

World Economics Association

(WEA)

Conferences, 2012

Economics and Society. The Ethical Dimension

Feb-March 2012

Economics as a Moral Science and an Economics of Virtue

Abstract

Moral science is a science concerning human nature which is not as exact as natural science and is more complicated than it. One of the methods of moral science is value judgment. Normative value judgment is associated with justice, virtue, equity, fairness, and equality. From this, a distinction between positive and normative economics is derived. While moral scientists accept a distinction between positive and normative economics, they perceive that both- facts and values- are deeply entangled in actual human life.

In any case, ethics, and morals are not normally an object of economists' consideration. I think economists should consider whether, in addition to their specialties, they should be servants of ethics.

Capitalism through profit making and money loving drives economic efficiency and rationality, and produces the "excellent" economic performance.

Following the ethics of Utilitarianism, right conduct means to increase pleasure, and wrong conduct to decrease pleasure. However, this ethic makes people think much more about profit, and much less about justice, and under financial capitalism and its love for money they will care much more for money than for character.

In principle, the ethics of Confucianism puts the ethical life above the economic one. Of course, food is the primary means of building up society, but faith is the final end in maintaining society. Economists have to study more whether in the

promotion or checking economic development they are putting ethical life above economic life.

When economists consider a desirable socio-economic system, it is important to discuss questions of how the relationship between government and market should co-exist.

An economics of virtue says that government is the greatest of human institutions, the relationship between government and market is but one phase of the many relationships, and the government as an institution has a bigger function than its relationship to the market. This is against a theory of the free market. An economics of virtue defers to economic freedom under lots of social relationships and networks although it does not receive as much economic freedom. Following this logic, the role of government is extremely important. Government has a great duty to govern its country with the spirit of virtue and justice for the people. In the normative sense, that is called Keisei-Saimin (Japanese) and JingShi-Jiming (Chinese) which share the same Chinese letter in East Asia. This means that good leading people have to have the noble mission of devoting themselves to raising people's living standards and to improving their economic welfare. Keynes' Harvey Road presuppositions may be similar to Keisei-Saimin and JingShi-Jiming. Keisei-Saimin and JingShi-Jiming are compatible with democracy.

Susumu Ono

Emeritus Professor

Ritsumeikan University

1-1-1 Noji-Higashimach, Kusatsu, Shiga 525-8577 Japan

E.mail: s.ono@fc.ritsumei.ac.jp

Contents:

1. Economists should keep “Economic Theory is a Servant of Practice and Society” in Mind
2. Economists should reject the ethical view that “Happiness Derives from a Favorable Balance of Pleasure over Pain”
3. Economists should not draw a sharp line between positive economics and normative economics
4. Economists should always consider what sorts of socio-economic system are desirable
5. Economists should do their research with the Spirit of Keisei- Saimin(Japanese) and JingShi-JiMin(Chinese) which share the same Chinese letter

* * * * *

The economist and the social scientist should take ethics and morals in economics, more generally, ethics and morals in social sciences seriously, irrespective of the academic specialty. Specialists who evade from this unshirkable responsibility by saying ‘this is not my specialty’ are too many.

1.Economists should Keep “Economic Theory is a Servant of Practice” in Mind

When A.C. Pigou, in his ‘Memorium: Alfred Marshall’, referred to The Economics of Alfred Marshall, he leaves behind us his words’ economics is a servant of practice’ These words are worth remembering.

‘Starting out then with firm view that economic science is chiefly valuable, neither as an intellectual gymnastic nor even as a means of winning truth for its own sake, but as a handmaid of ethics and a servant of practice, Marshall resolutely set himself to mould his work along lines conforming to that ideal’ (Pigou1956,p.84). He says that an economist is a servant of society.

A majority of contemporary neoclassists are not a servant of society, but a servant of mathematics.

Alfred Marshall, A.C.Pigou, H. Sidgwick, John Nevil Keynes and John Maynard Keynes regarded economics as a moral science. Although they received a distinction between positive economics and normative economics, they thought the two is entwined in actual fact.

Keynes says, in a letter addressed to Roy Harrod (16 th July 1938). ‘I also want to emphasise strongly the point about economics being a moral science It deals with

introspection and with values. I might have added that it deals with motives, expectations psychological uncertainties' (Keynes1938, p.300).

'My point against Tinbergen is a different one. In chemistry and physics and other natural sciences the object of experiment is to fill in the actual values of the various quantities and factors appearing in an equation or a formula; and the work when done is once and for all. In economics that is not the case, and to convert a model into a quantitative formula is to destroy its usefulness as an instrument of thought (Keynes1938, p.299).

According to John Maynard Keynes, economics is essentially moral science, not natural science. Its method uses 'introspection' and 'value judgment'. He calls a science concerning human nature which is not as exact as natural science and is more complicated than it 'moral science'.

William Stanley Jevons, another founder of neoclassical economics who published "The Theory of Political Economy" in 1871 and "The Principles of Science, A Treaties on Logic" in 1872 also could be said to be a moral scientist. Getting nearer to our own time, Friedrich A. Hayek is a moral scientist as well.

Consequently, they would have to go deeply into considering over how society and practices should co-exist. These economists had an important ethical or moral responsibility to society.

In the post-Second World War period Amature Sen is a strong proponent for economics as a moral science.

2. Economists should Reject Ethics that Happiness Derives from a Favorable Balance of Pleasure over Pain

The notion that happiness is the highest good and concept of happiness was at the center of moral theory is as old as Aristotel.(Brennan,p.59). There are many goods or values: health, money, friends, power, fame and so on. These goods are what men and women want. So, most men and women say that the highest good is happiness. However, is happiness the highest good?

A utilitarian, John Stuart Mill defined happiness in terms of pleasure. To Mill, good was the greatest possible happiness for everybody. Happiness derives from a favorable balance of pleasure over pain.

If we receive the concept of 'utility' as the foundation of ethics, happiness is intended pleasure and the absence of pain. So , the pleasure is the highest good. Right conduct is to increase pleasure (maximum pleasure), and wrong conduct is to decrease it (maximum pain). This is the ethics for utilitarianism, although the utilitarian stress that the highest good is not just my happiness (Brennan p.71).

While Western economics with utility and choice emphasizes self-interest(means to

ends rationality) and material development, Confucian economics as well as Buddhist approach stresses 'interconnectedness' and 'inner development'(Zsolnai,ed.2011).

An American philosopher, Hebert Fingarette refers to Confucius "The Analects".

When I began to read Confucius, I found him to be a prosaic and parochial moralizer, his collected sayings, the Analects, seemed to me an archaic irrelevance. Later, and with increasing force, I found him a thinker with profound insight and with an imaginative vision of man equal in its grandeur to any I know. Increasingly, I have become convinced that Confucius can be a teacher to us today—a major teacher . . . He tell us things not being said elsewhere; things needing to be said. He has a new lesson to teach.

Having the benefit of some acquaintance with recent developments in the philosophical study of man., I also saw that there are distinctive insights in the Analects, which are close in substance and spirit to some of the most characteristic of the very recent philosophical developments. In these respects, then, he was "ahead of our times" until recently, and this is an important reason for his having been pretty much neglected in the West for several centuries. Now, however, we can profit from the parallels in his thinking to certain new strands of Western thought, for here his way of putting the issues places them in a fresh perspective.

There are such important parallels in addition to what is more radically new (Fingarette1972, vii).

On the one hand, there is ethics A in which it is justified for the individual to seek maximum pleasure like the Utilitarian ethic (whatever the type it is). So far questions as to what is equity?, what is equality? or what is justice? have been much discussed in terms of Utilitarianism or 'Non-utilitarianism'. On the other hand, there is ethics B in which it is the individual principle to put virtue before pleasure. In ethics B, "Relationship" is a keyword in the discussion of social justice (Ono2011a, 2011b) as well as of individual virtue. In ethics B, in terms of relationship, polity discusses the relationships between the governor and the governed; the family refers to the relationships between parents and children, husband and wife, older and younger brothers; the society refers to friend and friend. This is the theory of "five relations". In this sense, political relationship is only one phase of their manifold social relationships (Hsü1932, p.29).

Chen (1911/2002) (1) argues as follows.

Human nature is already selfish, and society is already a profit-seeking society. The people know profit in the narrow sense by birth and do not need any more teaching about it. If a great teacher like Confucius were to talk constantly about profit, it would make the people think about profit still more and about justice still less. They would

care much more for money than for character. They would excuse themselves on the ground of the teachings of Confucius, and would use Confucius' word for their pretext. Therefore, Confucius does not use the word profit very often, but uses the word just for its substitute (pp.99-100).

In general, Confucius puts ethical teaching above economic life. But, in a macroeconomic level, Confucius puts economic life before ethical teaching for the people. Nevertheless, he forbids the higher class (including the intellectual class) to seek private gain.

Social profit is ultimately harmonious with social justice, while individual profit is not always harmonious with individual justice. Even though the economic principles are finally harmonious with those of ethics, economic life cannot exist along with ethical life under some circumstances, and when the economic life and ethical life cannot both be preserved, economic life must be sacrificed(Chen 1911/2002 ,p.101).This seems a contradictory to his own principle that economic life come before ethical life. In the advanced stage when people have built a society as high as a state, people must know something about faith, and faith is the strongest tie. Food is the primary means of building up society, but faith is the final end in maintaining it. The two theories of Confucius are not contradictory. Hence, this policy is not only honest, but also wise (Chen 1911/2002, p.102).

In the common sense of the intellectual and thinking community across the nations, as individual value judgments and views are within the boundaries of individual freedom, they normally do not become an object of economists' consideration. Nevertheless, I think economists, beyond their specialties, should take up the matter of this value and world view for discussion. The reason is that the paradigm of economics places value as an indispensable assumption. Thomas Kuhn used the word Paradigm to describe a system of fundamental ideas. And he makes paradigm shift associate with metaphysical outlook replacement.

Bad economic models or bad economic theories generate bad economic policies. Bad economic policies produce bad economic consequences. Bad neoliberal economic policies generated the East Asian Crisis(1997), the Russian Financial Crisis(1998), the Brazilian Financial Crisis(1999), The 2008 Global Crisis ,the ongoing Euroland Crisis, and "The Lost Twenty Years of Japan". Bad theories come from bad values.

Of course it may be highly difficult to tell whether the value the individual cherishes is good or bad, and right or wrong.

Value judgment is a manifestation of human nature coming from a great depth beyond science. Any subjective value judgment is a starting point for us to acquire scientific knowledge. At the same time it is essential to take subjective value judgment

out of science. Nonetheless, value judgment remains in science where there are elements which science cannot explain fully, rationally and explicitly. It is, so to speak, tacit knowledge.

3. Economists should not draw a sharp line between positive economics and normative economics

The Confucius Economics does not make a distinction between normative and positive theory. The reason is that that distinction is derived from normative value judgment which is called 'justice' and 'virtue' through human real life, and facts and values are deeply entangled in human real life (Ono2010, p.380).

Social theory disciplines have an intrinsic connection with the moral and political life of society. Hence, it is wrong to expel moral, historical or institutional concerns from economics discipline.

To make a distinction between positive and normative economics is to shed any overt moral, historical, or institutional concerns. Mainstream economics looks only at economics which has got rid of moral, historical and institutional knowledge as scientific knowledge. Having accepted getting rid of these elements, it is much easier for economics to use mathematics. But it divorces itself from the complications of reality no matter how exactly mathematical economics becomes like natural science.

(a) Economists should draw a sharp line between recognizing facts without any prejudice and at the same time recognizing facts with any theory or paradigm

For us to recognize statistical and historical facts we must have a certain of value judgment or theory. Therefore, it is very significant to recognise them as to what kinds of theory or conception they are. It is impossible to recognise things in an empty state. It is not contradictory to recognise things with detachment or without any prejudice and to recognize them with any theory or value judgment or theoretical framework.

(b) Economists should abandon the theory, framework and paradigm they employed when they find massive or serious evidence contrary to them,

For example, a positivist under any theoretical framework continues to pursue facts, and he or she finds massive evidences contradictory to framework he or she employs. If he or she has no self-interest, he or she will abandon its framework, and shift to another framework. However, If he or she stick to its framework for their own self-interest, they are not he or she who pursue truth.

(c) Economists should take seriously which is right, whether an economics of virtue or an economics of wealth

According to Confucius, government is the greatest of human institutions. The free market is a part of the social institutions, but government as an institution

has a bigger function than markets (Hsü1932, pp.128-29). Friedman (1962) says that there does not exist political freedom without free markets (Chapter1). Hence, for him, free markets put restrictions on political power. Friedman's thought is laissez-faire. Laissez-faire means letting natural economic laws run their course. During the eighteenth –century Enlightenment, Taoist ideas were studied and wu-wei(no action) came to the attention of the Physiocratic school, who adopted it as laissez- faire. Although Adam Smith never uses the term, it is clearly behind his concept of the invisible hand (Witzel's introduction in Chen1911/2002).

Confucius and his followers rejects laissez-faire and competition, because if we follow the laissez-fare policy, let competition be absolutely free, the world would be left to the few strongest only.

Confucius and his followers disapprove the Western style free market. Their idea was that economic activity must be managed and controlled by virtuous people.

(d) Economists should tell people historical experiences

The 1930s Global Great Depression and tremendous Hyper Inflations are not well-known by today's young people.

There is no theoretical benchmark to define Hyper Inflation. The rising rate of prices over 50% a month and about 1,300 % a year is called Hyper Inflation. Hyper Inflation took place in Germany after the First World War and in Hungary after the Second World War. In recent years, Zimbabwe has experienced the inflation rate of 2,300 billons % a year in January, 2009.

What should we learn from the facts of the economic history? One is to derive any significant lesson for the future from historical experiences. Another is to render historical materials useful for improving and making any theory or for building a system of theory.

The role of good neoclassical economic theory is to explain and justify the status quo in capitalism (Klein, ed., p.93). The conventional understood goal of theory, under the aegis of the philosophy or theory of science, is to pursue truth (explanation and description). But theory involves more than the quest for truth per se (Klein, ed., p.41). Nakayama(1974) classifies learning into [a] for recording history and government matters (the Oriental learning) and [b] for controversy(the Occidental learning). It must be remembered there is a tendency to treat theory-building lightly or ignore it because of the Eastern learning tradition. Why is this so? Confucius says,' A transmitter and not a maker, believing in and loving the ancients' (The Analects, Chapter 1, Book VII Shuh Urh). This is a method of Confucianism. A new, original argument is expressed through an interpretation of the Classics. This method normally does not give any incentive for creating a quite fascinating theory or a system

of theories while Chu Hsi(1130-1200)(2) synthesized the basic doctrines of Confucianism and brought its development into a harmonious whole.

(e) Economists should overcome the bad aspects of positivism

i) **To escape from reality.** As positivism treats facts and experiences as important, it becomes a backward-looking argument which escapes from reality and the current or present problems.

ii) **To lack the critical spirit.** It puts much a higher value upon historical facts and statistical data, so that it lacks a critical spirit to the ongoing reality. Therefore, it gets into a stronger trend for supporting any existing political power.

iii) **Absence of reasoning power.** Scientific positivism has a defect that it is unable to foretell the future. We have no theory to foresee the future. It is possible to foresee the future with insight acquired on the basis of real tacit knowledge, or it may be possible to foresee the future by using 'abduction' in pragmatic logic from the actual data.

iv) **Inefficiency for truth discovery.** Rigid positivists do not receive reasoning power, tacit knowledge, insight, and 'abduction'. They do not believe a matter of course logically and what is clearly right until they verify it by facts.

v) **Facts are infinite.**

The earth in both time and space has infinite facts. It is absolutely impossible to know infinite facts. As all the facts become the past things instantaneously, facts after facts accumulate in succession even if we can chase after facts and continue to chase after them. That is why positivism without logic lets researchers push meaningless and endless subdivision of subdivision and subdivision of its subdivision again in academic specialty.

However, it is impossible to grasp facts as they are infinite even if we search them out again and again.

An attempt to integrate a lot of social science disciplines by game theory has been made. I think another attempt is needed to overcome the bad aspects of academic specialty with its endless, meaningless subdivisions. It becomes extremely difficult for us to have a total, integrated view of society and the world by putting separated social theory disciplines together.

In substance, I am envisaging an integrating principle such as Johann Gottlieb Fichte (1762-1814) and Friedrich Wilhelm Shelling (1775-1854) used, in the sense that they tried to integrate lots of disciplines. Of course their content was basically different from what I have in mind.

4. Economists should always consider what sorts of socio-economic system are desirable

In his wide-known article “The End of Laissz –fare” (1926), John Maynard Keynes addresses capitalism from two points of views: one ‘efficiency’ and the other ‘moral’. For the past over twenty years, capitalistic market efficiency and rationality have been discussed too much by mainstream economics.

According to Keynes (KeynesIX,1926, pp.293-24), the essential characteristic of capitalism depends upon the money-making and money-loving instincts of individuals as the main motive force of the economic machine the most deeply felt divisions of opinion are likely to be waged in the coming years not round technical questions but round those which may be called moral For my part I think that capitalism, wisely managed, can probably be made more efficient for attaining economic ends than any alternative system . . . but in itself it(capitalism) is in many ways extremely objectionable

Keynes besides argues as follows in “The Economic Consequences of the Peace” (Keynes II, 1919).

Europe was so organized socially and economically as to secure the maximum accumulation of capital. While there was some continuous improvement in the daily conditions of life of the mass of the population, society was so framed as to throw a great part of the increased income into the control of the class least likely to consume it. The new rich of the nineteenth century were not brought up to large expenditures, and preferred the power which investment gave them to the pleasures of immediate consumption. In fact, it was precisely the *inequality* of the distribution of wealth which made possible those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others. Herein, lay, in fact, the main justification of the capitalist system (Keynes II, Chapter2).

b) In the 1904-5 Weber’s “The Protestant Ethic and the Spirit of Capitalism”, he found ‘inter–worldly asceticism’ in Protestantism, especially Calvinism dogma and concluded Western capitalism rose from this ethics. Western capitalists devoted themselves completely to make money, but they did not make money from any motives to pursuit material pleasure. They led a simple life with frugality. Although it came from their inner–worldly asceticism incentives, their religious incentives were to identify their callings. Calling was an expression of ‘inner–worldly asceticism’.

Rational conduct on the basis of the idea of the calling was born from the spirit of Christian spirit. Just as it was the spirit of modern business man that business activity became a calling as mission, it became characteristic of the modern worker that labour is regarded as a calling. This labour as a calling is said to legalize the exploitation of this specific willingness to work (Weber1904-5/1996, p.178).

Victorious capitalism, since it rests on mechanical foundations, needs its support no

longer in the United States , the pursuit of wealth, stripped of its religious and ethical meaning, tend to become associated with purely mundane passions (Weber1904-5/1996, pp.181-82) Weber continues to say ‘Specialists without spirit, this nullity imagines that it has attained a level of civilization never before achieved’ (Weber1904-5/1996, p.182).

This ‘Specialists without spirit’ is a serious problem which we are confronting in the age of financial capitalism which has been exercising an overwhelming influence over the world for the past 30 years.

Keynes’ discussion over the 19 century capitalists’ behavior and ethos is worthy of noting, in comparison with Max Weber “The Protestant Ethic and The Spirit of Capitalism”.

5. Economists should do their research with the Spirit of Keisei-Saimin(Japanese) and JingShi-JiMin(Chinese) which share the same Chinese letter

Keisei- Saimin and JingShi-JiMin are a significant concept of Confucian political philosophy. Keisei- Saimin and JingShi-JiMin mean that the good leading people have to have the noble mission of devoting themselves to raising people’s living standards and to improve their economic welfare. The bad leading people pursue only their self –interests. Keisei- Saimin and JingShi-JiMin are compatible with democracy, because this noble mission is able to check bad populism, especially in countries where are inexperienced in democracy.

James M. Buchanan and Richard E. Wagner (1997) “Democracy in Deficit: The Political Legacy of Lord Keynes” attacked Keynesian economics with Harvey Road presumption on the grounds of it being anti-democratic, aristocratic and unrealistic. Their criticism of Keynes is a serious error. Democratic politics does not work well without a lot of leaders with good values and morals. In the political philosophy of Confucianism, ethics and deep wisdom are ultimately much more important than technical knowledge.

Keisei- Saimin and JingShi-JiMin may be similar to Keynes’ Harvey Road presuppositions.

Notes:

(1) (a) John Maynard Keynes(1912) (The Economic Journal, Vol.22, No.88, Dec., pp.584-588) writes a review for Chen Huan-Chang “The Economic Principles of Confucius and His School” (Columbia University Studies, New York, Longmans. 1911, 2Vols. Pp. xv+756)

(b)Edward Alswarth Ross(1912)(The American Economic Review, Vol.2, No.4,Dec.,

pp.883-884) also writes a review for Chen Huan-Chang "The Economic Principles of Confucius and His School" (Columbia University Studies in History, Economics and Public Law, Vols. XLIV, XLV., New York, Longmans, Green and Company. 1911. Pp. xiii+756)

(c) Max Weber(1946) also introduces Chen(1911) in his "The Religion of China: Confucianism and Taoism"(translated and edited by Hans H. Gerth, with an introduction by C.K.Yang, New York ,The Free Press, p.251).

(d) Joseph A. Schumpeter (1954) introduces this Chen's book in his "History of Economic Analysis"(George Allen & Unwin, p.53)

(2) Chu His gave Confucianism new meaning and his thought dominated not only Chinese thought but the thought of Korea and Japan for centuries. No one has exercised great influence on Chinese thought than Chu His, except Confucius, Mencius, Lao Tzu and Chuang Tzu("A Source in Chinese Philosophy", Translated and Compiled by Wing-Tsit Chan, Princeton, New Jersey, Princeton University Press, pp. 588-89)

References

Brennan, Joseph Gerard (1973) Ethics and Morals, New York, Evanston, San Francisco, London, Harper & Row.

Chen Huan-Chang (1911//2002)The Economic Principles of Confucius and His School, Volume1, With an Introduction by Morgen Witzel, Bristol, England, Thoemmes Press.

Fingarette, Hebert (1972)Confucius, The Secular as Sacred, Long Grove, Illinois, Waveland.

Friedman, Milton(1962) Capitalism and Freedom, The University of Chicago Press.

Hsü, Shihlien Leonard(1932)The Political Philosophy of Confucianism, An Interpretation of the Social and Political Ideas of Confucius, His Forerunners, and His Early Disciples, London, George Routledge & Sons,LTD.

Keynes, John Maynard (1938) The Collected Writings of John Maynard Keynes XIV, The General Theory and After, Part II Defence and Development, Macmillan.

Keynes, John Maynard (1926) The End of Laissez-faire, The Collected Writings of John Maynard Keynes IX, Essays in Persuasion, Macmillan.

Keynes, John Maynard (1919) The Economic Consequences of the Peace, The Collected Writings of John Maynard Keynes II , Macmillan.

Klein,Philip A.,ed.(1994) The Role of Economic Theory, Boston, Dordrecht, London, Kluwer Academic Publishers.

- Nakayama, Shigeru(1974) Learning as History, Tokyo, Chuokoronsha.
- Ono,Susumu(2011a)The State and Justice in the Political Philosophy of Confucianism(2),The Ritsumeikan Economic Review, Vol. LIX,No.6, pp.460-94.
- Ono,Susumu(2011b) The State and Justice in the Political Philosophy of Confucianism(1) The Ritsumeikan Economic Review, Vol. LIX,No.5,pp.45-77.
- Ono, Susumu(2010) The Economic Principles of Confucius and His School: Eastern Economics as Another Paradigm Different from Western Economics, The Ritsumeikan Economic Review, Vol. LVIII, No.5 · 6, pp.364-431.
- Pigou, A.C. ed. (1956) Memorials of Alfred Marshall, Kelly & Millman, INC, New York
- Weber, Max(1904-5/1996) The Protestant Ethic and the Spirit of Capitalism” translated by Talcott Parsons, Introduction by Randall Collins, Los Angeles, California, Roxbury Publishing Company.
- Zsolnai, Laszlo,ed.(2011) Ethical Principles and Economic Transformation-A Buddhist Approach, Heideberg, London, New York, Springer.