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Ethico-Economics, the Future System[*]

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Abstract. Conventional economics, both in its free enterprise and command versions sought to delink the science of economics from moral religious values and reduce it to a positive science. Now most economists feel an urgent need for objective analysis of the entire economic landscape with a view to finding a fresh approach, which seeks the objective of efficiency and equity simultaneously and for all human beings. Productive investment is to be judged with reference to the twin criteria of economic viability and socio-moral desirability. Where and if the two conflict, the latter should get preference. The moral and ethical perspective is the common heritage of all religions. India is a plural society with multi-religious and diverse ideologies. In such a society, an integration of ethics and economics provides a common acceptable solution to economic problems and is in complete harmony with people's socio-cultural tendency.

INTRODUCTION

Economics being a behavioural science, it has been customary to devote the opening chapter of economic textbooks to its relationship with other social sciences such as history, political science, sociology, psychology, etc. Surprisingly hardly any textbook has touched the subject of economics and ethics, an integral part of our social life. The morality of economic agents influences economic outcomes. Economists' own moral view may also affect the morality and behaviour of others. A striking and relevant illustration has been presented by Richard Timuss regarding the system for acquiring and distributing blood for transfusions. According to him, voluntary blood donation systems, such as Great Britain's, are efficient than commercial systems. They embody and cultivate altruistic communitarian values. Altruistic donors have no incentive to lie about whether their blood is safe, but commercial donors plainly do (*Hausman and McPherson, 1993*).

No doubt, there have been noteworthy advancements in certain specific economic fields but the major ideologies have failed to resolve the basic economic problems of mankind. Capitalism is based on the principle of unfettered private enterprise, the profit motive and the mechanism of the market. Socialism sought its goal through public enterprise, social motivation and centrally planned command. The welfare state was founded on a system of mixed economy, the form of capitalism blended with a measured socialist compassion.

The three main economic systems inherited from the West - capitalism, socialism and welfare state - are based on the fundamentally and characteristically Western premise that religion and morality are not relevant to the solution of man's economic problems, that economic affairs are better settled with reference to the laws of economic behaviour.

In an effort to make economic science as precise as physical sciences and to be able to predict, economists have made certain assumptions. One such assumption is that man is a maximiser. He is conceived not only as a maximiser, but also as a rational 'maximiser,' he 'is competitive;' his 'wants' are insatiable, etc. Men and women are presumed to be motivated by self-interest rather than altruism 'and to be driven to fulfilling self-interest. They are actively, pursuing whatever things they desire. The human being is, thus, conceived as an acquisitive animal. Economic

theory is a study of the effects of one attribute of man as it motivates him to undertake his worldly activities. This is only one aspect of man's multifaceted life. But unfortunately, this aspect is taken by the majority of the students of economics as the only aspect of mankind. They generally forget that a hundred, motivation impel man. Very often these attributes override or blunt the acquisitive maximizing orientation. This is so to the extent that economic theory loses its clarity or may even suggest outcomes different from those that we, find in fact. Rational economic man is not altogether a pretty concept. The picture of man that it suggests "is not" attractive. Selfishness and calculation figure large in this image; love and generosity are overlooked. Thus an important aspect of, economic theorizing has been the exclusion from consideration of the effect of exogenous forces, the ethical factor in particular, on the process of economic change. It is correct that individual freedom has a high place in capitalism; that socialism is based on equality and justice; and that welfare state doctrine seeks to strike a balance between these two systems. But it is economic consideration that dominates ethics in these systems and not the other way round.

Let us closely examine the place of ethics in capitalism, socialism and welfare state in some detail.

CAPITALISM AND ETHICS

The enlightenment movement of Europe, which stretched over approximately two centuries from the early 17th century to the beginning of the 19th century held human reason as the absolute sovereign of human affairs in place of faith and intuition. The world view of capitalism was greatly influenced by this enlightenment movement. Locke, Berkeley, Hume and Kant who acquired respectability, played an important role, in arousing general skepticism about God, immortality of human soul, moral values, life after death and other religious notions. The hold of religion, which provided the sanction for morality and human brotherhood, became weaker. Human purpose became a concept that was considered scientifically useless and gradually disappeared from social thought. Social Darwinism further reinforced this idea, and its concept of 'struggle for existence' and 'survival of the fittest' took root. Wealth, bodily satisfaction and sensuous pleasure were either the only, or the greatest values one could seek to attain. Materialism, thus, provided the foundation for the commercial culture, which has gone from strength to strength over the years and has multiplied wants far beyond the ability of available sources to satisfy. In the absence of the collective conscience of society which morally-sanctioned values provide, how were right and wrong, desirable and undesirable, or just or unjust to be decided? Jeremy Bentham (1748-1832) tried to provide the philosophical basis for the answer. According to him, good and bad or right or, wrong were to be determined by the measurable Criteria of pleasure and pain. The pursuit of every individual of his pleasure would lead to 'the greatest happiness of the greatest number'. Utilitarianism reinforced by materialism, provided the logical rationale for the single-minded pursuit of wealth and bodily satisfaction. This philosophy has contributed in a major way to moral decline. Utilitarianism was incapable of creating any kind of normative knowledge about general well-being and justice. The role of unfettered self-interest was made equivalent in society to that of the force of gravity in nature. Adam Smith's great contribution to economic thought was the sanctity he accorded to self-interest, turning thereby eyes away from the moral intentions and social obligation of individuals to the unintended consequences or the final outcome of their actions. Samuelson has rightly pointed out that *laissez-faire*, perfect competition, could lead to starving cripples, to malnourished children, to perpetuation of Lorenz curve of great inequality of income and wealth

for generations or forever. He further observed that: "Adam Smith was not wholly justified in asserting that an invisible hand successfully channels individuals who selfishly seek their own interest in promoting the public interest-where the public interest is defined to include the socially acceptable distribution of income and property. Smith proved nothing of this kind nor has any economist since 1776" (*Samuelson*, 1989: 751). It is Galbraith's contention in the *Affluent Society* (1958) that the prevailing system of resource allocation in the USA is biased in favour of the satisfaction of artificially induced consumer wants so that the basic needs are grossly neglected. Included among these are education, housing, medical care and public utilities, which are essential for individual and social wellbeing and for the future progress (*Galbraith*, 1958). True, once collective judgments are out, it is but natural for the rational economic man to be left with no other goal but to serve self interest by maximizing utility.

SOCIALISM AND ETHICS

Socialism that developed as a reaction against 'laissezfaire' capitalism had the same worldview and differed in strategy and mechanism only. It considered the wage system and private property to be the root cause of evil and insisted that justice cannot be rendered to the poor without socializing private property. Advocates of socialism attacked capitalism and proposed a different system for allocation and distribution. Marx called for the rejection of all religion and the values that it stood for. To create a genuinely communist society reflecting the ideal of 'from each according to his ability, to each according to his need', the capitalist system must undergo a revolutionary transformation (*Marx and Engels*, 1948: 9). But the Marxian dream of an egalitarian fraternal society with no wages, no social class and eventually with no state, remained grossly unfulfilled. The reason for the failure is evident. The goals are not in harmony with the underlying philosophy and strategy. The goals are humanitarian - a classless society where no one exploits anyone else; where everyone works for the social good; where needs are fulfilled; where there are no inequalities of income and wealth and where there is hence no alienation.

To keep human self-interest within bounds and to create an ideal society, it is necessary to rise above class conflict and to conceive of a mechanism that would motivate human beings to treat each other as brothers and to work for the common good within the framework of agreed values that everyone accepts as uncontestable. After the destruction of the rich heritage of human values, all that the leaders of socialism produced was a totalitarian state with all resources under its control, no agreed criteria to guide- state policies, no mechanism to restrain human self-interest and all the power to be cruel, unjust and ruthless. Its natural consequences we have seen in the form of quick annihilation of USSR.

WELFARE STATE AND ETHICS

The third main system, welfare state, emerged with the immediate objective of mitigating one of the most conspicuous excesses of capitalism and thus to reduce the appeal of socialism. Its underlying philosophy indicates a movement away from Social Darwinism, principle of laissez-faire capitalism and towards the belief that welfare of the individual is too important a goal to be left merely to custom or to the operation of market forces. The state must accept the responsibility. The welfare state was not able to break away from the materialistic trapping of the enlightenment philosophy. A great role by the state was considered sufficient to improve the functioning of the market and to redress the inequalities created by 'laissez-faire' capitalism. This

could. Be accomplished through tools of the welfare state, six of which have acquired great importance, namely, regulation, nationalization of certain key industries, a strong labour movement, fiscal policy, high rate of economic growth and full employment. No doubt, the welfare state had humanitarian goals, but it could not develop an effective strategy to realize its goals. It did not introduce any fundamental change in the worldview or strategy of capitalism. According to Myrdal, the government intervention, which the welfare state policies stand for, were caused by events, not by ideology (*Myrdal, 1960*). It lacked an effective mechanism or motivating system that would help prevent the use of scarce resources for purposes that obstruct the realization of its egalitarian goals. All its tools have now been tried and dented. Hence, there is widespread loss of confidence in the capacity of the welfare state to deliver either full employment or welfare services (*Halsey, 1981*). The humanitarian goals, which the welfare state tacitly recognizes and the hedonism and Social Darwinism on which its strategy is unconsciously based, cannot coexist for long without creating, translating and battling serious economic problems. The numerous marginal adjustments and modifications undertaken so far have failed to do the job. Albert Hirshman is bold enough to admit, "that the welfare state is in trouble can be hardly contested" (*Hirshman, 1980*).

Such adjustments solve some problems but create others. This is probably the reason why the welfare states have not been able to go far enough for the socio-economic reforms. What is needed is a basic change in the values of life on which capitalism or its reformed version, the welfare state is based.

SEARCH FOR ALTERNATIVE

In the foregoing pages, we have seen that the philosophies on which the above mentioned systems are based cannot inspire human beings to live and die for the supremacy of agreed values, infuse them with the spirit of brotherhood and motivate them to co-operate and, sacrifice for the welfare of others. The inculcation of these qualities requires human beings to rise above self-interest and to cut "their claims on resources even though this may hurt their own immediate self-interest. Only divine guidance can provide such a sacred canopy and the motivation to stay under it even in the face of serious odds. Any business which functions in brazen disregard of ethical or moral consideration, devoid of true religious spirit, may cause more harm to society and will be extremely exploitative. This view has been corroborated by the growing violations of ethical values and standards by big business enterprises throughout the world. The practice of offering bribes to prospective customers, false and misleading advertisement, sales of spurious and adulterated goods, hoarding and smuggling, black and gray marketing, manipulation of demand and supply at the expense of consumers in particular and the society in general, provide only a few examples. The need is felt to reformulate economic theory in the mould of ethical considerations (*Chowdhury, 1986*). Any discipline committed to value neutrality cannot succeed in evaluation policies and recommendations for public choice. Such evaluation necessarily involves ethical judgment. Hence according to Amartya Sen, the distancing of economics from ethics has impoverished welfare economics. His conclusion is that economics can be made more productive by paying greater and more explicit attention to ethical considerations that shaped human behaviour and judgment (*Sen, 1987*). Apart from Sen in recent years economists of the stature of Schumacher, Harman Daly, Brahmananda and many others are trying to break out of the nineteenth century paradigm by looking at what the ancients (for example, classical Greek, Buddhist, Medieval Christian, Islamic thought) talked about, a good life for the humanity as a whole. . In an integration of economics with ethics, the economic man will have to undergo a

fundamental change and take into account the consumption and production behaviour of others in society also. He can no longer remain incurably of what others are producing.

CONCLUDING REMARK

To conclude, it must be reiterated that the collapse of socialism under the weight of its contradiction and inequalities does not necessarily mean that capitalism is now to rule and it has overcome its own historical contradiction, injustice and failure. Conventional economics, both in its free enterprise and command versions sought to delink the science of economics from moral religious values and reduce it to a positive science. It has analysed symptoms, such as prices and money, demand and supply of goods, saving and investment, employment and unemployment, but failed to see the man behind it, his behaviour, his goals, his aspirations and his values. Now most economists feel an urgent need for objective analysis of the entire economic landscape with a view to finding a fresh approach, which seeks the objective of efficiency and equity simultaneously and for all human beings. Productive investment is to be judged with reference to the twin criteria of economic viability and socio-moral desirability. Where and if the two conflict, the latter should get preference.

Disappointed with the present system, economists are now trying to bestow a value- perspective on the ordinary business of life, the struggle to produce, consume and distribute material goods. The moral and ethical perspective is the common heritage of all religions. They forbid such practices as are corrupt and enjoin those that are desirable. They disapprove undesirable ones and approve those in which there are great benefits. The significance in economic life of people of such moral values as honesty, justice, truth, sacrifice, cooperation, etc; is approved by reason and common sense also. Equally, jealousy, fraud, dubious and vague transactions, usurious practices, dishonesty, and cut throat competition are disapproved by reason and common sense.

India is a plural society with multi-religious and diverse ideologies. In such a society, an integration of ethics and economics, or what is termed by P.R. Brahmananda as Ethico-economics (*Brahmananda*, 1994), provides a common acceptable solution to economic problems and is in complete harmony with people's socio-cultural tendency. Perhaps M.G. Ranade meant the same thing when about a hundred years ago he said, "The family and the caste are more powerful than the individual in determining his position in life. Self-interest in the shape of the desire of wealth is not absent, but it is not the only ideal aimed at" (*Ranade*, 1901). Gandhiji also advocated value-oriented economic life (*Kumarapaa*). After going through the Qur'an, Bible, and the Vedas, the first impression of M.G. Bokare (1994: 2), the author of *Hindu Economics*, is that "All religions (except Jain) are like Euclidian topology, that is, any triangle has 180 degrees total." He thinks that it may be true in economics, because it is sub-system of a universe outlined by religion. The fast growing subject of Islamic economics is especially very emphatic on the synthesis of ethics and economics (*Naqvi*, 1992).

In the wake of India's recent policy of openness and globalisation, only the moral excellence of her people and quality excellence of her product (the latter being dependent on the former) can enable her to compete in the world market and bring social justice and prosperity to her people, and play a guiding role in the community of nations.

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