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URMI and its Integration into a framework for Ethics in Economics

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Abstract

Utility, Rationality and Methodological Individualism (URMI) are the dominant aspects which determine the paradigm of ethics applicable in economic decision making process. Generally, in traditional economics the decision-making process for individuals has no significant space for ethics as individuals are only interested in maximizing their profits. URMI is a very important concept the formulation of which into various combinations determines different functions for ethics in economics. Economists have used different definitions for the constituents of this concept but there can not be sighted noteworthy effort to integrate these multi dimensional phenomena into a framework for ethics in economics. This paper integrates different approaches about URMI and chalk out a framework for incorporating ethics into economics.

Keywords: Ethics, utility, methodological individualism, framework, economics.

1. Introduction

In traditional economics individuals are assumed to be self-interested, and hence the decision-making process for individuals currently has effectively no space for ethics, as only the consequences that the individual faces are considered, and the consequences faced by others are generally not considered (Broom, 1999). Therefore, the individual is motivated only by self-interest and is not motivated by ethical considerations, such as altruism, sympathy or fairness (Collard, 1978). However, the individual is 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. Current concept of rationality necessarily requires the maximization of self-interest. (Qizilbash, 2002).

Ethical behaviour can be separated into two types; pure ethical behaviour (PEB) and utility ethical behaviour (UEB). PEB is doing the right course of action simply because it is right, and no benefit or utility needs to be, or indeed is, derived by the individual as a result of performing the action (Hausman, 1993). UEB is doing the right course of action, but that action will in some way benefit the individual, and hence the individual performs the right course of action in part because they derive utility from it. Therefore, UEB is an extension of the self-interested framework where the individual can derive utility from acting ethically (Sen, 1997)

Methodological Individualism (MI) is a doctrine where all social phenomena are explained only in terms of individuals, such as in terms of their properties, goals and beliefs (Hodgson, 1994). Methodological individualism emphasizes the primary importance of the individual, and the virtues of self-reliance and personal independence (Hodgson, 1994).

The key concept in economics which determine the role of ethics in the decision-making process is URMI and hence, the ways in which URMI can be formulated and combined determine different roles for ethics in economics. This paper is focused on analysis of current approaches in order to integrate these and to suggest a framework for ethics into economics.

2. ESB and ESBG Matrix for Concept of Rationality and Utility

Etzioni, Sen and Broom (ESB) are three prominent economic philosophers who have discussed the concept of rationality and utility. Their view point is summarized in Table 1.

Table 1: ESB matrix

Economic Philosophers	Conception of Rationality	Conception of Utility
Amitai Etzioni	Etzioni believes that rationality focuses more upon the process of making the decision, not the consequences of the decision (Etzioni, 1988).	Etzioni believes that the current conception of utility requires self-interested preferences (Etzioni, 1988).
Amartya Sen	Sen uses a definition of rationality such that rationality requires the maximization of self-interest and hence individuals must be self-interested (Sen, 1987).	Sen believes that the definition of utility as well-being, where well-being is measured in terms of personal advantage alone, means that individuals must be self-interested (Sen, 1987).
John Broome	Broome believes that rationality only requires that individuals optimize and have preferences that satisfy the utility theory (Broom, 1999).	Broome defines utility as that which represents preferences, and hence if the preferences do not have to be self-interested, utility will not be either (Broom, 1999).

Therefore, following aspects can be deduced from Table 1.

- Etzioni believes that rationality can enable non-self-interested motivation but utility requires the assumption that individuals are self-interested and, hence, utility must be adapted in order to increase the role of ethics in economics.
- Sen believes that both utility and rationality require that individuals are self-interested, and, hence, utility and rationality both must be adapted in order to increase the role of ethics in economics.
- Broome believes that utility and rationality can enable non-self-interested motivation, but both rely on the assumption that the individual optimizes according to their preferences, and hence it is the preferences which currently assure that the individual is self-interested, not the conceptions of utility and rationality.

However, the author suggests another combination (formally known as Gul's Conception) in which rationality requires self interest but utility does not require self interest. This will convert the matrix to ESBG. Figure 1 illustrates the ESBG matrix.

	Rationality require self interest	Rationality does not require self interest
Utility require self interest	Sen	Etzioni
Utility does not require self interest	Gul	Broome

Figure 1: ESBG Matrix, after inclusion of Gul's conception

3. Methodological Individualism (MI)

Economics, and more specifically welfare economics, focuses upon individuals through its commitment to MI, and hence this appears to remain as one barrier to increasing the association of economics with ethics. MI can be defined as a doctrine where all social phenomena are explained only in terms of individuals, such as in terms of their properties, goals and beliefs. MI emphasizes the primary importance of the individual, and the virtues of self-reliance and personal independence. Therefore, the individual is focused upon, and this individual is independent and self-interested and does not consider other individuals (Hodgson, 1994).

In the context of ethical considerations, MI has two types; individual cum social (IcS) focused and only individual (OI) focused. IcS focused MI refers to an analytical method where individuals are focused upon and used to explain social phenomena. OI focused MI refers not only to a method where individuals are focused upon, with no social responsibility. IcS focused MI refers to an individualistic analytical method but allows a holistic principle of action, whereas OI focused MI refers to an individualistic analytical method and individualism as a principle of action (Arrow, 1994). OI focused MI is currently used in economics, however, IcS MI has spece to incorporate ethics into economics, where individuals are focused upon with social concerns, and hence in welfare economics well-being and utility may be determined by factors other than the individual's consumption, and relationships between individuals may be considered important (Hodgson, 1994).

4. Defining a Framework for Ethics in Economics

Let us now see the possible problems and possibilities for incorporating ethics into economics. The rows of Figure 1 illustrate that Etzioni and Sen have common ground, as utility and rationality will together form a model which requires self-interest. Broome and Gul again have commonality, as utility and rationality will together form a model which does not requires self-interest. The columns of Figure 1 illustrate that Etzioni and Broome have common position that rationality does not necessarily imply self-interested behaviour, whereas Sen and Gul maintains that it does. With regard to Figure 1, it is interesting to

recognize the Gul Conception in which rationality requires self-interest but utility does not. This cell can be interpreted as a plea for the recognition of non-self interested behaviour, because to me it is the rationality which is predominantly self interest oriented whereas utility can have concern for the others.

Broome and Sen have emerged as completely opposite to each other in Figure 1, as Sen believes in complete self-interest for rationality and utility whereas Broome believes in complete non-self interest for both rationality and utility. Although each of the outlined viewpoints regarding utility and rationality has its own significance, I believe that rationality does necessarily require self-interest. In this aspect I distance myself from Broome and Etzioni. But the current usage of utility is inapt, as I believe that utility does not require self-interest. Consequently I distance myself from Sen and Etzioni on this matter. Therefore, the problem lies only with the current conception of utility. I believe that utility represents preferences, and hence if the preferences do not have to be self-interested, utility will not be so. I shake hand with Broome on this point.

Leaving aside the rationality, the question remains how utility can be adapted in order to facilitate non-self-interested or other-regarding motivation. Using Figure 1, if we conduct the row and column operations, four clear possibilities emerge which are shown in Table 2.

Table 2: Emerging possibilities for the rationality and utility framework

Possibility	Operation	Economists	Rationality Framework	Utility Framework
1	Row 1	Sen & Etzioni	Multi	Mono based on self interest
2	Row 2	Gul & Broome	Multi	Mono based on non-self interest
3	Column 1	Sen & Gul	Mono based on self interest	Multi
4	Column 2	Etzioni & Broome	Mono based on non-self interest	Multi

Column 1 & 2 operations gives mono rationality and multi utility framework, therefore, it can be ignored since we are interested in mono utility framework. Multiple utility framework fails to account for the strategic, or socio-political, interaction of individuals, as each individual is considered in isolation. The interdependency and interaction of individuals is an important aspect of ethical and social behaviour and decision-making, and this can be incorporated into the mono-utility framework set of preferences and utility that may be based non-self-interested factors.

The mono-utility framework can facilitate ethical considerations, where the individual has a holistic principle of action as they consider how their decisions impact upon others, yet the individual is second-order ethical rather than first-order ethical, as they still undertake the ethical action in part because they gain utility from doing so. Instead, the mono-utility framework enables the satisfaction of both ethical and self-interested preferences to be measured using a single umbrella measurement of 'utility', which therefore enables the usage of a formal framework where decisions can be made using a consideration of all types of preferences. Therefore, utility is not a representation of well-being where well-being reflects personal advantage alone, rather utility reflects well-being where well-being reflects personal advantage and objectives and values other than personal advantage, such as morality, altruism, autonomy and personal liberty that in some way benefit the individual (Brennan,1993).

5. Mono Utility Equation (MUE)

Therefore ethics may be incorporated into economics using a decision-making framework that uses minimal rather than OI MI and although the current role of rationality may remain, the current conception of utility requires amendment, whilst maintaining a mono-utility approach. A simple utility function can be written where U is utility, $U=E^x$ where E is expenditure on goods and services, and x is the common parameter. Assuming a community with a population of n individuals, two players are chosen at random from the community. Assume a two player game, where each player can behave ethically or non-ethically, the equation can be written as

$$U_1 = a_1 E^x$$

$$U_2 = a_2 E^x$$

a is an indicator function which reflects the principle of action of a player, where:

$a = 1$, if player has an ethical principle of action.

$a = 0$, if player has a non-ethical principle of action.

$A = 0 \leq a \leq 1$, if the players is partially ethical.

Ethical behaviour involves undertaking some activity that involves a cost to the player undertaking the activity but involves a direct benefit to the other player and vice versa.

6. Conclusions

In conclusion, the decision-making process for individuals and society currently has a small role for ethics, as individuals are self-interested. The current conception of rationality may be consistent with non-self-interested behaviour, and MI may also be consistent with non-self-interested behaviour, yet the current conception of utility requires some adaptation in order to enable ethical considerations to have a greater role in the decision-making process, and a mono-utility framework is able to accommodate this.

The advantages of using a MUE are that it can facilitate trade-offs between self-interested and non-self-interested preferences and allows for individuals to be more or less self-interested along a sliding scale, there is a single utility function which enables unambiguous criteria for a single optimal outcome to be reached, and furthermore it can enable strategic interaction between individuals where the actions of one individual will affect the actions of another individual. Therefore, in the mono-utility framework the individual can be IcS but not IO.

An extension of the standard framework is suggested, where utility as it is currently conceived requires a minor adaptation, as although utility still represents the satisfaction of preferences, these preferences are not concerned with self-interest alone, rather these preferences also involve and are concerned with ethical considerations and social awareness.

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