

## **ETHICS and ECONOMICS: DEPARTURE in JUSTIFICATION**

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### **-Abstract-**

Economics, in mainstream textbooks, is defined as an optimization science. That means that it tries to find the ways in which endless needs and wants are met by limited resources. Where does the traditional economics reach by starting with “homo economicus” and “ceteris paribus”? Where is and how much the ethics take place in the adventure of economics. May be it is better to ask this question that way: Must economics contain ethics? Otherwise is it independent from ethics? It is clear that there is no place for ethics in Orthodox Economics. If there is one, it must be the ethics of interest. Ethics is related with “other”. Every threats, manors or activities affecting “other” have inevitable relations with ethics.

In this study, first the relation between the transformation of the science of economics and phase of capitalism will be inspected then, the basic postulates of Orthodox economics and its problems caused by itself will be discussed. Finally, the reasons of high tensioned relation between ethics and economics will be betrayed.

**Key Words:** *Ethics of economic, Orthodox economics, ethics,*

**JEL Classification:** A12

### **1. INTRODUCTION**

Main purpose of this study is to examine the relations between economics and ethics in the context of Orthodox economics. What do economics investigate as a social science? What is its purpose? Answers of these questions determine the role of the relations between economics and ethics. Subject of this study is why do economics that grow up in the backyard of ethics, have been evaluated in to tens relations in orthodox economic.

### **2. THE PHASES OF THE CAPITALISM AND THE TRANSFORMATION OF ECONOMICS**

It is difficult to understand the function of economics without knowing the work of capitalistic system, its crisis and circles. Capitalism, desiring endless capital accumulation, has several

phases and each single phase which is passed through has own systems of value, mode of production and production relations. Accordingly, the projections of the changes in the capitalist world can be seen in the doctrines of economics. (Özpinar, 2008: 255) The theory of the economics have been developed to explain different phases of the capitalism. Every single crisis in the world has created new theories of economics or new trends. (Köymen, 2007: 21)

Physiocrats developed the theory of agricultural capitalism at the second half of the 18<sup>th</sup> century. Smith, considering the development of industry, would embark to establish a theory of capitalistic mode of production just after Quesnay. (Denis, 1973: 187)

Classical economy-politics emerged from the critics and aggressions to the ruins of feudal and mercantilist era. Accordingly, it was an economics which related with change and development. So, it was interested in the linkage between society and economy and its momentum, direction and modes. Shortly, it was economy-politics. Whereas, the emergence of the Neoclassical economics starts with the economists begin to consider the accomplishment of industrial capitalism, especially in Great Britain. (Dowd, 2008: 113).

The Critics, targeting the capitalism made impossible to be impartial in the welfare of society at the end of 19<sup>th</sup> century. Marx took labor theory of value from classical doctrine and used it to justify the socialism. This phenomenon brought Neoclassical to make a new explanation for value. "Subjective real cost" in which the mean of value can be determined personally, replaced the objective real cost. Although the classical theory believed in economic conformity it is also accepted the triple class repartition and analyzed economical topics with a historical and social approach. In that case, the new theory, with its subjective nature, first leaves Classical's classified structure of the society then, atomizes the society because it considers the society as crowds of individuals. Social class order was became indefensible because of the actions of the labor class became freshen. So, Neoclassicals started to create new theories which unconnected from the social order. (Kazgan, 1997: 109)

The point that Ricardo minded most was to understand the distribution of revenue and wealth among three classes (landowner, labors and capital owners). According to this understanding the main problem of the political economy is to determine of the laws of this distributions. While industrial revolution and capitalism was gathering the way in 19<sup>th</sup> century, the class conflict on determining the laws has three dimensions. First between, capitalists and landed gentry second, capitalists and industrial workers, the last, workers and the powers of land and industry. When the gentries lost their power except veto rights in the assembly the fight between capitalists and workers remained in the middle of the century. As long as the discussions on the class lesser, that was good in such a world. Utilitarianism and the utility theory in economics switch its attention from the problems related with production to psychic aspects of the units of economics such as consumers, workers, business environment and markets where goods are sold and bought and individuals who give their response according to pleasure or pain. This theory based on the rational human who can do the best things for own interest in anytime, anywhere and any situation. According to this theory there is no class, no history, no past and future. (Dowd, 2008: 62-63) Detaching economics from ethics is an important step of the justifying the system in the process of capitalism. Although, Orthodox economics excludes the ethics theoreticaly, Hausman and McPherson (1993) stated that the economist should care about some aspects ethical issues.

Economists should care about moral questions for at least the following four reasons. (Hausman and McPherson, 1993: 673)

- 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. Because economists are interested in the outcomes, they must be interested in morality.
- Standard welfare economists rest on strong and contestable moral presuppositions. To assess and to develop welfare economics thus requires attention to morality.
- 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 understand these moral commitments, which in turn requires attention to morality.
- 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.

### **3. BASIC POSTULATES OF THE ORTHODOX ECONOMICS AND ITS ETHICAL PROBLEMS**

According to Neoclassical view, the economics is not a discipline that isn't aiming to inform society on what to do to understand economy. Their economics don't tell anything on economy. Their economics defines the science as to match endless needs with limited resources. Actually, neither the resources limited nor the needs endless. Of course, if production and consumption use resources wastefully and if you provoke people's desire by advertising resources becomes limited and needs becomes endless. (Dowd, 2008: 33)

Positive economics considers economic theory as stable conceptual framework and it is also weak on this consideration. These economists argue that the economics is at the highest level of its development. Such an argument creates an acceptance that all problems of economics are solved. In this regard, positive economics is another struggle of sterilization to keep away economics from its social contents. (Cited from Görün: Durusoy, 2008: 9)

Standard economic theory models behaviour using constrained maximization, where individuals are rational and have well defined utility functions that represent their preferences, and choose their action by maximizing their utility subject to appropriately defined constraints. Behavioral relationships are obtained by observing how choices change when the conditions the individual faces are altered. This approach to decision-making ignores ethical considerations, as when the individual assesses the consequences of choosing each bundle in order to decide which to consume, only the consequences that the individual faces are considered, and hence the consequences faced by others are not considered. Therefore, the individual is motivated only by self-interest and is not motivated by ethical considerations, such as altruism, sympathy or fairness. Although this individual may be classed as being selfishly self-interested, they are only so because the analysis does not allow them to be otherwise. The individual is therefore self-interested rather than selfish, as they would only be selfish if they considered the consequences faced by others and

subsequently decided to ignore them. Furthermore, although the choice the individual makes may be the choice that is the most ethical, this occurs by chance not through intent. Therefore, although the choice may be ethical, the individual is not ethical as they act only in their self-interest and are unaware of how their decisions impact upon others. (Rowen and Dietrich, 2004: 1)

It is not surprising to find that a study of the nature of rational behavior, in any sense of the word, leads on in this manner, into analysis of the nature of morally free behaviour. But the point to emphasize here is that the economist in this instance finds among the conceptions of moral philosophy terms of thought and distinctions among which to select in order better to criticise and articulate the meaning of an empirically very fruitful presupposition of economic discourse. And it is interesting to note this point implied here: that, in this line of thought, recognition of elements of moral freedom in 'economically rational' behaviour is in no way in-compatible with a critical maintenance of the view that there are general and empirically verifiable laws of such behaviour. It would appear that, developed along these lines, a social science may in fact become to some extent an empirical science of the general, though exceptionable, patterns of freedom as a factor in social life. (Clark, 1956: 125-126)

The transition from classical to neoclassical economics brought both substantive changes in economic doctrine and some real changes in methodology. In its focus on individual decision making, neoclassical theory, particularly in its Austrian or Walrasian variants, is a more individualistic and subjective theory than was its classical predecessor, and the recognition and appreciation of this fact are the most significant contributions of early twentieth century methodological writing. The major authors are Ludwig von Mises (1933, 1949, 1978), Frank Knight (1935, 1940) and Lionel Robbins (1935). Von Mises and the so-called Austrian economists laid particular emphasis on the individualism and subjectivism of economic theory. Frank Knight's distinctive methodological contribution is his stress on the importance of uncertainty and error in economics, which led him to agree with the Austrians that one loses sight of the central problems and concerns of economics as soon as one abandons the subjective point of view and attempts to think of economics as if it were a natural science. Lionel Robbins wrote the classic defense of the individualist and subjectivist perspective in his *An Essay on Nature of Significance of Economic Science* (1935). His Essay is best known for its argument that interpersonal utility comparisons require value judgments and for the definition of economics that it presents. Robbins asserts that "Economics is the science which studies human behavior as a relationship between ends and scarce means which have alternative uses. According to this definition, economics is not especially concerned with any particular classes of social phenomena (such as the production, distribution, exchange and consumption of goods and services). It is instead concerned with a particular aspect of human behavior. (Hausman, 1984: 133)

Douglass North has nicely summarized the implications of the shift in the paradigm or revealing model for what had been the field of political economy into the new, much powerful field of microeconomics: (Cited from North: Scott, 2006: 22)

*"There is simply no mystery to why the field of development has failed to develop during the five decades since World War II. Neoclassical theory is simply an inappropriate tool to analyze and prescribe policies that will induce development. It is concerned with how markets operate (i.e., supply and demand), not with how markets develop.... The very methods employed by neoclassical*

*economists have dictated the subject matter and militated against such a development. The theory...that gave it mathematical precision modeled a frictionless and static world.”*

It is possible to tell that the evaluation of economic relations to market system created objective human which economics need and as a natural law “social consistency of production” to understand its feelings. Nonetheless, economics has never excluded ethical values because of its pioneers’ impact. In dominant economics, the economists take into consideration of ethical aspects, as ethical values on the fiction of externalities. Even in this case, externalities haven’t got a mean which defense moral value. Shortly it is content less. (Cited from Alvey: Hanedar, 2007: 41)

Neoclassical welfare theory, basing from Italian economist W. Pareto’s value judgment generally, notes whether a policy is good or bad. According to Pareto’s value judgment, the result of a policy should better at least one person’s status while others status remaining stable, in this way social welfare rises. This approach takes current income distribution as a fact; and also accepts the economical policy which rises the riches’ income level while poors’ remaining stable. (İşgüden and Köne, 2002: 99-100)

Sen refers to “the historical evolution of modern economics largely as an offshoot of ethics”. The “ethics-related tradition,” can be traced back at least to Aristotle; for him, wealth is only a means to some other end and it must be viewed within the larger ethical/political context. The ethical tradition has two components which are particularly relevant for our theme, both of which can be found in Aristotle: “the ethics-related view of motivation” and the ethical view of “social achievement”. In the motivation case, how one should/should not act is closely connected to larger questions such as “How should one live?” In this approach, “ethical deliberations” do affect “actual human behaviour”. Second, Sen cites Aristotle’s view that achieving social ends is desirable. Social achievement refers to an evaluation of “the good” which is broader and “more fully ethical” than just efficiency. (Cited from Sen: Alvey, 2005: 4)

#### **4. ECONOMICS AND ETHICS: WHAT IS THE REASON OF TENSION?**

*“Show such a behavior that your economical attitude be suitable economy’s duo duty; both provide people their needed goods in an optimal way and basic space which human practice and self creation could be constituted. (Cited from Koslowski: Pieper, 1999: 91)”*

The Objective Moral Theory which ethical base of settled Welfare economics and settled economics, don’t accept an external judgment on evaluating the results of actions but just accept objects like Nietzsche expressed “We, moderns don’t have anything except ourselves”. Accordingly, the justness and injustice of actions couldn’t be evaluated externally. The justness and injustice naturally exist in action itself, real and objective. There is no justness or injustice and goodness or badness except the results of actions. Moral principals are independent principals that could be reached a priori without any experience or education. The only way to reach these principals is the subject’s theoretical apprehension and it is obligatory to be accepted for all rational beings. (Cited from Cottingham: Güvel, 1998: 208)

Jevons was trying to detach economics and ethics in the context of need concept in early 20<sup>th</sup> century and George Stigler argued that “if an individual’s interest and common ethical values conflicts, always individual’s interest would win the conflict”. According to Stigler, this is not

only valid in economical phenomenon but in relations between couples, kids, crime, religion and other social matters. Stigler ends his determination perky “We are living in individuals’ world where people has enough knowledge and can defense theirs interests”. Actually, only ethics approach which can be accepted by economic theory could be individual interest ethics in such a world like this. Individual interest ethics is a subversion of utilitarian ethics. (İnsel, 2000: 2)

Neoclassical economics argues society would display its social utility function and this function is fair. This argument demotes economics to a technical formula of the conditions of optimization. The position of moral and value judgment are considered “scientifically unimportant and illegal”. The economic theory struggling for moral neutralism left the power which could help understanding that supplies a fair and good social order. (Cited from Wisman: Güvel, 1998: 216) The egoist individual created by market order, supplies a methodological opportunity that economic theory can’t give up. To solve the main problem of economics “maximize the utility and minimize the cost”, economical subjects must be conformable in its differentiations. The typical specifications of the type of homo economicus is just care about its interests and while doing this, it is not affected from anything. There is no place for altruists in economic expression. Altruist behavior can only be accepted for out of economic spaces or it is called as a hidden individual interest seeking behavior, but in fact it is not altruist. The objects of economics are economic agent who rational, sensible for its interests, can make evaluation for utility-cost or cost-profit. (İnsel, 2003: 32-33)

The transition from economy-politics considering social relations to economy considering took place in studies of founders of the school who searching the relations between objects and people. For instance, Jevons tells it in his book called the Theory of Social Economics “getting crowded and organized our labor class can be stop real development of our political and economical freedom because of ignorance. So, we should develop a new theory that displays the labor can never be the source of the value. (Ercan, 1998: 229)

Because of homo economicus approach, the Orthodox economics marginalizes the existent social problems for individuals. Because, according to rational human assumption, the individual is a fictional human who cares only to maximize its own interest. Neutrally, it can’t be expected from this type of human to consider society’s problems. This assumption creates also individuals who are insensitive to unemployment, poorness and social problems, and it brings the process of commodization in social life. Without investigated system for the polarization created by capitalism and other problems all responsibilities are given on individuals, accordingly if there is guilty that must be individual. In that way, capitalism can keep going purified, without looking behind and its ruins. (Özpınar, 2008: 258)

Neo classical theory produces some new relations starting from basic assumptions and laws. One of them is the equation of  $MP(L) = w/p$ . The relation is a natural and obligate result of balanced production circumstances and it is one of the conditions to provide profit maximization in neo-classical production. Here, the term of “ $w/p$ ” shows the real wage for labor and  $MP(L)$  shows the contribution of labor force to production. This equation shows how much the wage that labor need to take in balanced condition contributes in production. In other words, the exchange value of labor is direct proportion of its contribution to production. That is to say, the exchange value of labor is related with labor’s productivity. On the other hand, this proposal is an answer for Marx

who tells the labor is exploited unavoidably in capitalist system. Neo-classical theory defends capitalism in balanced condition as a justice system by expressing; like capital the labor too takes a portion from revenue related with its contribution to production. (Erol, 1997: 224) While the economic theory mentioning how “independent consumer’ demand” that never be impressed from anything, composes market demand, it is also ironic that in business administration education there are some courses are given to student how to effect and direct consumers by advertisement an how the new demands are created. (Köymen, 2007: 197)

The adventure of economics which started with political economics is evaluating in a field which technical, neutral (!) and depended from politics by the effect of dominant economics. To keep up a dominant system a justifying theoretic platform is needed. The interaction between knowledge and power (government) is feeding each other. The needed theoretic platform in the globalization period of the capitalistic system is created by Orthodox economics. Thus, the starting point of economics is going further and further away from ethics as long as it is departing from social to individual. However, the externalization of ethics by dominant economics in theory made the need of ethics more important in practice. The dilemma created by this situation is not trying to be solved by involving ethics in to economics but, the problems occurred in practice is trying to be solved by new expressions created in individual and social fields. In this context, some ethic problems like poverty, to be sidelined and environmental pollution which were created in practice by Orthodox economics are being drawn away to the expressions area like “social capital”, “non governmental organizations (NGO)” and “sustainable development”. Consequently, Orthodox economics and its economic policies do not have any sin basically, the main problem is the people who have poor relatives and friendship ties, can not be organized by themselves, use electricity and tap water wastefully. The solution is here; “*set good relations, trust each other, be organized, the hole in ozone layer becoming larger, be sober at home and business*”. The impartial dominant economics is seeking solutions in individuality according to its definition. The search for finding solutions in special fields for ethical problems that composed by mass production vanish the mechanism lies in the basis of the problem. As much as the ethical problems become concrete, the expressions composed by system multiplies and becomes more abstract. By this way, the dominant ideology is being regenerated and individuals are alienated socially to this kind of problems.

## 5. CONCLUSION

The fundamental ethic problem created by economics is to transform an order in to law in the theoretic platform by sidelining human, its institutions, the level of development and by making some people over rich and impoverishing most of people, and by telling “the only way is this” and “this is the science”. This is just brain washing. (Kazgan, [http://kazgan.bilgi.edu.tr/docs/iktisat\\_ve\\_Etik.doc](http://kazgan.bilgi.edu.tr/docs/iktisat_ve_Etik.doc) 2006: 7)

In social sciences, at the same time it is expected that concepts or facts must be functional while they are definitive. Referencing to this point it is clear that to stick the definition of economics between “limited resources and endless needs” contains certain preferences. Where does the traditional economics reach by starting with “homo economicus” and “ceteris paribus”? Where is and how much the ethics take place in the adventure of economics. May be it is better to ask this question that way: Must economics contain ethics? Otherwise is it independent from ethics? It is clear that there is no place for ethics in Orthodox Economics. If there is one, it must be the ethics

of interest. It is only possible to reach social welfare by taking care of interests. Ethics is related with “other”. Every threats, manors or activities affecting “other” have inevitable relations with ethics. Known as the father of economics Adam Smith is an ethic professor that wrote his famous “Wealth of Nations” after he wrote the book of “The Theory of Moral Sentiments”.

While everything goes fine and works regularly in the visionary world of Orthodox economics, to become farther from social reality and ethics vanishes the problem which caused by the system. Economics is a science of distribution and neutrally contains ethics too. The efforts of the sidelining the ethics is just an effort to hide realities from public’s view. Thus, the reasons of the problems are seek away from the right space. Everywhere is clean, there are no problems in society but the real problems are hidden. The duty of economics as a science is not to explain the visible things but the reasons of realities that lie beneath the visible things and work of system. Economics must not applaud the actors, and the happenings in the stage, but, to show the back stage and the process of scripting.

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