

Ethical Antinomies of Economics

Manuk Hergnyan

Abstract

Economics is based on a set of fundamentally ethical antinomies. Intertwined with fact-value distinction, the concept of value-free economics was reinforced by the operational definition of economics. However, neither in theory nor in practice is it possible to single out normative and positive sides of such a coherent social process as the functioning of markets. At the core of the “purposive” ethical impulse of economics, lies the well-known argument of the “invisible hand”. Apart from being paradoxical in terms of economic mechanisms, the antinomy has profound ethical dimensions. Moreover, the ethical implications of the presupposition of unlimited wants lead to “distorted” anthropological concepts. Economics should embrace vital aspects of human existence departing from the reductionist view of “homo economicus”. In the practical area there can be sporadic islands of virtue rising through the consistent nurturing of values based on virtues.

Biography

Manuk Hergnyan is the Executive Director of Vem radio station in Armenia, which broadcasts religious and intellectual programs. He holds a Ph.D. degree in Economics from Moscow State University and an M.A. from Yerevan State University. He was also trained at Harvard and Cambridge universities in management and leadership. Dr. Hergnyan is a research fellow at the Gandzasar Theological Center, one of the biggest religious research and publication centers of the Armenian Church, and he is also a member of the Association of Christian Economists, both in the USA and the UK. His research interests lie in the fields of business strategy, competitiveness and Christian and moral aspects of economy. Prior to his current position, Dr. Hergnyan was a consultant at Barents Group LLC (KPMG Consulting) and Arlex International, working in the fields of financial and legal research. He has also worked, as an investment specialist, for the Ministry of Privatization and Foreign Investments of Armenia.

Currently, Dr. Hergnyan teaches Harvard Business Schools' course on Microeconomics of Competitiveness using Internet-delivered materials developed by world authority on strategy and competitiveness Dr. Michael Porter. He has also pioneered an innovative radio show which he hosts weekly, Economy and Values, exploring the role of ethics and values in today's economy in Armenia and globally. Dr. Hergnyan is also involved in planning and implementation of the show and outreach program entitled Recognize the Wisdom, a grantee of the Local Societies Initiative.

1. TELEOLOGICAL FRAMEWORK OF ECONOMICS

Economics is based on a set of fundamental ethical antinomies. We will outline two of those antinomies. The first antinomy refers to the stated and commonly accepted purpose of economics as a scientific discipline and the second one to the underlying assumption of classical economic theory on the synchronization of self-interest and the common good through market mechanism.

Is Economics a Value-Free Discipline?

In the twentieth century, one of the “discoveries” within economics was its claim of being a value-free scientific discipline. Until the early 20th century, economics, and generally all social sciences, were considered to be subordinate to ethics. The father of classical economics, Adam Smith, was a moral philosopher. Intertwined with fact-value distinction, the concept of value-free economics was reinforced by the operational definition of economics, which is generally accepted nowadays. The definition of economics, as the most efficient way of allocating scarce resources, focuses on the managerial side of economic discipline. Managerial application is mainly concerned with the efficient way of organizing production, distribution, and processes of consumption. Efficiency is a concept which can be exposed to numerical manipulation, and, it tends to be one of the “competitive advantages” of science over many other areas of human life. However, its main implication is the ability to manipulate value-free concepts, which may position economics as a “pure” science.

It is a historical fact that economics emerged as a teaching about wealth creation¹. Wealth is a value-laden concept versus the value-neutral concept of efficiency. Focus on efficiency tends to eliminate value judgments, and hence, ethical considerations from economic analysis. Although it can be argued that even the concept of efficiency can be put within the value-bearing milieu of ethical judgments, this can be done only in a “second-layer” argumentation process.

Economics has also emerged as political economy, i.e. science and art on how to elaborate a policy to ensure the creation of wealth within a society. Policy-making is one of the fundamental human activities that can never be implemented, evaluated, or rejected without having moral consideration at the core of the reasoning. However, economists have constantly tried to develop concepts to disassociate economics from ethics. Moving away from Aristotle’s concept of hierarchical relationship between theory and ethics/prudence², referring to specialization as was done by Ricardo and Jevons³, and

¹ The groundbreaking work by Adam Smith was called “An Inquiry Into the Nature and Causes of the Wealth of Nations”, Prometheus Book, 1991.

² The original term used by Aristotle referring to “practical judgment”. See Aristotle “Nicomachean Ethics”, Oxford University Press, 1980.

³ Andrew Yungert, “The Positive-Normative Distinction Before the Fact-Value Distinction”, Pepperdine University, 2000

then shifting to fact-value and normative-positive distinction of economics. Defenders of normative-positive distinction were relying on fact-value split and emotivist theories⁴ of value. Normative-positive distinction calls for distinguishing between the actual market mechanisms and the final goals and criteria of evaluating the consequences of those mechanisms.

However, neither in theory nor in practice is it possible to single out normative and positive sides of such a coherent social process as the functioning of markets. Any attempt to separate is artificial, even at the most abstract scientific level. The intertwining between not only value and factual sides of socio-economic processes, but more importantly, between principles of economic science and the actual economic development, results in systemic causalities. These principles had much more normative influence on the course of economic history, rather than being a descriptive tool in explaining economic systems. The ideas conceived by the economists during the centuries had a profound effect on shaping the mentality of generations, who then consequently “magically” started to behave in the way predicted by those theories! To a great extent, the functioning of economies are dependent on particular societal attitudes, values, behavioral models of the members of the society, and these are key forces which make them economic agents, and social theories are not last in shaping those norms, attitudes, and behaviors. Anatomical

One of the presuppositions of modern economic theory is the idea of unlimited wants or needs of people. Since needs have no limit, the goal of economics can never be reached, it can only be approached with the perpetual process of creation of material and non-material goods. The assumption of unlimited wants or needs seems a convincing statement, raising no major doubt about its credibility. However, the concept is rather dangerous for the well-being of human society itself. It’s antinomial from an ethical viewpoint. Human history itself, and not only the majority of religions and moral philosophical theories, prove that human passions and uncontrollable desires of material have an inverse relationship with human happiness. We are not concerned about the ethical evaluation of economic growth, which is a separate field for research, but rather raise concern about the most basic and fundamental assumptions of economics which may and do bring to long-term catastrophes not only in the sphere of ethics and morality, but also economic well-being, since the latter is cemented by certain ethical invariants such as trust, honesty, and hard work.

The ethical implications of the presupposition of unlimited wants brought to “distorted” anthropological concepts. The human is being considered as a rational choosing machine to satisfy his completely irrational wants. In theory we introduce exogenous and non-controllable variables called needs, which can not be measured and controlled neither in size nor in essence. In practice, the concept leads to making wants of strong social value. People think they are such, and they become such. In modern economies, where corporations are extremely powerful to manipulate with demand by excessive advertising, needs can be easily “created”. The phenomenon of consumerism is just one

⁴ Emotivism states that ethical values are simple statements of preference and as such are not subject of rational dispute

side of the general trend towards co-modification of basic human needs. Basically, the presupposition of unlimited wants is a revert back to paganistic anthropology.

2. GOAL-REACHING FRAMEWORK

How Do Markets Work?

At the core of the “purposive/teleological” ethical antinomy lies the well-known argument of the “invisible hand”. Apart from being paradoxical in terms of economic mechanisms, which bring chaotic pursuit of self-interest into the benefit of the whole society, the antinomy has profound ethical dimensions. These ethical dimensions are reflected in the dichotomy between the institutionalization of human vices and the reliance of the market mechanism on certain institutionalized behavioral patterns, which very often correspond to certain virtues.⁵

Smith’s statement on pursuing self-interest as the best mechanism for attaining public benefit was the brilliant scientific-ethical justification of selfishness. Of course, it is natural for a human being to pursue his own interests. However, since the concept of markets was introduced to explain how millions of chaotic decisions based on self-interest can bring to the general benefit for all players, it provided the grounds for the institutionalized, i.e. socially desirable forms of self-interest. Since economics is concerned about wealth creation, self-interest in economics is just a social correlate of human greed. Thus, the vice of greed has become the driving force of modern, productive economy.

Bernard Mandeville wrote, “The grand principle that makes us social creatures, the solid basis, the life and support of trade and employment, without exception is evil.” He expressed the same idea in a more precise way, “The public good depends on private vice.”⁶

We should also consider much wider implications of self-interest. It is a common argument among economists that the concept applies only to economic behavior inside free markets; it does not imply that people ought to pursue their self-interest in other areas, such as within the family or when voting or running for elected office. They argue that the “invisible hand” argument is strictly constrained to the honest pursuit of profit within free markets. But, first, is it a realistic assumption? Is it possible to separate motivational factors according to different areas of human activities? And, second, some of the powerful streams in modern economics, particularly the Chicago school representatives and namely Gary Becker, extended the concept of private gain to almost all areas of personal behavior such as discrimination, moral behavior, marriage, sex,

⁵ Virtues can be understood in their Aristotelian and Christian meanings

⁶ Ian Jones, Michael Pollitt, “ The Role of Business Ethics in Economic Performance”, ECRS, 1998

birth, death, etc. They applied the mindset of self-interest thinking to provide holistic explanation of the human behavior. In its pursuit to construct an all-explaining theory, the Chicago school represents a religious teaching. “In pushing the motive of pursuit of individual advantage to its logical extreme, Becker, Posner, and other Chicago school economists of their ilk are in effect preaching a new secular religion.”⁷

Another approach validating the concept of self-interest is apologetics of market economy and democratic capitalism by Christian libertarian economic movement. One of the renowned representatives of that movement Michael Novak defends the concept based on wider understanding of self-interest as encompassing religious and moral interests, artistic and scientific interests. Accepting the sinful nature of man this approach assumes that the market mechanism is the optimal system neutralizing and putting into a productive use the “reasoned” self-interest. “It is a system designed for sinners, in the hope of achieving as much moral good as individuals and communities can generate under conditions of ample liberty.”⁸

Different theories, aimed at explaining the mechanism of markets, emphasize different factors. In mainstream economics, the principal vehicle is the system of prices. Recently, there have been many studies focusing on the institutional and value aspects of the functioning of markets. Though neo-institutionalism remains within the boundaries of mainstream economics, it has an enormous contribution to the understanding of the role of institutions in the efficiency of markets, institutions being understood as formal and informal rules of behavior (D. North). Developmental economics heightened the role of cultural values in assuring that market mechanisms are put into effect. We consider that both are instrumental in understanding the deep social and ethical aspects of the functioning of markets.

Markets can only work in certain institutional environments. They can work differently in different institutional frameworks. Market exchange can be implemented only if there are rules governing those interactions, be they formal or informal. Traditionally, the role of informal rules was underestimated. But they constitute the carcass of institutional framework, since implementation and enforcement of formal rules largely depend on informal behavioral models, not to mention that the formal rules to some extent reflect dominant informal rules. The latter are being shaped by traditions, norms and values. Rules provide opportunities and constraints for human behavior, but traditions, norms and values provide meaning and explanatory power to it. Hence, traditions and values constitute the nexus of institutions and consequently the culture. As Tocqueville states, “Culture is the mother; institutions are the children.”⁹ Traditionally, the economic research effort aimed at discovering the role of institutions in economic development which has been a dominant subject of economic research during the last three decades, failed to underscore the link between institutions and culture. These were two separate streams of research periodically crossed by the common paradigms in explaining non-monetarist factors of economic processes.

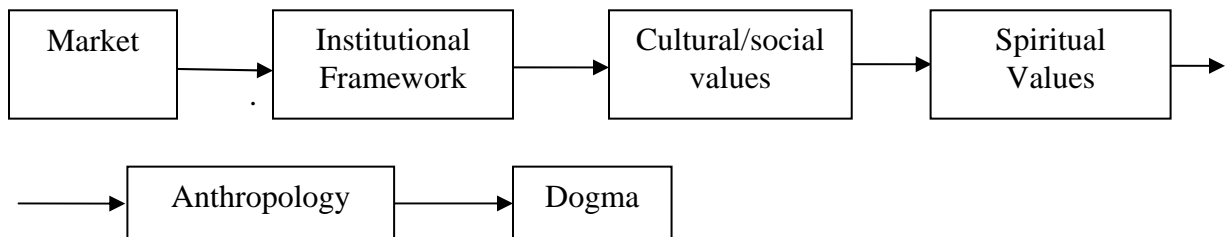
⁷ Robert Nelson, “Economics as Religion” Pennsylvania State University Press, 2001, p. 185

⁸ Michael Novak, “The Spirit of Democratic Capitalism”, Madison Books, 1991, p.95

⁹ Cited from Lawrence Harrison, Samuel Huntington, “Culture Matters”, Basic Books, 2000, p. 302

Traditions and values are the major constituents of culture. Culture should be understood in its widest possible meaning. Very often, technological concept of culture is being used by social scientists, while incorporating culture into economic analysis. The technological concept of culture views it as a technology for adapting to the external environment. Most recently world authorities on development have shifted the focus of research to the influence of culture on economic development. The concept of culture in this context is decoded into several value orientations and is viewed from the viewpoint of its anti- or development-prone characteristics such as time orientation, attitude towards work, education, merit, authority, frugality, etc. These decoding technique enable to separate factors influencing on development; however, these are not enough for understanding the fundamental forces shaping the cultural ingredients of economic processes.

The core of the culture forms understandings of universe, creation and the role of man within it. The most compelling question of human life is the question of meaning, the “Why” of existence. This quest for meaning may be subconscious and implicit, but it is the most fundamental and existential inquiry of human. This is, in essence, a spiritual inquiry and, therefore mental response to it as a cognitive map of the man forms a spiritual understanding of universe, the humanity and the role of the man. Spirituality in this context cannot be understood as an abstract construct relating to anything which is not material; since it refers to the understanding and explanation of the world and especially meaning, it can only be understood in its religious sense. The question of meaning cannot be understood without the question of God. Thus, the spiritual understanding in its deepest perspective is mainly religious. The settings of modern life and increasing secularization may seem conflicting with this view creating an illusion of absolutely secular worldview and hence human motivational system; however, any understanding of universe has deeper spiritual causes, be it replaced with surrogates or transformed into secular idols. Any mental model dominating in certain cultures is a reflection of spiritual perceptions. Where the spiritual perception comes to have major effect in social affairs, it hides its profound religious and dogmatic origin. Spiritual values have no other source than dogma and religious teachings. Thus, our framework becomes the following:



3. GOAL-CHANGING FRAMEWORK

What Can be Done?

We have seen that modern economic understandings of human and its behavior overlooks several important notions of motivational system, concerning ethical and religious aspects. Antinomies arising out of that negligence, and incomplete, and deformed anthropological views, are inescapable. Generally ethical antinomies are in place where there is a rationalization of knowledge and practice. They have their solution in higher cognitive levels of human experience such as religious and spiritual practice. Spiritual experience is over-rational; it transcends the boundaries of the mechanistic course of logical reasoning. Ethical antinomies disappear if a man incorporates spiritual understanding of the reality into its cognitive map. Finally, it is impossible to speak about ethics without religion, since ethics, in the true sense of the word, separate from religion, is a pure abstraction.

In search for remedies for economic problems, both in theoretical and practical spheres, one must look into causes rather than symptoms. Therefore we anticipate and gradually witness the trend towards exploring religious causes in economic research¹⁰. It is already not possible to ignore ethical antinomies referring to its weak implication to economic theory and practice. Economics should embrace vital aspects of human existence departing from the simplistic view of “homo economicus”. Another anthropological notion is required to decrease the tension of ethical antinomies arising out of current “homo economicus” model of the man in economics. This should not be a new anthropological concept, rather than a more holistic approach considering fundamental existential (i.e. religious) roots of basic human motivations. Economics is definitely at the weakest position in revealing the most fundamental aspects of anthropology. Therefore, from time to time, spontaneously and very fragmentarily, there will be the need to reconstruct economic theories in accordance with more realistic anthropology. Hence, the humble approach of the discipline of economics aimed at benefiting first from religion and then from anthropology, sociology, psychology, and disciplines studying different aspects of human behavior will greatly enrich our understanding of social and economic processes, as well as adequately develop responses to the current challenges of humanity.

The questions about the meaning of life, calling, personal happiness, and providence are at least as relevant for the social conditions for human happiness as prices, productivity, marginal propensity to spend, and equilibrium. Of course the role of economics should not be extended to wider areas of human life. However, since as a social discipline its ultimate goal is connected to the issue of human happiness, it has to be continuously tested by the ultimate questions of human.

Social setting, in its turn, should also adequately react to inner spiritual changes to bring comprehensive and consistent changes of human condition in its large sense. It has been

¹⁰ F.e. see recent work by Robert Barro and Rachel McCleary “Religion and Economic Growth”, Harvard University, 2003

mentioned that the specifics of economics is that theory has a very strong influence over the practice and the behavior of real actors of economic life. The influence of economics based on holistic anthropological concepts on the patterns of economic development is ambiguous and hard to capture theoretically. It may push enormously the effectiveness of the economic mechanisms or it may place additional constraints. An example of economics-prone influence of holistic anthropology may be the effects of trust on lowering transaction costs, encouraging collaborative behaviors, preventing value-destructing activities, stimulating networks, and therefore stimulating economic activity¹¹. However, specific constraints will also be posed as a result of value-based anthropological elements in economic models and policy actions. This issue has been discussed above in discussing goal-setting framework of modern economics (i.e. the concept of unlimited wants if revised may put constraints on several industries, consumption types and levels, wealth accumulation, etc.)

Such revisions of theory with value aspects coming to first place may result in several landmark efforts in social life. F.e. one of the major problems of governments of developing countries is to reduce poverty, and lessen the gap between the rich and poor, and very often, in trying to approach these problems with fiscal, monetary, and other tools they find themselves conducting discouraging, punishing economic activities, and further deteriorating the problem. While assuming that somehow they can manage to create an environment where charity and mercifulness become very strong social values appealing to human fundamental drives, such an environment itself can result in voluntary actions of assistance and redistribution of income. This may be much more effective, even in the economic aspect.

However, one needs to be realistic that there is no paradise on Earth. One should avoid the temptation of being involved in the utopia of creating a new man and a new heaven on earth. From the other side, sporadic, but connected islands of virtue, arising as a result of the consistent nurturing of values based on virtues will be a natural result of such a process.

¹¹ F.e. see Francis Fukuyama “Trust”, Free Press Paperback, 1995

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