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THE ETHICAL STRUCTURE OF ECONOMICS: REVISITED

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Abstract

An attempt is made in this paper to revisit the ethical structure of economics. The need arise due to the fact that the present ethical structure of economics, based on the standard of economic maximization of satisfaction, explains all kinds of behavior in terms of self-interest and hence, is unable to recognize the strong presence of altruistic and moral commitments which plays a major part in the decision-making deliberations of individuals. The two primary causes that limit the present ethical structure are the identification of the 'good' with "satisfaction/pleasure" and the maximizing consequentialistic position of economics. A synthesized ethical structure of economics is evolved which accommodates both the maximization and the non-maximization pursuits of individuals, within its paradigm. The discerned potential implications of such a synthesized ethical structure enlarges the horizon/scope of economics at the ethical, theoretical and practical levels, thereby enabling economics to regain its status as an ethically loaded, holistic and dynamic discipline, dealing basically with human aspirations and business/social relationships.

Key words: Economic Maximization, Self-interested behavior, Good and Pleasure, Maximizing Consequentialistic position, Synthesized Ethical Structure.

An attempt is made to revisit the ethical structure of economics. Towards this end, the article is divided into four main sections. Section – I expounds the present ethical structure of economics. Section –II brings out the constraints encountered by the ethical paradigm of economics. Section - III explores the basic / primary cause for the constraints experienced by the ethical structure of economics. Section – IV evolves a synthesized ethical structure of economics and discerns its implications.

SECTION – I

1. ECONOMIC RATIONALITY

Economists define 'man' and his behavior with the help of the concept of rationality and accordingly, holds the cardinal presupposition that: **Economic Man is Rational**. In economics, the term 'rationality' is used in a specific sense keeping in view the function of an economic man in solving an economic problem. Economists state that since an economic problem lies in optimizing the employment of scarce resources among competing wants in the economy, an economic man, if he is rational, would so allocate his resources in such a manner that would fetch him maximum benefit. C. Dyke (1981) clearly brings out the relationship of economic man with rationality and the maximization principle when he stated:- "The rule of rationality involved here is: **Act so as to get the most value you can for the least value expended.** Someone who acts on the basis of the rule has come to be called a **"rational economic man".** The same idea is expressed by Tilman Borgers (1996) and Bill Gerrald (1993).

1.1 The Ethical Standard As 'Economic Maximization of Satisfaction'.

According to economics, the sole objective of a rational economic man is to strive for maximization in the performance of every activity. In other words, every rational economic man is assumed to be a compulsive maximizer in any given situation. In the words of Nobel Laureate Herbert Simon (1978), "Economics tends to emphasize a particular form of rationality-Maximizing behaviour', and ' the rational man of economics is a maximizer, who will settle for nothing less than the best". This perception is also emphasized by Gary S. Becker (1976) and Ann Cudd (1993).

Now, what does a rational economic man maximize? Economists state that a rational economic man maximizes his satisfaction or pleasure. As a consumer, a rational economic man is expected to maximize his satisfaction or utility and as a seller/producer, he is expected to maximize his profit/output (which gives satisfaction).

Explaining the maximizing rational behavior of an economic man, Albert Meyers (1952) states, "All that we are implying by rational conduct from the view point of economic science is that, given a choice among several lines of conduct, a rational individual will try to select that course of action which seems to him to promise either the greatest amount of satisfaction or the least amount of dissatisfaction". A rational economic man is expected to behave in such a manner that given the costs (dissatisfaction), he would maximize his benefits (satisfaction) or given the benefits (satisfaction), he would minimize his costs (dissatisfaction). This form of maximization is termed as 'economic maximization of satisfaction'.

Thus, we understand that the ethical structure of economics is given by the standard of economic maximization of satisfaction.

1.2 Identifying 'Moral' Human Conduct With 'Rational' Human Conduct

Economists identify ***moral*** human conduct with the ***rational*** human conduct. This perception is engineered by the fact that since all actions of an economic man are expected to be channelized towards the objective of economic maximization of satisfaction, it logically follows that a 'rational' action is also the 'right' action. On the other hand, actions which do not strive for or goes against the objective of economic maximization of satisfaction are termed as 'irrational' actions and hence, are considered as 'wrong' actions. As Hausman and McPherson(1993) rightly observes, "………to characterize a choice as irrational or immoral is to condemn it, and not simply to describe it".

Thus, we understand that moral judgments in the form of rightness or wrongness of actions are all determined only with reference to the standard of economic maximization of satisfaction.

1.3 Early Utilitarianism – The Precursor

A little reflection on the ethical philosophy of economics reveals the fact that its ethical structure have been imbibed from the early utilitarian ethical standard of 'Maximization of pleasure'.

Utilitarianism as an ethical theory holds the perception that men always seek pleasure and avoid pain. An action is right if it produces the greatest amount of pleasure or benefits over pain. Henery Sidgwick (1877) states that a man chooses that course of action which would "involve as concomitant or consequent, the greatest surplus of pleasure over pain". Utilitarians also evaluate the moral worth of an act by its usefulness in promoting the greatest pleasure or happiness. Infact, 'ethics' itself is defined by Jeremy Bentham (1823), the founding father of utilitarian ethics, as: "the art of directing men's actions to the production of the greatest possible quantity of happiness, on the part of those whose interest in view".

Thus, we are able to perceive the fact that early utilitarian ethics is the precursor for the ethical ideal of economics.

1.4 To Sum Up:

This section deals with the present ethical structure of economics. We understand that the ethical structure of economics is based on the standard of economic maximization of satisfaction and moral judgments (rightness or wrongness of actions) are effected only with reference to this standard / ideal / principle.

SECTION – II

2. ECONOMIC MAXIMIZATION AS SELF – INTEREST

Economics perceives human behavior as even motivated by the maximization principle. In the words of Robert Crouch (1979), " a human being in a purposeful animal and the purpose is to maximize enjoyment of life". Lipsey and Steiner (1975) states that, "The members of a household will seek to maximize their total utility. This is just another way of saying that the members of household try to make themselves as well off as they possible can in the circumstances in which they find themselves". A close observation clearly shows that the urge to maximize, the urge to be 'better – off" in any given situation – all stem from the self-interested nature of individuals.

Economics legitimizes, fosters and upholds, maximization of self-interest, as the only appropriate and rational behavior of individuals. Adam Smith (1759), the father of economics, proclaims, "We are not ready to suspect any person of being defective in selfishness". He emphasizes that the market as system relies on each individual's pursuit of self-interest. Adam Smith (1776) states, "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". According to Dennis Mueller (1979), the goal of a rational act is to maximize the actor's self-interest. Robert Frank (1988) explicitly defines economic rationality as self-interest.

2.1 Non – Selfish Behavior Explained As Self-Interest

Economics not only glorifies self-interest, but also explains the non-selfish behavior of individuals in terms of self-interest. This is theoretically made possible by entertaining the grand assumption that the welfare of another individual can be adequately reflected in the self-interested preference schedule of an individual. Kenneth Boulding (1981) explains, "All we have to suppose is that the perception of one party, A, of the welfare of the other, B, is a variable in A's utility function such that when A perceives that B is better-off, A's utility rises".

Lipsey and Steiner (1975) illustrates the above position of economics through an example of an individual contributing to charity. They point out, "If, for example, the individual derives utility from giving his money away to others, this can be incorporated into the analysis, and the marginal utility that he gets from a dollar given away can be compared with the marginal utility that he gets from a dollar spent on himself". Thus, when an individual contributes to charity, economics states that giving money to charity maximizes his self-interest more than spending the same amount on himself.

Another example is the way in which economics explains the "excessive" saving motive of individuals. Economists have found that people save much more than the desire to ensure their consumption after retirement (Lester Throw, 1983). Attempts have been made by economists to explain this 'excessive' savings by the need to adjust to a situation where one will live longer than expected. But this explanation still leaves a sizable unaccounted 'Surplus'. In the opinion of Anthony Shorrocks (1979), this can be explained by older people's ability to enjoy the consumption of their off spring 'extending through several generations' and in the words of John Laitner (1979), the 'consumption of their (household's) descendents in all future generations'. Thus, according to economics, the self-interested 'bequest consumption' motive is the objective of excessive savings.

Economics also explain the religious activities of individuals through self- interest. In order to explain people's religious activities as some consumable good, Corry Azzi and Ronald Ehrenberg (1975) introduced the factor of 'after life consumption' and suggested "this variable being at least partially a function of the householder's investment of members' time in religious activities during their lifetimes". Thus, according to economics, the self-interested 'after life consumption' motive is the objective of religious activities.

2.2 The Irreducibility Of Non-Selfish Motives

There are numerous instances where non-selfish motives plays a major part in the decision – making procedures of individuals, which cannot be reduced to self-interest as advocated by economics. Let us now present two important non-selfish behavior of individuals.

2.3 Altruism

In a thoughtful and lengthy review of Richard Titmuss work on systems for acquiring and distributing blood for transfusions, Kenneth Arrow (1972) claims that voluntary blood donation systems, as in Great Britain, are more efficient than commercial systems, as in United States. The reasons are (a) altruistic donors have no incentive to lie about whether their blood is safe, but commercial donors plainly do, and (b) commercialization of blood discourages blood donation because to give blood, when it cannot be purchased, is to give something that is literally priceless.

Irving Jains and Leon Mann (1977) points out that in many situations, individuals who sec others in distress rush to help without calculating the consequences for themselves. Michael Wallach and Lisa Wallach (1983) mentions many cases in which older people refused surgery until reminded of the effect it would have on their children. Edmund Phelps (1975) notes that in the same selfish world, one also finds. "the prevalence of altruistic behavior: a producer may advertise his product truthfully when he need not …. a benevolent butcher may abstain from short – weighting".

2.4 Moral Commitment

Amartya Sen (1977) uses the term 'commitment' to explain the presence of moral values in an individual. He gives the following example. If we see another person being tortured and it make us sick, we act out of sympathy. But if we think that such action is wrong, we act out of 'commitment'. The significance of the concept of commitment is that it points to a source of preference or value, other than being 'better – off '.

Gerald Marwell and Ruth Ames (1981) conducted a number of experiments under different conditions and found out that people do not take free-rides, but pay voluntarily as much as 40 percent to 60 percent of what economists figured is due to the public. The main reason for this behavior is that the subjects consider it is the 'right' or 'fair' thing to do.

Brain Barry (1978) points out that economics is not in a position to adequately explain the voting behavior of individuals. This is so because the act of voting entails efforts but yields no specific return to each voter. According to Barry, the act of voting expresses one's 'citizen duty' and there is a considerable correlation between the level of such a commitment and voting. Harvey Hornestain (1976) conducted several experiments which showed that many people mail back 'lost-wallets' with cash intact to strangers. The only reward is the inner sense of having done what is right. Generally, people who denote kidney to their siblings or off spring do so because they feel responsible, committed and that they 'ought to'.

According to Amitai Etzioni (1988), the behavior of 'excess' savings, which has troubled the economists, can be meaningfully explained by recognizing the presence of moral commitment of individuals. He enumerates three moral values which affects the amount saved. They are "the moral commitment of (a) not to be in debt, (b) not to be dependent on the governments or one's children, and (c) helping one's children to start- off in life".

Thus, many empirical evidences enable us to perceive the irreducible nature of non-selfish motives which cannot be simply put down under the umbrella of self interest.

2.5 To sum up:

This section deals with the limitations/constraints experienced by the ethical structure of economics. Identifying economic maximization with self – interest, economics proceed to explain all kinds of behavior in terms of self-interest. We observe that such a position becomes untenable, especially with numerous evidences pouring in to suggest the strong presence of altruistic and moral commitments playing a major part in the decision-making deliberations of individuals.

SECTION – III

3. THE TAUTOLOGICAL NATURE OF SELF – INTEREST DEFINITION

A little reflection on the ethical structure of economics would reveals the fact that if any behavior, by definition, is an attempt to maximize self-interest, then this definition turn into a tautology (ie., saying the same thing twice, but in different words) and ceases to explain the different kinds of human behavior in economies.

According to Norman Bowie and Robert Simon (1977), " In the classical view, each consumer is a satisfaction maximizer ie., is a rational egoist…. This assumption is so obviously contrary to fact that economists have turned it into a tautology". The authors go on to point out that as a result, "We no longer have an empirical theory about consumer behavior" and the theory becomes "utterly trivial".

Commuting on the tautologies position, Amartya Sen (1977) states, "It is possible to define a person's interest in such a way that no matter what he does, he can be seem to furthering his own interest in every isolated act of choice". Thus, we are able to see that an attempt in economics to explain all kind of behavior as self-interest evolves tautologies in its ethical structure.

While critcizing the ethical position of economics, Ernst fehr and Simon Gachter (1998) states, "…., there remains the question whether the exclusive reliance on rationality and selfishness is capable of explaining people's actual behavior". The answer is a big 'No'. Why is that economics is not in a position to recognize and accept the altruistic and moral commitments of individuals, within its ethical paradigm?

3.1 The Two Primary / Basic Causes

A close scrutiny on the factors underlying the ethical position of economics reveals the truth that there are two main causes within the ethical structure of economics which do not encourage the accommodation of motives other than self-interest. The two main limiting forces are

A) The identification of the 'Good' with 'Satisfaction /Pleasure', and

B) The maximizing consequentialistic position.

Let us now discuss these two factors in some detail.

A) The Identification Of The 'Good' With ' Satisfaction/Pleasure'

The ethical structure of economics identifies the 'good' with 'pleasure/self – interest' and upholds pleasure/happiness as the highest good desirable by individuals. Infact, C.Dyke (1981) uses the above terms as synonyms. Vivian Walsh (1970) explicitly states that pleasure in the only good and goodness cannot be thought off without pleasantness. Richard Brandt (1982) points out that pleasure is intrinsically good. He explains that happiness, the sole utility to be maximized, is intrinsically good in the moral sense because "God aims to maximize the happiness of his creatures". Thus we observe that the 'Good' is identified with the 'Pleasure/Satisfaction', in the ethical structure of economics.

3.2 THE PROBLEM

The Problem With Regard To The Above Position Is As Follows:-

The 'Good' is that which is "desirable" by all men. It corresponds to an 'ideal' position. On the other hand, the 'pleasure' is that which is 'desired' by all men. It corresponds to the "actual/present" position. The merging of the 'Good' with the 'pleasure' also results in identification of what is 'desirable' with that of what is 'desired' and the 'ideal' with the 'actual'.

A little reflection here would show that men may 'desire' many things, but all desired things do not automatically quality as "desirable". In other words, what is "desirable" has an ethical and moral connotation, while what is 'desired' is free from it. The 'Good' is quite different from the 'pleasure' and the 'ideal' from 'actual'. Altruistic and moral commitments are fully recognized only in the 'Good' , the 'desirable' and the 'ideal' and not in the value – free 'pleasure' , 'desired' and 'actual'. Since economics merges the 'good' into 'pleasure/Self-interest', 'pleasure' is not only considered as 'desired' , but also 'desirable'. The 'actual' day-to-day and common behavior of pleasure – seeking is considered as the only 'ideal' and 'rational' behaviour, in economics.

Thus we see pleasure/self-interest is recognized as the only paramount force behind all human actions. This ethical position forces economics to explain and define all kinds of human behavior only in terms of pleasure / self – interest. But, altruistic and moral commitments are fully recognized only in the ‘Good’ , the ‘desirable’ and the ‘ideal’.

3.3 Early Utilitarian Connection – The Naturalistic Fallacy

We have already seen that the ethical structure of economics have been imbibed from the early utilitarian ethical position: Maximization of pleasure. In the process, economics has also inherited the utilitarian perception of pleasure being the highest good and the only good that is desirable as an end. According to Jeremy Bentham (1823), “Pleasure is in itself a good; nay, even setting aside immunity from pain, the only good. Pain is in itself an evil; and, indeed, without exception, the only evil; or else the words good and evil have no meaning”. Here, we are able to observe that ‘pleasure’ is identified to the ‘good’ and moreover, the ‘good’ is good only because it promotes individuals ‘pleasure’.

G.E.Moore criticizes the above utilitarian position and brings in his conception of the in - definability of the ‘good’. According to Moore (1948), ‘good’ is a unique property of the object and is very much wrong to resolve it in any other property. In his own words. “But far too many philosophers have thought that when they named those other properties they are actually defining good; that these properties, infact, were simply not ‘other’ but absolutely and entirely the same with goodness. This view I propose to call the ‘naturalistic fallacy’. Moore illustrates this naturalistic fallacy with reference to the utilitarian definition of good. He states that according to utilitarianism, to say that A is pleasant would mean that A is good. But this is fallacious. Though ‘good’ is a property of the object which are characterize as good, yet it cannot be completely identified with pleasantness. ‘pleasure’ is one thing and ‘good’ is quite another.

B) The Maximizing Consequentialistic Position

Consequentialism is an ethical theory in which the rightness and wrongness of any action depends entirely on the results or consequences of an action. The ethical structure of economics adopts the maximizing consequentialistic position wherein, the rightness and wrongness of any action depends entirely on the “better” or “maximum” consequences of pleasure/satisfaction.

Economics define rational human behavior in term of maximizing consequences. According to Gary Becker (1976), "everyone more or less agrees that rational behavior simply implies consistent maximization of a well – ordered function, such as a utility or profit function". Samuel Scheffler (July 1984) contends that maximizing consequentialism embodies a principle of rationality which he calls "Maximizing rationality". He identifies maximizing rationality with economic rationality. Infact, Joseph Stigler (1966) defines economics itself as a discipline dealing with the maximization of consequences (or) ends. In his own words, "Economics is the study of the principle governing the allocation of scarce means among competing ends when the objectives of allocation is to maximize the attainment of the ends." Thus, we are able to observe that the ethical structure of economics focuses its attention on the "maximum consequences/ends" of any action.

3.4 THE PROBLEM:

The Problem With Regard To The Above Position Is As Follows:

Since the ethical structure of economics recognizes only the "consequences/ends" of an action, it ignores the vital role played by the "means" through which the desired "end" is achieved. The ethical paradigm assumes that all means find their justification in the ends they serve.

Many examples may be provided to show that moral judgment of an action cannot be passed wholly based on its consequences/ends. It is the 'intention/means' of an action which fully recognizes the altruistic and moral commitment of individuals. A stolen article may give the same utility (if not higher) as the one bought at a price. A stolen money will buy as much as the same amount earned the hard way. A student's grade can be enhanced by hard work or by the employment of malpractices. A person, who defames another is acting improperly, whether or not the person succeeds in actually damaging the other. One can live up to a moral commitment when one testifies in court on behalf of a wronged party even if the person loses the trial. Similar is the case when one donates blood to a relative who nevertheless dies.

Thus, we are able to observe that if the 'end /consequence' is the sole objective of an action, then it does not guarantee the reflection, recognition and accommodation of altruistic and moral commitment of individuals. On the other hand, it is the 'intention/means' of an action which fully recognizes the altruistic and moral commitment of individuals.

3.5 To Sum Up:

From the foregone discussion, we are able to clearly observe the fact that there are two powerful factors within the ethical structure of economics which prevents the recognition and accommodation of altruistic and moral commitments of individuals. The first limiting factor is the identification of 'Good' with 'pleasure'. The act of economics to uphold 'pleasure', which is value – free, ignoring 'Good', which is value – loaded, is a great limiting factor. The second constraint pertains to the maximizing consequentalistic position of economics wherein, paramound importance is given to the 'consequences / ends' neglecting the 'intention/means' involved in any action. It is the 'intention/means' which is value – loaded while the 'consequences / ends' is value – free. The above two factors limits the ethical structure of economics to recognize only the self-interested behavior and ignores the altruistic and moral commitments of individuals.

SECTION - IV

4. A SYNTHESIZED ETHICAL STRUCTURE OF ECONOMICS

From the discussion we had on the ethical structure of economics, we are able to clearly understand that the present ethical structure consider economic maximization / self – interest as the only ideal to be achieved in every action of an individual. In the process, it ignores the altruistic and moral commitments of individuals involved in any action.

Let us now develop a synthesized ethical structure of economics which accommodates both the present ethical structure as well as its limitations.

The synthesized ethical structure of economics may be conceived to perceive economic maximization as well as non-maximization as the two ideals worthy to be pursued by individuals. It is a fact that in the performance of any action, we find that one and the same individual is driven by 'Self – interested' tendencies at one time and by 'non – self interested' tendencies at another time. We may that when an individual is driven by 'self – interested' tendencies, then the 'maximization' ideal predominates in the individual and when driven by 'non-self interested' tendencies, the 'non-maximization' ideal predominates in the individual.

Whenever 'maximization' ideal predominates in an individual, then "pleasure / satisfaction" and "consequences of an action" (which are value – free) assumes importance in the decision – making process. On the other hand, whenever 'non-maximization' ideal predominates, then "Good" and "intention/means of an action" (which are value – loaded) assumes importance in the decision-making deliberations of individuals.

4.1 Implications of The Synthesis:

1. By retaining economic maximization as one of the ideals, the synthesized ethical structure not only gives due importance to the powerful motive of self – interest and self – preservation of individuals, but also does not destroy / dismantle the present ethical structure of economics.
2. By accepting non-maximization as one of the ideals, the synthesized ethical structure recognizes and accommodates the vital role played by altruistic and moral commitments in the decision – making deliberations of individuals.
3. By accommodating maximization and non-maximization motives of individuals, the synthesized ethical structure of economics evolves itself as a comprehensive, well-balanced and holistic ethical paradigm than the present ethical structure of economics.
4. Economic models based on the synthesized ethical structure of economics, would not only be productively – theoretical models and empirically – verifiable practical models, but more importantly, ethically – validated holistic models.
5. By accommodating both maximization and non – maximization ideals, the synthesized ethical structure of economics would greatly enhance the scope of an individual's ethically good action, which would simultaneously promote the well – being of the individual as well as society.
6. The synthesized ethical structure of economics may function as a starting point for a paradigm shift from "self interest Vs morality" to "self – interest and morality". A systematic study in this fertile domain would be a new and welcomed addition to the body of knowledge in economics.
7. In the process of fostering active discussions on ethical issues within its domain, the synthesized ethical structure would enable economics to regain its position as a premier Social Science discipline.

Let us conclude by remembering ourselves that economics is not a value - free discipline like mathematics, but an ethically loaded, holistic and dynamic discipline dealing basically with human aspirations and business/ social relationships.

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