to moral and religious convictions adopted by citizens (Sandel, 1982).

Economic analyzes are they neutral? Value judgments inevitably occur at the end of the research, as the results were presented. It is important to point out the danger of radical separation between science and value judgments rather than their confusion. The responsibility of the economist does not end with the achievement of the objectives of the research. Moral responsibility begins only when the process of scientific knowledge with respect to a given problem, is completed. That responsibility lies in the constant review of political and moral consequences of scientific work. We do not expect economists act as legal authorities, but their moral responsibility is not to forget the ethical issues (though economics has a difficulty to explain why moral beliefs are shared by members of a nation).
6. Immorality challenges the system’s efficiency

Morals and ethics remain central to public policy justifications. Basically, the government’s role is to limit abuses linked to the way that markets work and to protect the most vulnerable members of society. In 1796, Kant noted that “politics says: be wise as serpents,” while adding in the same sentence that morality demanded the restrictive condition that we remain “as harmless as doves.” This led Savidan (2014) to note that: “Kant and his followers were always careful not to get their hands dirty. We can see in this a form of guilty idealism, or a somewhat naive way of not taking the real difficulty seriously, that which arises of course when, to preserve one’s innocence, we must abandon all acumen, or attack the dove when acumen recommends it.”

Economics cannot function without a minimum of rules. Numerous examples show that misappropriation of corporate assets, immorality, manipulation, fraud, lies, insider trading, money laundering via tax havens and so on all create obstacles to the successful conduct of business operations. Corruption is a cancer that can remove authority and all of a country’s financial resources. It is not painless and, in authoritarian regimes, may be the main cause of people’s suffering. The exorbitant pay packets awarded to leaders of multinational firms are also problematic. When there is no limit to the drive for profit, societies reach crisis point. The difficulties experienced by western societies are almost certainly linked to the weakening of three anti-utilitarian standards of the past, namely, aristocratic, Christian and socialist ethics. When exclusively individual interests take priority, violence and predation follow; it is the fear of such violence that leads us to introduce moral antidotes (which involves sublimating individual interests and diverting them towards collective goals).

Nevertheless, we cannot have an exclusively moral attitude towards the corruption or towards the fraud, because it would be forget the conditions which engender the troubles of which we disapprove.

■ Conclusion ■

Economics claims to be a science and therefore detached from value judgements. Its obsession is to be like the natural sciences, despite the fact that it is of a profoundly different nature. It asks us to remain objective and to avoid adding moral or subjective appreciations to the equation. Robbins (1920) reminds us that: “Economics deals with ascertainable facts; ethics with valuations and obligations. The two fields of inquiry are not on the same plane of discourse. Between the generalisations of positive and normative studies, there is a logical gulf fixed which no ingenuity can disguise and no juxtaposition in space or time bridge over.”

However, while the optimisation of resources is ultimately intended to provide a certain social wellbeing, the way the economy works does not need to be regulated through axiological criteria. Judging the means rather than the ends, economic theory is largely amoral. Economic agents can disregard the moral or immoral nature of their business conduct. Economic relations are not based on respect for moral obligations. Many situations that appear as grossly unfair (absence of equal opportunities, birth-related inequality…) may prove to be drivers of economic dynamism.

An economy cannot function properly without at least some moral values. Theory may reduce economics to ties between production and consumption, but in reality it is principally based on relationships between individuals. We can challenge the notion that economic laws resemble the laws of physics (we need to emphasise the historic and moral dimension of human relations).

Capitalism is based on the idea that anyone and everyone can grow rich. But once the potential to increase wealth is regulated, the conciliatory character no longer operates. If Jesus had told his disciples that places were
reserved in advance, he would have had a lot less success!
All morals are based on intangible principles, and we cannot separate them from economics unless we refuse to align the latter with all that is human. Respect for a certain number of basic values (keeping one’s word, honesty...) is necessary to ensure the smooth running of a country. In other words, the day that economics no longer has any form of moral basis will be the day that human beings are replaced by androids!
The concept of relativism, sometimes referred to as postmodernism (Kuhn, Feyerabend and Hübner), is very popular at present: values are uncertain, objectivity is an illusion, and collective beliefs can be put down to cultural traits. These relativist theories contradict basic sociological observations (Boudon, 1995): today, as yesterday, individuals have strong moral convictions. We must not abandon notions of truth. Theft and fraud go against the touchstone of reciprocity which prohibits pure appropriation of others’ goods. Theft is wrong because social order is based on the notion that all reward should, in theory, correspond to a contribution. It is imperative to strengthen the ethical values that we can all share. The use of ethical discourse as a set of moral principles presupposes that we are all bound by a mutual understanding of what they imply.

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