

Ethics, Rationality and Economics

MONISHANKAR SARKAR*

Abstract: *The economic literature can be more enriched if it pays more attention to ethical issues. The ethics centered welfare economics, although the usual literature of economics is strongly guided by rational behavior of economic actors, has much to offer to mainstream economic analysis. Present study tries to figure out the core concepts and how it may play crucial role in more complex way. Present paper also argues that the effort of bringing economics more closely to ethics may notably be beneficial to the mainstream economic literature.*

Introduction

The economic literature, developed over centuries since its inception, is much more motivated by the idea of rationality and related stimulation and, simultaneously, less guided by ethics and moral judgment. The assumption, perhaps, much more shaped by the idea of 'ideal economic actor in long cherished economic thought. The actor, as economic literature tries to depict, behaves and takes economic choices rationally, as strict as possible, avoiding any possible 'fault'.

Perhaps it is not hard enough to predict that whether the 'ideal' people will not be influenced by affection, emotional attachment or even the idea of self-examination. Though it is quite easy to trace the distance between the study of ethics and economic literature, the economics had a rich and closer connection with ethics for a long time since inception. The economics had been studied for long as a branch of ethics. Economics had been taught for long as a branch of

* Lecturer, Institute of Disaster Management and Vulnerability Studies, University of Dhaka,
E-mail: monishankar@ymail.com

moral philosophy at the Cambridge University. Adam Smith, the father of modern economics, was a professor of moral philosophy at the University of Glasgow.¹ It is, therefore, evident clearly that the discipline maintained a closer connection with ethics for long from the beginning.

It is time to turn our attention to the way economics found new way and move on as a distinct discipline, as a separate from ethical studies. The dichotomies, which was born with the separation and embarking as distinct disciplines, can be named as: the rationality based view and the ethics based view of economics. The former view will be discussed first.

The rationality based view of economics has been developed with the functioning of economic actor as well as market.² This view focuses on deliberate economic choice and actions so that the maximization of interest can be possible. In such analysis, the focus was clearly given to the promotion of rational behavior of the economic actor. There was almost no room for ethical consideration in such interest maximizing motivation and effort. The journey of this view is still prevailing.

The ethics based view of economics, on the other hand, has a long rich history. This view concentrates on the promotion of human behavior on the basis of morality and ethics. The connection of ethics with economics is found in the work of Aristotle.³ This view invites economics to pay more attention, not without rationality –rather along with rationality, to ethical judgment for the enrichment of economics itself.

Self-interest and Rationality

It is now important to concentrate on the issue of self-interest and the application through human behavior in the form of the maximization of self-interest. Self-interest plays one of the key motivational roles on the choice of people make in their salient economic decisions. It is hard to censure such choices made by self-interest with the view of rationality. Rather, the self interest view of rationality and thus make choices has a powerful logic to follow and has been a fundamental base in mainstream economic behavior for long time. It is hard even to criticize the deliberate steps it makes in many cases and makes decisions towards the maximization of self-interest.

Where the problem does lies, then? The exclusion can be, to answer the question, a fundamental issue to be considered. If the fulfillment of self-interest does not include the interests of others, or hurts or devalue the interests of others, that may

be a matter of ethical consideration. Pursuing ones' self-interest and excluding the consideration of others may create terrible problems in economic as well as social world we live.

It is remarkably evident that the self-interest based rationality has a popular tendency to decline the ethics-based view of economic choices and decision making. Whether the 'inclusion' can be a powerful decision to take –is a different question to be discussed elsewhere. When a person follows self-interest based decisions to maximize his or her self-interest that can firmly be a rational behavior to pursue. If the same behavior, however, excludes the self-interest of others (which may possibly conflict or be destroyed by the person's self-interest maximizing decision), those decisions are not right actions to follow in the view of ethics based view of economic decision making.

The strategic decisions made by rationality will not be sufficient at all if the *actual* behavior is guided by the motivation of self-interest maximization. In the same way, actual behavior will not be accurate at all if it is guided by behavior that is focused on the maximization of self-interest. Inclusion of interest may be less practiced in everyday economic decisions but the inclusion is not absurd in economic sphere. The interplay between the concepts, though seemingly counterproductive, has much to offer in mainstream economic theorizing.

The ethical consideration has seemingly a certain place where interest, rationality and actual behavior interplay. The ethical view has, in such cases of decision making, a greater importance to choose the pattern of actual behavior. The comprehensive understanding of the interplay among the concepts may lay down the foundation of actual economic choice in decision making.

Let us turn our attention to the pragmatic possibilities of the assumptions just have been made. It is a matter of fact that whether a person, motivated by self-interest maximization may consider 'inclusion' or ethics based view of economic decision. Indeed, a vast literature⁴ has been developed over the long period of economic theorizing towards behavior related to self-interest maximization.

Welfare, Goals and Choice

In general economic discussion, an individual is considered on the basis of his or her effort toward the maximization of self interest. The overall effort, in general economic literature, can be shown through few⁵ steps: own welfare condition of a person, his or her own goal setting, and the choices he or she makes to achieve those goal. A brief discussion may help to understand the process better.

The welfare of a person is largely dependent on his or her consumption pattern. This may include the pattern of environment the person likes to maintain, even the tasks he or she usually likes to pursue. The goal of a person is extensively influenced by the welfare condition he or she enjoys. The goal of a person, in general, is the maximization of welfare. To enhance the welfare condition, or desire fulfillment, person may try his or her best.

The choices, finally, individual makes are remarkably dependent on the set of goals the person has already made. A person, generally, seeks choices of actions that may best suit and help to achieve the goals at its best. The person may be influenced by others, or may be guided by his or her own thought, and, thus become, motivated to choice to pursue his or her own goal.

The process, which occur in a simultaneous manner, is very much common in most economic behavior. There are, however, other facets too. The welfare of a person may, solely, not dependent on his or her own consumptions, albeit the goal is to maximize his or her self-interest.⁶ The example from another direction, though the evidence is not much common is also evident. The welfare of an individual may solely dependent on his or her own consumption pattern but the goal of that individual may be different from that of maximization of welfare.⁷

The actual difficulty arises while choosing the set of actions in maximizing individual welfare. The individual may have the freedom to change or to follow their desired goals, i.e. the maximization of welfare, but the problem arise when the goal of one person face conflict with the goal of others. Ethical consideration become, invariably, a matter of serious concern in the maximization of self-interest, to ensure enhanced welfare conflicts each other within a given social condition.

Rationality and Economic Behavior

It is important to discuss here about the importance of rationality and its intrinsic role in economic behavior. The concept of 'rational behavior', certainly, has a strong role in motivating key economic behavior of individuals. Individuals are assumed to conduct 'rational behavior' to maximize their self-interest. Putting this assumption in a central place, the difference of rational behavior with actual behavior will be discussed here.

There is, indeed, sharp distance between the two behavioral assumptions in economic literature as well as practical implication. Putting the concept of rationality at the central place, it can hardly be said that rationality is well

reflected in actual behavior of economic actors.⁸ Though the concept of rationality in economic decision and choice is considered as ‘best’, it does not mean that the economic actors always turn their conduct to the best, i.e., rationality, to actual behavior.⁹ The rational behavior, thus, differs completely from actual behavior. The implication of rationality, indeed, in all phases of action of economic actors is practically meager in real world.

Economic Behavior and Ethics

The economic behavior of individuals, on the basis of three basic components stated in the previous section, is very much common in usual economic literature. Any alternative effort, in general, is considered ‘unusual’ or ‘absurd’ in this context. Another fascinating feature of human behavior is that, advocacy has also been developed supporting any ‘deviation’ from standard economic behavior.

There can be particular behavioral geography in mainline economic theorizing – which may together form a unique economic behavior –but there can be found little regions not to incorporate ethical matters in economic judgments and behavior. The behavior commitments, incorporated ethical judgments, have much to offer to the advancement of contemporary economic literature.

Dependency, therefore, rests upon ethical judgment and related standards of behavior. Maximization of welfare can be, invariably, given priority and set of actions can be drawn in line of expected goal, but the interests of others should be evaluated with greater care and sensitivity. Pursuing maximization of total welfare, that keeps consideration of the interest of others as well, has much to offer to the overall development and welfare in a given social context.

Conclusion

The usual economic literature, with its long cherished backdrop connection with rationality, is notably, and has a rich history of improvement. The ethical incorporation may produce fascinating progress in contemporary economic thought. It is argued that the economic literature, with ethical judgment has much to offer in the promotion of welfare. It is advocated that the shared effort has much to contribute to the economic literature, which is seemingly not possible for any single discipline.

It is analyzed that Individual in general economic discussion is considered on the basis of his or her effort toward the maximization of self interest. The effort is observed through three steps: own welfare condition of a person, his or her own

goal setting, and the choices he or she makes to achieve that goal. Problem arises when the goal of one person face conflict with the goal of others. Ethical consideration become a matter of serious concern to get the solution of such problem.

Finally, this is supported that ethical judgment and related standards of behavior have the possibility to offer much towards the solution. Maximization of welfare can be a matter of priority, but the interests of others should be evaluated with much care and sensitivity. If the maximization of total welfare can be entertained, a better future can be expected. This has much to offer to both the economic literature and overall development and welfare.

Notes:

1. On this see Sen (1999).
2. Some played key role in developing this view, such as Leon Waltras, Sir William Petty –among others.
3. *The Nicomachean Ethics*, translation by Ross (1980, pp1-7)
4. For detailed analysis, see Ullman-Margalit (1977), Scitovsky (1976), Baier (1977), Leibenstein (1976), Nagel (1970), Kornai (1971), Hollis and Nell (1975), Broome (1978), Collard (1978), Hirschman (1970, 1977, 1982, 1984, 1985), Rose-Ackerman (1978), Hirsch (1977), and Sen (1966, 1973a, 1974, 1977c).
5. On this, see Sen (1999)
6. See the discussion of Archibald and Donaldson (1976), Sen (1999).
7. For more discussion on this matter, see Akerlof (1983).
8. For details, see Sen (1999).
9. There remains critics about the idea of rationality. For further analysis, see Kornai (1971), Simon (1979), Scitovsky (1976), Schelling (1984), Hirschman (1970, 1982), Elster (1983), Steedman and Krause (1986).

References

- Akerlof, G.A. 1983: Loyalty Filters. *American Economic Review*, 73.
- Akerlof, G.A. 1984: *An Economic Theorist's Book of Tales*. Cambridge: University Press.
- Archibald, G.C. and Donaldson, D. 1976: Non-paternalism and the basic theorems of welfare economics. *Canadian Journal of Economics*, 9.
- Aristotle, *The Nicomachean Ethics*; English translation, Ross (1980).
- Baier, K. 1977: Rationality and morality, *Erkenntnis*, 11.
- Broome, J. 1978: Choice and value in economics. *Oxford Economic Papers*, 30.
- Broome, J. 1984: Uncertainty and fairness. *Economic Journal*, 94.
- Collard, D. 1978: *Altruism and Economy*. Oxford: Martin Robertson.
- Cowell, F. A. 1977: *Measuring Inequality*. New York: Wiley.
- Ester, J. 1983: *Sour Grapes*, Cambridge: University Press.
- Hirsch, F. 1977: *Social Limits to Growth*. London: Routledge.
- Hirschman, A.O. 1970: *Exit, Voice and Loyalty*. Cambridge, Mass.: Harvard University Press.
- Hirschman, A.O. 1977: *The Passions and the Interests: Political Arguments for Capitalism before Its Triumph*, Princeton: University Press.
- Hirschman, A.O. 1982: *Shifting Involvements*, Princeton: University Press.
- Hirschman, A.O. 1984: Against parsimony: three easy ways of complicating some categories of economic discourse. *American Economic Review*, 74; shorter version of Hirschman (1985).
- Hirschman, A.O. 1985: Against parsimony three easy ways of complicating some categories of economic discourse. *Economics and Philosophy* 7; the complete text shortened in Hirschman (1984).
- Hollis, M. and Nell, E.J. 1975: *Rational Economic Man*. Cambridge: University Press.
- Kornai, J. 1971: *Anti -Equilibrium*. Amsterdam: North - Holland.
- Leibenstein, H. 1976: *Beyond Economic Man*. Cambridge, Mass.: Harvard University Press.
- Nagel, T. 1970: *The Possibility of Altruism*. Oxford: Clarendon Press.
- Rose-Ackerman, S. 1978: *Corruption: A Study in Political Economy*. New York: Academic Press.

- Schelling, T.C. 1984: Self-command in practice, in policy, and in a theory of rational choice, *American Economic Review*, 74.
- Scitovsky, T. 1941: A note on welfare propositions in economics, *Review of Economic Studies*, 9.
- Scitovsky, T. 1976: *The Joyless Economy*. New York: Oxford University Press.
- Sen, A.K. 1966: Labour allocation in a cooperative enterprise. *Review of Economic Studies*, 33; reprinted in Sen (1984a).
- Sen, A.K. 1973a: Behaviour and the concept of preference. *Economica*, 40; reprinted in Sen (1982a).
- Sen, A.K. 1973b: *On Economic Inequality*. Oxford: Clarendon Press, and New York: Norton.
- Sen, A.K. 1974: Choice, orderings and morality. In Korner (1974); reprinted in Sen (1982a).
- Sen, A.K. 1977a: Social choice theory: a re-examination. *Econometrica*. 45; reprinted in Sen (1982a).
- Sen, A.K. 1977b: On weights and measures; informational constraints in social welfare analysis. *Econometrica*, 45; reprinted in Sen (1982a).
- Sen, A.K. 1977c: Rational fools: a critique of the behavioural foundations of economic theory. *Philosophy and Public Affairs*, 6; reprinted in Sen (1982a).
- Sen, A. 1999: *On Ethics and Economics*. Blackwell Publishing.
- Simon, H.A. 1979: *Models of Thought*. New Haven: Yale University Press,
- Steedman, I. and Krause, U. 1986: Goethe's Faust. Arrow's possibility theorem and the individual decision taker, In J. Elster (ed.), *The Multiple Self*. Cambridge; University Press.
- Ullman-Margalit, E 1977: *The Emergence of Norms*. Oxford: Clarendon Press.