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FORGING A MORAL BASIS FOR EMERGING ECONOMIES

Yeomin Yoon[1]

[1] Seton Hall University, South Orange, United States of America, Yeomin.Yoon@shu.edu.

Abstract. Aristotle said that politics is the master science. What he calls politics is not what is now called political science but the culmination of ethics. Per Aristotle, economics, a dimension of ethics, posits the eudaimonia (human flourishing or well-being, erroneously translated as happiness) or summum bonum for human society and describes the regional structures of human social existence. Economics cannot, therefore, be a positive science but must be a normative science.

Morality has disappeared from economics being taught at American universities. The prevailing paradigm adopted by mainstream economics is Homo Economicus, which is the "wrong reduction of a man." Such a gross reduction of a human into a rational agent who maximizes his utility subject to the given budget constraint leaves dormant higher human values (compassion, empathy, brotherhood, and sisterhood, to name a few), and this mechanical decision-maker is likely to destroy himself and the society in which he operates. Economics (taught and practiced in America) is the fish that has jumped out of its pond and is now dying of thirst. Ethics is the water that gives it life. The best way to save it is to bring economics back to the pond where it belongs. What is truly needed is a paradigm shift in the teaching and practice of economics.

Last but not least, economists in emerging countries should forge a moral basis for their national economy and form a vision of how to construct a system of political economy that will achieve the maximum well-being of the citizens and social justice. In doing so, they should synthesize their normative value judgments with scientific perspectives in economics. Old, labelled models like capitalism and socialism are modifiable constructs.

Keywords: Homo Economicus; Ethics; Political Economy; Smith Problem.

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1. Introduction

According to Aristotle, ethics is the inquiry about the highest good, the universal, unconditional, and self-sufficient good – sought by every human being, as an intrinsic good, not affected by contexts, and as a whole good needing no addition. There is one and only good that deserves to be viewed as the highest. The highest good is eudaimonia (well-being, or the state of human flourishing, misleadingly translated as happiness). Well-being consists of moral virtue and intellectual virtue. Moral virtue is the disposition of character to choose the mean between extremes in all situations which call for action. It essentially is a disciplined will. Intellectual virtue is theoretical knowledge of the world and wisdom to apply it appropriately and effectively.

Aristotle said that politics is the master science. What he calls politics is not what is now called political science but the culmination of ethics. Per Aristotle, economics (which is the foundation for business school education in the U.S. today) is the art and science of the ethical management of the household. A household essentially is a community that should be managed ethically. What some religious people call a “kingdom of heaven,” whatever else it may be, is a household of all people. It is where values, norms, beliefs, and dreams fuse. Economics cannot, therefore, be a positive science but must be a normative science.

For Aristotle (as for his teacher Plato), humans are political beings in the sense that social relations determine the situations of existence requiring them to act, i.e., relations of people with one another, their relations with institutions, their relations to a culture that is the product of people's interactive history. Politics adds a socio-political dimension to every ethical sphere.

The Aristotelian view of the normative nature of ethics, politics, and economics persisted up until the Enlightenment (a late 17th-and 18th-century intellectual movement) when a distinction came to be made and insisted upon between factual inquiry and the normative, leading to the reduction of the normative to the factual or the wholesale discrediting of the normative and its exclusion from the map of knowledge.

The normative origin of economics came to be forgotten. Economics, in its original conception, is an inquiry concerning the way to promote collective human welfare maximally. The assumption underlying classical economics is that the essential component of societal welfare is the acquisition and increase of societal wealth and the mode of distribution consistent with normative ethical and political principles.

2. Mainstream Anglo-American economists’ misunderstanding of the nature of economics

Today's mainstream Anglo-American economists seem to have forgotten that economics does not exist independently of human interest, belief, and will. Politics, history, and culture are essential structural determinants of the economy. The Aristotelian concept of politics as the master science that comprehends the economy informs a correct understanding when compared to what is taught at American universities today. Per Aristotle, economics is a dimension of a comprehensive inquiry (i.e., ethics) that posits the summum bonum (supreme good) for human society and describes the regional structures of human social existence. The summum bonum, if we borrow the expression used by the Roman philosopher Cicero, becomes summum bonum pro cive (supreme good for citizens). As John Maynard Keynes said, "Neither economic activities nor any other class of human activities can rightly be made independent of moral laws."

Morality has disappeared from economics being taught at American universities. The prevailing paradigm adopted by mainstream economics is Homo Economicus, which is the "wrong reduction of a man," according to American sociologist Amitai Etzioni (The Moral Dimension: Toward a New Economics). Such a gross reduction of a human into a rational agent who maximizes his/her utility subject to the given budget constraint leaves dormant higher human values (compassion, empathy, brotherhood, and sisterhood to name a few), and this mechanical decision-maker is most likely to destroy himself and the society in which he operates. As aptly described by Tomas Sedlacek in his Economics of Good and Evil, today's economic theory is "at its best, Hedonistic."

So, too, mainstream American economists seem to have forgotten that the economy exists for the human person, and not vice versa; that moral principles should shape all economic life; and that economic choices and institutions must be judged by how they protect or undermine the life and the dignity of the human person, support his or her family and serve the common good. By shifting economics from a moral science to merely a mathematically allocative science, mainstream Anglo-American economists have become unsuspecting agents of destruction.

Economics is the fish that has jumped out of its pond and is now dying of thirst. Ethics is the water that gives it life. The best way to save it is to bring economics back to the pond where it rightly belongs. Embracing the so-called "corporate social responsibility" or paying more attention to unorthodox economic thinkers is the equivalent of a few drops of water squeezed from a wet towel. A new deluge is in order. Mainstream economists should heed Keynes, who criticized the physics approach typical for economics and called for a return to the original perception of economics as a moral science. What is truly needed is a paradigm shift in the teaching and practice of economics.

In this connection, let me quote G.L.S. Shackle, who said:

"To be a complete economist, a man [or woman] needs only be a mathematician, a philosopher, a psychologist, an anthropologist, a historian, a geographer, and a student of politics, a master of prose exposition, a man of the world with experience of practical business and finance, and an understanding of the problems of administration, and knowledge of four or five foreign languages. All this in addition to, of course, familiarity with the economic literature itself."

The Shackle's words can be interpreted as:

1. There is one science of society.
2. Economics is one important dimension of 1 above.

3. If economists ignore 1 and 2 above, they commit the error of knowing only one thing, not two, and become “sophomoric” at best.

The usual, gross misunderstanding by mainstream American economists about the nature of economics is this: Economics (and its current state) may be called by some people as “dismal,” but it is not a science that only describes, measures, explains, and predicts human interests, values, and policies – it also evaluates, promotes, endorses, or rejects them. The predicament of mainstream economists consists of their failure to acknowledge their value orientation honestly.

Mainstream economists in the U.S. have forgotten that economics does not exist independently of human interest, belief, and will. Politics, history, and culture are essential structural determinants of the economy. The Aristotelian concept of politics as the master science that comprehends economy, and the Enlightenment concept of political economy, inform a more correct understanding than what is taught at universities today.

3. The so-called “Smith Problem”

The current paper contends that miseducation in economics today has occurred partly because of the so-called “Smith Problem”— a perceived contradiction between his theory of self-interest from The Wealth of Nations and “sympathy” (or empathy) from The Theory of Moral Sentiments, respectively.

Now, let me turn to the working of the so-called “invisible hand,” the famous line that economists love to quote from Adam Smith's famous book, The Wealth of Nations, to stress the working of “self-love” via the “invisible hand” of the market:

“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 interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow citizens.”

Adam Smith, known as the father of economics, wrote two famous books, The Wealth of Nations in 1776 and The Theory of Moral Sentiments, seventeen years earlier, in 1759. Smith himself thought that the latter was a better-written book than the former. A common understanding by mainstream economists is that “self-interest” practiced by market participants will automatically lead to an optimum allocation of resources via the working of the so-called “invisible hand” of the market (if one steps aside from “externality” issues at this moment) (McGee, 2023). To avoid the error of “over-emphasizing” the role of the “invisible hand,” economists should understand correctly what Smith meant by “self-interest.”

Self-interest can take many forms, one of which may be egotism. An egotist seeks his/her interest with no concern about the impact of his/her behaviour upon others. But Adam Smith's self-interest is rational (or enlightened) egoism that carries assumptions and principles. It assumes (a) that all persons are disposed to act to satisfy their interests, but (b) that persons are rational enough to realize that they should not do to others what they do not want to be done to them (a "negative golden rule") and to agree to social rules that ensure the universal conformance with this principle. Smith's theory of empathy is compatible with egoism. Empathy is sensing affinity among humans. An egoist, by empathy, recognizes egoism in others. (Empathy should not be confused with natural benevolence.) Empathy is the source of a sense of fairness that prevents people from harming others out of self-interest, for they, by empathy, know that others would not want to be so harmed by them just as they want not to be so harmed. Correctly understood, there must be no such thing as the "Smith Problem."

Mainstream economists love to emphasize that the invisible hand of the market can reshape, convert, and recast selfishness into public benefit. Interestingly, the Apostle Paul dealt with a similar topic. He also considered the relationship between intended and unintended good and evil and its impacts, but he did it from the utterly opposite angle:

"So, I find this law at work: When I want to do good, evil is right there and with me. What a wretched man I am! Who will rescue me from this body of death?"

- (Romans 7:21-25)

Or, as the New Living Translation puts it:

"I have discovered this principle of life – that when I want to do what is right, I inevitably do what is wrong… Oh, what a miserable person I am! Who will free me from this life that is dominated by sin and death?"

As Saint Paul lamented, we often commit evil while we intend to do good. Do you remember this old saying: "The road to hell is paved with good intentions"? What is the implication of these seemingly contradicting two narratives? My understanding or interpretation is that the market is a "black box" in which self-interest may or may not necessarily lead to public well-being -- sometimes to public well-being and some other times to ill-being (or evil). That is why I think we need a competent, uncorrupted government (educated civil polity) that can supervise the workings of the market and intervene if necessary to promote the common good.

As Robert Nelson points out in his provocative book, *Economics as Religion*: From Samuelson to Chicago and Beyond, if the power of self-interest "crosses certain boundaries," it can threaten the functioning of the market economy itself."

Unfortunately, what mainstream American economics has developed seems to be Bernard Mandeville's system of thought, which Smith denounced. At best, contemporary economics, in general, has been uncommunicative of the moral science from which it originated. Moreover, the study of economics has shifted from a moral science to merely a mathematically allocative science.

4. Mathematization of economics

Mainstream economists seem to have wholly forgotten the teachings of Alfred Marshall. More than a hundred years ago, Marshall stressed the role of mathematics as "language" only, not as the "engine of inquiry." Let me quote a relevant paragraph from the economist (known to be the father of modern economics), who was at the beginning of the whole epoch of mathematization of mainstream economics:

"In later years, I went more and more on the rules: (1) use mathematics as a short-hand language, rather than as an engine of inquiry. (2) Keep to them till you have done. (3) Translate into English. (4) Then illustrate by examples that are important in real life. (5) Burn the mathematics. (6) If you can't succeed in four, burn three. This last I did often. I think you should do all you can to prevent people from using mathematics in cases in which the English language is as short as the mathematical."

In his monumental textbook, Principles of Economics, which became an economics bible for the early 20th century, Marshall relegated his formal systems to the appendix. As his pupil John Maynard Keynes explains, Marshall did so to avoid giving the impression that mathematics provides answers to real-life problems just by itself. Today many mainstream economists are doing precisely the opposite of what Marshall asked them to do.

If he came back to today's world, Marshall would be stunned to find that a large part of today's theoretical economics is nothing more than mathematical games with assumptions. Despite Marshall's sagacious warnings, will such non-scientific, wasteful games ever stop?

Marshall frequently visited slums in cities to remind himself that the economy exists for the human person and that the purpose of studying and practicing economics is to lift people out of poverty. It is sad to note that today's individual-utility-maximizing economists seem to have forgotten that the economy exists for the human person and not vice versa. They also seem to ignore that moral principles should shape all economic life. In other words, economic choices and institutions must be judged by how they protect or undermine the life and dignity of the human person, support his or her family, and serve the common good.

5. Economics needs a paradigm shift

This paper pleads with rising young economists in emerging economies: First, adopt (or develop) economics founded on an ethical approach that favours human beings rather than the economics typically practiced and taught in American universities. Second, adopt a holistic view of human beings rather than the one-sided reductionist orthodoxy. The latter reduces human persons to mere "economic animals." Third, economists should consider how ethics can be organically incorporated into economic discourse.

Economists need a paradigm shift in the practice and teaching of economics. In our present course, mainstream economics educators have become unsuspecting agents of destruction under the principle of corruptio optimi pessima (roughly translated as "Corruption of the elite is the worst corruption"). They need a root-and-branch examination of how economics is studied and practiced. If they teach only individualistic utilitarianism, we will produce hedonistic technocrats ill-equipped to contribute positively to humanity.

Imagine a horizontal straight line that posits various schools of thought that separate morality (located at the extreme left) and individual utility (located at the extreme right) – Korean advocates of "Striving to Benefit Humanity"[1] (Korean philosophy), Immanuel Kant, Stoics, Confucius/Mencius, Buddhism, New Testament, Hebrews, Classic Utilitarianism, Hedonists, Mainstream Economics, and Bernard Mandeville.

All the foremost ancient and modern ethical doctrines cluster around or near the extreme left edge. For example, according to Kant, a moral act can only be carried out unselfishly, or therefore out of pure responsibility toward moral imperative. If one wants to carry out a moral act, one must, in Kant's words, "overcome one's self" and go against one's indifference curves and go against the dictates of the pursuit of maximization of one's utility. At the extreme right edge, one finds Hedonists, Mainstream Economics, and Bernard Mandeville, who equated individual utility to the good of society, claiming that private vices cause public welfare.

A question arises: Why have mainstream economists ended up in such an ethically pathetic "Plato's cave"?

6. Concluding Remarks: Forging a moral basis for the economy

Philip Selznick (1994), "A major function of the moral order is to preserve inherently precarious value against ruinous competition from the cheap, the easy, the cost-effective, and the urgent."

As a human person and an economist, I believe (as Adam Smith and John M. Keynes believed) that we, humans, are deeply moral beings – rather than Homo Economicus as assumed (or even advocated) by mainstream economic/finance textbooks. As a humanitarian, I also believe that we must find ways to disarm greed and violence to sustain civilization.

I have a "moral imagination." Dialogues and collaborations between diverse cultures, religions, faiths, and philosophies may facilitate the emergence of "global ethics" -- in the form of ethics of harmony of the diverse -- and, eventually, to an ethical convergence globally in the next generations during the 21st century.

[1] In 1948, the South Korean government established the "Strive to Benefit Humanity" (홍익인간) ideal as Article 1 of the National Education Charter.

It seems vital for humans to find a sustainable and universal approach to inner values and ethics, an approach that can transcend religious, cultural, and racial differences and appeal to people at a fundamental human level. Finding such an approach seems feasible, given the Golden Rules expressed in either a positive or negative version. Anyone who has read anthropologist Jack Goody's book in *The Theft of History*, would not be surprised that religions and philosophies of various regions of the world espouse similar Golden Rules (Goody 2007).

This paper advocates a return of economics (and finance as a branch of economics) to an ethical approach that favours developing the whole human — not the "clever economic animal," who cannot move against his strict utility function. Such is the paradigm taught in mainstream economics today: the mindset of "a rational agent who optimizes his/her individual utility under the given budget constraint."

Such a gross reductionism leaves dormant such higher human values like brotherhood, sisterhood, empathy, compassion, love, or (Confucius/Mencius) Ren(仁), and the clever animal is more likely (than not) to destroy itself. It is revealing that a recent study in the U.S. finds that university students who take microeconomics become more selfish after taking the course. The "rational man" – assumed and even advocated by economics textbooks – has become either a hedonist or a Bernard Mandeville. Moreover, the study of economics has shifted from a moral science to merely a mathematically allocative science.

Economists doing research and teaching in emerging countries should forge a moral basis for their national economy and form a vision of how to construct a system of political economy that will achieve maximum well-being of the citizens and social justice. In doing so, they should synthesize their normative value judgments with scientific perspectives in economics, keeping in mind that old, labelled models like capitalism and socialism are modifiable constructs.

Given that the young economists genuinely want to help their countrymen and women to flourish in a civilized, prosperous, and virtuous society, I believe, they should help to install and implement faithfully the following "four No's!" :

No to an economy of exclusion
No to the new idolatry of money
No to a financial system that rules rather than serves
No to the inequality that spawn's violence

Achievement of the above "four No's" requires a paradigm shift, or a new deluge, in the teaching and practice of economics. One of the most significant challenges facing the young generations of the world in the 21st century seems to be how they can bring economics (and finance, a branch of economics) back to the pond where it rightly belongs. A related challenge will be how they can effectively cope with massive resistance from vested interests when attempting to implement such a paradigm shift.

The sharply rising concentration of incomes and wealth in many countries since the so-called Reagan/Thatcher neoliberal revolution in the 1980s and persistent inequity speaks to the urgency of the need for such a paradigm shift. The current over-financialization, deregulation through rampant lobbying by the moneyed class, and loopholes in the international tax system have favoured enormous fortunes to the detriment of others. The result is a system where political power has increasingly fused with economic power through what former U.S. president Jimmy Carter called “legalized corruption.” Isn’t it time to rectify such corruption collectively and globally for the next generations?

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