Title: Economics as Social Science: Linkages of Ethics

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Abstract

New Welfare Economics and Social Choice Theory have given rise to a group of problems which lie on the frontier between Economic Theory and Ethics. Economics is also an essential part of social science. There is a relationship between Economics and Ethics as social science. The analytical developments of concepts like utility, preferences or well-being and notions like meta-preferences, agency or commitment all connect directly to the ethical dimension that any Theory of Value presupposes. In relation with the Theory of Choice, concepts like rationality, consistent election and self-interest impede the accommodation of behaviours like altruism or others whose consequences do not affect directly to the acting agent. The perceived difficulty to link ethical aspects of actions with standard Economic Theory allows us to qualify the relationship between Economics and Ethics as one of mere juxtaposition. This paper will consider the simplification that is an inevitable aspect of research. A theme throughout the paper is that how ethics is related to economics. The main objective of this work is to show the linkages between ethics and economics in social science.

Key Words: Economic theory, Ethics, New welfare economics and Social choice theory.

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1. Introduction

It is widely believed by economists and non-economists alike that knowing about and "doing" economics does not involve ethical and moral issues. Economics is sometimes called a science – indeed, the Nobel Prize in Economics is called the Nobel Prize in Economic Sciences– which is interpreted as being based purely on empirical observation and logical analysis for understanding the truth about how the economy works (just like natural scientists do with the natural world), and is sometimes thought of as a form of engineering –engineers learn about how to build bridges and have them built, while economists learn about how to intervene in the economy and then help design policies to actually intervene in it.

It is, of course, well understood that economic activity and policies may have some ethical consequences. For instance, the economy can experience high and growing levels of inequality of income between people, or economic policies may involve giving away money to those who do not work for it, both of which may be considered ethically unacceptable. However, it is believed that economists can only investigate whether inequality is high and growing and, if it is, explain why, and that they can analyse what giving money away to people will actually do, and politicians, other government officials, ethicists and people in general are the ones who will make ethical judgments about what is going on and what policies should be pursued. This is similar to the argument that scientists can do nuclear physics without deciding whether their country should develop nuclear weapons and nuclear energy, and engineers can build underground railroads without deciding whether a particular city should have it in the first place.

However, it is increasingly being recognized that ethics and economics cannot be kept separate and many economists and philosophers have begun examining their interaction. In economics within the Theory of Value, impossibility theorems, paradoxes and anomalies commonly analysed in the literature seem to show the limits of the analytic development of the classical concepts of utility, preferences or well-being. The attempts to overcome these limits, by means of notions like meta-preferences, agency or commitment (Sen), connect directly to the ethical dimension that any Theory of Value presupposes. Moreover, in the Theory of Choice, the identification of rationality, consistent choice and self-interest impedes a correct understanding of behaviours like altruism or others whose consequences do not directly affect the particular agent. The perceived difficulty to link the ethical aspects of human action with some standard Economic Theory issues, might allow us to qualify the relationship between Economics and Ethics as one of mere juxtaposition.

The main objective of this work is to show how economics is related with social science on ethical context. This paper does not pursue to establish the link for the integration of Ethics and Economics a rather difficult task but to specify some of the main elements in the explanation of the prevalent link between Ethics and Economics in the literature.

2. Literature Review

The antecedents of the theoretical connection between Ethics and Economics go back, at least, to Aristotle who conceived Economics as a part of practical Philosophy together with Politics and Ethics. At the beginning of his Nicomachean Ethics, Aristotle places Economics in relation to human ends by referring to the specific purpose of Economics as a set of methods or skills oriented to the objective of increasing wealth. On the contrary, Politics is considered to be the main art that one should use for the rest of the sciences, including Economics, since Politics settles down what should and should not be done to reach the final objective of Politics, that is, the good for human happiness *(Aristotle, Nicomachean Ethics, Book I).*

From this tradition of thought, beginning with the Greek philosophers and continuing right up to the present, an entire history of diffusion of ideas has developed. Chafuen (1991) expresses the dissemination of these ideas in the western world bymeans of a genealogical tree in which late scholastic economics is at the root *(Chafuen 1991, p. 33)*. It is broadly accepted *(Beltrán ,1993, p. 38-44, chapter IV of Rothbard 1999, and Grice-Hutchinson, 1978)* that the Hispanic Scholastic allowed the diffusion to work, thereby allowing us to identify the background from which the work of Adam Smith was born in 1776.

Not with standing these origins, Economics did not continue to wear the coat of Philosophy, in particular, of Moral Philosophy, but rather it was operating a division toward its autonomy as a scientific discipline. The discipline ceased to be Political Economy and became Economic Science. It was towards the end of the nineteenth century when we find the idea that the decisions of economic agents, and not the investigation on the nature and causes of wealth should be the central objective of this new science. This fact coincides with the widespread acceptance of a new Theory of Value that places the concept of utility as the keystone of the entire economic analysis, thus implying a redefinition and reorientation of the discipline.

At this foundational epoch of the new economic science, the so-called Marginalist Revolution, a new division takes place; a rupture that leads to the identification of at least two clearly different traditions. Firstly, the tradition that gave origin to the Neoclassical paradigm (headed by Walras and Jevons) which accentuates the scientific character of Economics by adopting the canon of Physics in particular, rational mechanics at the price of radically separating the economic science from the Ethics. In this tradition, Robbins (1938) points out the impossibility of relating Economics and Ethics, outside of mere juxtaposition. The second tradition, also within marginalism, it is inaugurated by Menger and continued by his Austrian disciples. This tradition insists on human action and its entrepreneurial development as the kernel of Economics *(Hayek, 1935)*. This tradition does not assume Physics as a scientific canon, nor does it take Mathematics as the language of the social sciences.

Of these two traditions, the first one has been preponderant to the point to which modern Economics is often identified with Neoclassical Marginalism. It is within this context, where, traditionally, the concern and subsequent reflection on the relationship between Ethics and Economics has arisen. In particular, it is worth mentioning the schools of thought that, in a first stage, can be recognized as Welfare Economics and from which derives, at a later stage, New Welfare Economics *(Bergson, 1938, 1954; Hicks, 1939; Samuelson 1947, 1948; Scitovsky, 1941, 1942)* and Social Choice Theory *(Arrow, 1950, 1951)*. These schools were born as a consequence of the problems of social election that emerge in the western societies in which Public Sector increases its weight giving origin to important questions of justice, equity and redistribution.

Here we can verify what we believe constitutes a paradox: the necessity of considerations of an ethical kind is imposed, but from that tradition of Economic Theory whose antecedents had been focused on allocative aspects of human behaviour. Indeed, the conventional literature is developed mainly by authors that start from a concern for the technical aspects of the allocative processes such as social development of compensatory approaches, rules of collective choice, and relative theorems of impossibility. These authors finish at wondering about the sense of an Economic Theory that does not examine the content and hierarchy of the ends of the individuals. An excellent exponent of this analytical process is Sen.

As it has been shown, to proceed in this manner is coherent with a program that arises as one of the branches of Neoclassical Economics in its most modern version, that is, Social Choice Theory. The concern arises where this theory is not able to explain de facto situations. Thus, the attempt to solve a particular group of problems has focused attention on the relationship between the economics and ethics.

The orthodoxy of the discipline ostracizes ethics under the claim that it encompasses value judgments by which it removes the discipline from scientific criteria. When ethics finds itself in the agenda of the literature on economics, it is met with doubt and contempt on the basis of the subjective evaluations and individual opinions that come to the forefront. For the modern economist involved in the orthodoxy, ethics is an empty, meaningless concept devoid of any inherent value. For this reason, it can be said that most attempts to place ethics into the theory of economics had been unsuccessful, and that furthermore, the prevailing orthodox theoretical approach to economics had no problem disregarding such efforts until recently *(İnsel, 2000, p. 7).*

Some elements of the debate on Ethics and Economics would deal with the way in which personal interests and preferences together with rational choice, are capable of laying the foundations for the moral action, understood as the action that points out the good end, individually or socially considered *(Sen 1993, p.4).*

3. Ethics

Ethics refers to the study of what is morally good and bad, what is right and wrong. It is concerned with questions like the meaning of the good life, what are good and bad actions, who is a morally good person, and how society ought to be structured. Sometimes three concepts central to the subject matter of ethics are distinguished: good (which refers to the ideal, or the thing that is desired); right (what is not wrong); and ought (which refers to obligation, duty, or responsibility, both of the individual and of the society).

Ethics and moral philosophy are often considered to be synonymous in the study of philosophy. For our purposes, however, we may take moral philosophy to be a subset of ethics, where ethics also refers to religious ethics. Thus, moral philosophy or ethical philosophy can be thought of as the study of ethics using reason and arguments, whereas, at least in the Western traditions, religious ethics refers to what is considered good in terms of religious faith, that is, due to divine revelation. It is not necessary to have religious faith to study ethics. It is often believed that ethics and morality are matters of opinion, that arguments about ethics cannot be resolved, and that these issues are relative and subjective, rather than absolute and objective. Thus, examining ethical questions may be useless. It may even be harmful, because it may lead to some people intolerantly imposing their ethical views on others. There may be some truth to these charges. Ethical questions may be relative to what the facts are: for instance, it may be considered ethical to lie to someone if telling them the truth would lead the person to locate his victim and kill her. Well-reasoned debates about ethical issues may lead good and ethical people to disagree with each other. Sometimes the "morality police" can breed intolerance and oppression. But all of this does not make a valid case for rejecting the study of ethics. It does not mean that whatever a person or society believes is right. The issue is not just what a person believes but, more importantly, why the person believes it. One can formulate arguments, examine premises on which people can agree on, and try to use logical reasoning to come to some conclusions about disputed issues. It even seems to be the case that there is more agreement regarding ethics than there is disagreement, even among people from different backgrounds and parts of the world. There seems to be general agreement that to kill and to torture is bad (especially for entertainment), that an ideal of good behaviour is to be kind and charitable to others even to the point of being selfless, that it is not good to be selfish, and that it is wrong to be intolerant of people with different views.

4. Economics

It is useful to define economics as studying some activities or some system. The activities definition is used by the British economist Alfred Marshall (1842–1924), who popularized the use of supply and demand curves for studying markets and was a major figure in the professionalization of economics (as a separate scholarly discipline). He defined economics as "a study of mankind in the ordinary business of life" (Marshall, 1920, Part I, Chap. 1). Marshall did not specify what he meant by the ordinary business of life, but we can presume that this business refers to activities such as consuming, producing, working, buying and selling, saving, investing (that is, installing new capital goods for future production), and holding assets such as financial assets. The system definition is used by the American economist and Nobel laureate Paul Samuelson (1915–2009) in his extremely popular introductory economics text (Samuelson, 1948) which has gone into 18 editions at the time of this writing. He defines the economic system as one which answers the following questions about the production of goods and services: what, how, and for whom.

Economics is almost universally divided into two parts, microeconomics and macroeconomics. Microeconomics examines the behaviour of individual economic agents or actors (such as producers and consumers) and how they interact with each other, and studies the operation of individual markets (for instance, the market for coffee) and their interaction. Macroeconomics studies the behaviour of aggregates, aggregating over both economic actors and markets. Thus, while microeconomics is concerned with the level of production of a firm, and the consumption of apples by an individual consumer, macroeconomics is concerned with the level of aggregate production of goods and services of the economy as a whole and the level of aggregate consumption of all people in an economy without necessarily examining individual actors or individual markets.

In addition to working on general aspects of microeconomics and macroeconomics, economists work in a number of subfields of economics which are concerned with the applications of these general ideas to particular aspects of the economy. We will call the study of these particular aspects applied economics. There are many such subfields of economics, of which we will mention only a few as illustrative examples. Development economics is concerned with the economic problems of economically less-developed countries which have low per capita incomes, and examines the problem of how economic growth can be increased in these countries and how well-being can be improved. International economics deals with issues concerning the interaction of economies with the rest of the world and with the global economy. It examines the implications of free trade without government restrictions on it, and whether government protection is bad for the economy. It also examines what effects foreign borrowing, foreign investment, and the exchange rate (the domestic price of foreign currency) have on the economy. It also explores the implications of the interaction between rich and poor countries, and what this implies about international inequality. Environmental economics examines, for instance, how pollution can be controlled when it occurs due to externalities, how economic activity affects the environment, and how environmental degradation affects economic growth and well-being. Labor economics is concerned with wage determination, the determination of employment and unemployment, the role of labor unions, and the effects of education and minimum wages on unemployment and wages. This is just a small sample of subfields of economics, which also includes, among others, public economics (economics of government activity), economics of poverty and income distribution (the determinants of poverty, income distribution, and policies which affect them), and industrial economics (the economics of firms and industries, market structure, industry performance, and antitrust policy).

5. Linkages between Economics and Ethics in Social Science

Economics is a social science that seeks to analyse and describe the production, distribution, and consumption of wealth.

The linkages between economics and ethics arises for at least three separate reasons.

First, when economists study the economy they necessarily make value judgments, that is, judgments which involve ethical or moral issues, whether they do so consciously or not. The distinction between scientific (or engineering) economics and ethical issues is not as clear-cut as is usually thought, and ethical issues cannot be kept separate from the study of economies. The strict separation between positive economics and normative economics, and the claim that positive economics is value-neutral, does not withstand careful scrutiny.

Second, economics studies people and groups of people, how these people and groups interact, and institutions such as markets, firms, labor unions, and even religious organizations. The people and groups have ethical values which shape their activities and their institutions, and their economic activities and the outcomes that these activities produce in turn can affect their ethical values. Economists need to understand ethics if they are to understand better how individuals, groups, and institutions behave and operate.

Third, economists often have to make policy decisions, and their work influences policy decisions. It is in fact to evaluate what is going on, and what should be done about it, that many of them study the economy. Evaluating what is happening – that is, whether it is good or bad and devising appropriate policies for improving on what is happening obviously require ethical analysis. Given the close connection between economic analysis and policy evaluation, even those economists who do not directly make policy proposals or changes need to be aware of the ethical implications of their work.

According to Sen, economics is related to two origins, both of which are related to politics but which also come from two separate traditions themselves. One of these is "ethics" and the other is "engineering" (Sen, 2004). Ultimately, economics is related to ethics and political research, making it impossible to isolate economics from ethics and politics. It cannot be said that the engineering, the other origin of economics, is certainly related to ethics, dealing with such question as: "how should a human being live?" The engineering approach is related more with "logistics," which can be described as the management, organization, and planning of the activities that provide goods and services. On the one hand, Sen expresses that ethical based explanations of human behaviour have a place in modern economics while on the other hand, he states that the engineering approach can also contribute to the discipline.

It is clear that, when its nature is taken into consideration, both origins of economics have been discussed by economics philosophers. While Adam Smith, John Stuart Mill, Karl Marx, and Francis Edgeworth's works are related to ethical issues; William Petty, François Quesnay, David Ricardo, Augustine Cournot, and Leon Walras's works are related to matters of logistics and engineering (Sen, 1990, pp. 2-6). Citing philosophers from the pioneers of these two traditions, Sen says that he was infuenced more by those who were interested in ethics (Klamer, 1989, p. 141).

It can be said that the science of economics, with its expansionist character, is directed at strengthening its attribute of being the "science of sciences" within the social sciences by including those areas the economics orthodoxy has thus far neglected while preserving its engineering aspect and becoming open to ethics, and even to philosophy. This expansion of economics, while protecting its engineering aspect, means that "economics as a science" encompasses the areas of interest of "economics as an art," and that there is no subject not under the dominance of the orthodoxy.

It is possible to state that there are two types of "science philosophy" which have appeared since the last quarter of the 19^{th} century. the first type of science philosophy is the positivist science philosophy, whose roots may be traced to Bacon, being nurtured by Locke, Hume, and Comte until reaching Mach, under whom they have come into fruition in the form of modern logical positivism (Schlick, Carnap, etc.). In the tradition of this scientific philosophy, only one science; that is, "the unity of science," is dominant and this means the uniformity of the concepts of "science" and "natural science." the roots of the second type of science philosophy trace themselves to the tradition of Ibn Khaldun and Vico, continuing under Herder and the German School of History (Ranke, W. Humboldt, Droysen, etc.) until they reached Dilthey via German Idealism (Schleirmacher), the New Kantian Heidelberg School (Ricket), and modern hermeneutic philosophy (Gadamer). This tradition is the historical science philosophy that discusses a second science next to "natural science," working diligently both to establish it and build its credence (Özlem, 2008, pp. 40-50).

Both references to the origins of economics turn economics into a social science dependent on the natural sciences while invalidating the distinction between the spiritual sciences and the natural sciences, a distinction which Dilthey has diligently tried to assert, as mentioned above. As a result, after all the arguments continuing with political science and social theory, extended onto a philosophical plane (natural sciences-spiritual sciences) and have become a dependent variable of economics. Consequently, by stressing the two origins of economics, Sen's proposal of economics strikes a balance between both approaches and is far from contributing to the above-mentioned arguments being carried out on a philosophical basis.

In pre-capitalist societies, society was viewed holistically, with religion and morality acting as the glue that held individuals and institutions together. Later, due largely to secularization, politics replaced religion and morality as the principal factor in social cohesion. Economics grew progressively, reinforced by its method until it became an autonomous science. Today, after the long road of three centuries, it seems that we have found a new pact; the difference now is that economics has forced the issue of its hegemony upon the other social sciences. The current preponderance of economic analysis of social phenomena does not seem to be excessive; the process was motivated by the status of respectability that the discipline began to acquire along with its rising status.

6. Ethics in Applied Economics

There are numerous sub-divisions of economics. In this section we examine the role of ethics a little more systematically in a number of applied areas of economics or what are sometimes called sub-disciplines of economics. We will have to be content with a sampling of some fields which we consider to be particularly important both because of the issues they are concerned with and because of their relation with ethics. We discuss, in turn, development ethics, international ethics, environmental ethics, the ethics of labour and employment, and business ethics.

7. Development and Ethics

Development economics is a field of economics which emerged after World War II to conduct the systematic and specialized study of the entire range of economic problems of less-developed countries (LDCs). On the other hand, development ethics is most closely connected with the meaning of development. Early development economics generally equated economic development with economic growth – that is, growth in per capita income and gross domestic product (GDP). Some development ethicists, such as Goulet (2006), have focused on religious traditions because of the strong hold they have on many societies, but he has advocated an enlightened and critical borrowing of these traditions, such as that espoused by Mahatma Gandhi, rather than a fundamentalist one. More importantly, they recommend that development scholars and practitioners examine what people in developing societies, especially the poor who are not trapped by vested interests, want. Goulet and other development ethicists have stressed the importance of non-elite participation in development decision-making. As outside experts, development practitioners and scholars must take care not to impose their ethics on the subjects of development, and they should take pains to involve the poor in decision-making in a fundamental way at different levels, including local, provincial, national, and global ones and do so at difference-making phases of decision-making in meaningful ways (Crocker, 2008). Development ethicists have examined empirical cases in which non-elite participation has been an important aspect of development projects and those in which it had not in order to show not only how the former have been effective in terms of traditional development indicators but to examine under what conditions they successfully give voice to the poor (see Goulet, 2006).

These and other aspects of development ethics have enormous relevance for development economics even if they only have implications for the meaning of development. But given the relationship between the meaning of development and the other dimensions of development economics, development ethics has even broader implications. Most directly, it has important implications for development strategies and policies. In societies in which the government is expected to play a major role through direct activity and by indirectly affecting private decision-making, officials have to make choices among different strategies and policies. This involves judgments about the objectives of development, which not only have a bearing on the effects on growth, poverty, inequality (across income groups, social classes, ethnic groups, and genders), the environment, and meeting basic needs but also on the design of policies that take into account non-elite involvement. Moreover, development ethics may also be important for the strategies of nongovernment institutions and profit-making firms and how the government reacts to these strategies.

Development ethics also has a major role in terms of one's view of the economy – that is, whether one considers income distribution, poverty, and the environment as important elements in the analysis of the economy and whether one takes into account ethical and religious values as major factors affecting individual and group behaviour.

8. International and Global Ethics:

International and global economics raise many ethical issues of which two issues are most important. The first relates to trade policies and protectionism and the second concerns the inequality between rich and poor countries and whether rich countries should do anything to help poor countries.

There are many more specific ethical questions in international trade policy but we will analyze just one. Suppose at a point in time there are two countries, one rich and one poor. The rich country has high tariffs against the importation of textiles and employs many low-wage workers in the industry. The poor country is starting a textile industry in hopes of employing its large unskilled work force. Because of its poverty the main market for its products must be exporting to the rich country but the high tariffs prevent this from happening. The poor country appeals to an international "ethics board" that these tariff walls are an unfair trade practice. The rich country argues that it must protect its poor workers. The poor country argues that the rich country can afford to retrain those workers and move them to other industries while it, the poor country, has no alternative but to export. This case illustrates the complexities of the ethical issues of international trade policy.

Whether or not world inequality has actually been growing, there is no doubt that there is a wide disparity across both countries and people around the world. Another set of issues concerns whether rich countries should help reduce inequality between countries by transferring resources to poor countries. Unlike governments of individual countries, there is no world government which redistributes resources across countries to reduce regional inequality. However, individual rich countries and institutions do provide foreign development aid to poor countries, although the amount of this transfer has become less significant over the years.

9. Ethics of the Environment:

Economists traditionally examine the environment in terms of production, growth, and utility. They typically view the problem of pollution and environmental degradation more generally as resulting from externalities: self-interested firms and people do things that result in pollution because these generally affect other people, not themselves directly, and do not reduce this damage because it is costly to do so – it lowers profits to reduce pollution because higher prices mean people consume less. Thus, they recommend remedies such as pollution taxes and standards to restrict the quantity of pollution, and introduce tradable pollution permits which allow firms to pollute according to the value of permits they hold. Many economists show a preference for pollution taxes and especially pollution "cap and trade" markets over quantitative restrictions for the sake of efficiency: they provide the least cost method of reducing pollution. Firms which pollute have to pay fees for doing so, and those firms which can reduce their pollution cheaply can choose to do so, while those for which this is costlier can pay the fees. Marketed permits introduce a market where none existed. The authorities can impose a cap on the total amount of pollution and distribute these to firms, who can then trade these permits depending on whether they can more cheaply reduce their pollution with cleaner technology (in which case they can sell their permits) or buy permits which allow them to pollute more.

One set of ethical issues arises from how to evaluate the environment. If pollution causes health problems such as respiratory problems due to air pollution, diseases due to water pollution, and cancer due to ozone layer depletion or even threatens our very survival, due to problems caused by global warming, clearly environmental problems have an adverse effect on our functionings and capabilities in terms of a healthy life. If pollution taxes and other government regulations are viewed as interfering with a person's rights to do what they want with what they own, they can be criticized for infringing on people's rights. If, however, we extend the notion of rights to deal with the right to enjoy one's property or environment without infringement by others who pollute, we may justify government interventions which infringe on some rights to protect other rights. If we take a desert view we may find it acceptable to punish with fines those who impose a negative externality on others. If we take an egalitarian perspective we have to be particularly concerned about how pollution affects the rich and the poor. It may be argued that poor people are often less able to reduce the adverse effects of pollution on their health than the rich do because, for instance, they often live in polluted neighbourhoods (because they cannot afford to live in more expensive and less-polluted regions), and they cannot afford suitable health care. Thus, we have additional reasons to control pollution, especially of the kinds that adversely affect the poor. However, we also need to be cognizant of how the livelihoods of poor people are affected by pollution control policies.

Indeed, the field of environmental ethics takes a variety of different approaches to the environment, including human-cantered, animal cantered, and life-cantered (which includes plants) ethics, even the ethics of inanimate objects (such as rocks), and ecological holism which stresses the conservation of the biosphere or ecosystems. The discussion of ethical issues in environmental economics is clearly human cantered in terms of these distinctions: there may be concerns for animals, plants, and the biosphere and ecosystems, even for land and the soil, but these concerns are due to the fact that these aspects of the natural environment are instrumentally important for human beings.

Another set of ethical issues arises from the motivations of people whose activities result in environmental degradation. Economists, who assume that individuals and firms are self-interested, typically view the problem of environmental degradation as an externality. However, people are not necessarily just self-interested, and often have ethical values and follow codes of conduct.

10. Ethics, Labour, and Employment:

Ethical issues are particularly important in the field of labour economics because of the fact that it deals with not just a factor of production, but with human beings. There are numerous ways in which ethical issues enter labour economics. Thus, the fact that workers, as human beings, have ethical beliefs has implications for labour market outcomes, wage rigidity, and unemployment. Furthermore, labour markets have a crucial role to play in determining the overall personal distribution of income through its effects on the labour share of output, and thus have an important bearing on the question of distributive justice.

First, we discuss the ethics of the minimum wage. Standard micro principles textbooks usually stress the fact that introducing a binding minimum wage (that is one which is above the market clearing wage) reduces employment (by raising the cost of hiring workers for firms) and causes unemployment, making the economy less efficient. Thus, the standard story which makes some people critical of minimum wage legislation – argues that the minimum wage results in inefficiency. There may be additional problems which result from this. Firms who face higher wage costs may increase the prices of their products, which can make consumers worse off. Moreover, if profits are squeezed, business firms will experience a reduction in their cash flow, which could reduce their rate of expansion due to lower investment. The minimum wage reduces profits and prevents such growth from occurring.

With the efficiency and growth effects being inconclusive, evaluations of the minimum wage have turned to other ethical considerations. It has been defended on the egalitarian ground that it increases the wage of the lowest-paid workers and increases, overall, the wage share because it sets a floor to the wage, and given the relative wage concerns on account of fairness issues, pushes up wages for other jobs as well. Others argue that its distributional consequences are negative if one is interested in improving the position of the worst-off members of a society and the labour market (Wilkinson, 2004). Many poor people are in fact not minimum wage workers and sometimes outside the labour force, and employers sometimes blunt the effects of the minimum wage by making minimum wage jobs more onerous. The minimum wage is criticized from the rights perspective because it adversely affects the freedom of contract.

Second, we consider the role of labour unions. There is a fairly widespread view among economists that labour unions are bad for the economy. The labour union is viewed as introducing a monopoly element in the labour market: when workers form unions they become in effect a single seller of labour, restricting their supply of labour to obtain a higher wage, so that, compared to the perfectly competitive situation. by raising wages unions squeeze profits and slow down growth, at least to the extent that profits drive investment, technological change, and growth. Paralleling the discussion of the minimum wage, the counterarguments are that unions do not create inefficiency, but merely correct it, since labour markets typically have monopolistic elements which make the wage low compared to the perfectly competitive one, and unions bring the wage closer to it. Moreover, at the macroeconomic level, it is possible that the increase in the wage share expands markets (under the plausible assumption that workers have a higher propensity to consume than profit recipients), increases sales, and in fact increases profits, which in turn may increase investment, technological change, and growth, rather than reducing it. A higher wage share may also be considered good from an egalitarian view, if labour unions actually increase the wage and do not increase unemployment.

Third, unions can provide a check on unethical business practices, such as arbitrary dismissal and noncompliance with regulations about working conditions and safety. Labour unions can have a countervailing influence on the power of big business, not only at the firm level, improving efficiency, but also at the broader political level thereby making the political playing field more even and fair (Galbraith,1952).

11. Business Ethics:

Business ethics is not normally considered to be a part of applied economics, but rather an aspect of business management, concerned with the multiplicity of decisions business firms have to make about product development, research and marketing, especially advertising, pricing, investment and financial decisions, financial accounting and representation, hiring policies and compensation standards, conditions of employment and codes of ethics, effects on the natural environment, relations with the government, and managerial styles and corporate culture.

The traditional view of the firm is that it maximizes profits and does not have any other concerns. Nor should it, since by maximizing profits it promotes overall economic efficiency. Moreover, if they did not maximize profits, firms would be unable to compete with their competitors, and would soon be driven out of business. All of these claims are questionable. First, firms are constituted by people, and as we have seen, people have ethical values and act ethically. Thus, it is likely that firms would reflect some of these ethical values, even though there are many instances of unethical and illegal behaviour by firms and their leaders. Indeed, firms do seem to do things which are ethical: for instance, they recall products which are problematic even when they are not legally required to do so, and they make charitable contributions. Although it may be argued that firms do these good things because it helps them maximize their profits, the motives behind such behaviour are worth examining more carefully. Second, in a complex business environment, it is not obvious that there is a unique and known way to maximize prof- its and compete successfully with other firms. Firms may choose among different possible ways by pursuing more ethical practices which, may, indeed, be good for business as well. Third, we have seen that the single-minded pursuit of profits by firms need not produce efficient outcomes. Even if markets are perfectly competitive, externalities and imperfect information, among other things, can result in inefficiency. Firms with market power can also result in social inefficiency. Breaking laws can result in problems in markets. Moreover, efficiency is not the only ethical issue that societies are concerned with, since they may value fairness and the protection of rights, which are concerns separate from efficiency which itself may be questioned as a good. The first two issues raise questions on whether firms actually do behave ethically and whether doing so is good for business. However, it should be noted that if firms appear to behave ethically, for instance, by pursuing environment-friendly practices, paying ethically fair wages, and by not breaking contracts and other laws, questions arise about what precisely it means for firms to be acting ethically and being ethical, toward whom and about their motivations for such behaviour.

12. Conclusion

Social science is a major category of academic disciplines, concerned with society and the relationships among individuals within a society. It in turn has many branches, each of which is considered a "social science". Economics is one of the major branches of social science. The reflection on Ethics and Economics is not new but recurrent in the economic discipline. However, it continues to be an open question what is the relationship between the two terms. As a social science economics must concern the ethical ground of its theory and application as well as sub-branches of economics.

When economists try to evaluate what happens in the economy and what policies to adopt, they often do so by examining individual utility and satisfaction, and by examining income, output, and economic growth. These approaches are often used in the conduct of government policy interventions in the economy and in evaluating the implications of policies, using notions of efficiency and equality, cost-benefit analysis, and macroeconomic policy. These approaches, however, are limited in the amount of attention they give to ethical issues. Many important issues are relevant in discussing whether and to what extent markets and other economic institutions are moral, whether efficiency based on individual utility, and income and output and their distribution among people are appropriate ways of evaluating outcomes. Since most economic policies affect different people in different ways, it is particularly important to evaluate the distributional consequences of policy changes, and economists need to do so much more carefully by incorporating ethical issues, than they usually do.

In this article we have analysed how one can interpret this renewed interest in ethics within the field of economics as the natural end of a process of mutual relationships that was severed when economics became a social science. We analysed the core relationship between economics and ethics and then we discussed ethics in applied economics which are sub-branches of economics study.

Nevertheless, the conclusion of this article is that it is impossible to speak in these terms for two reasons: First, the character and content of the old ethics has little to do these days with moral behaviour. Furthermore, the roles have changed: Economics is now the social science with the greatest academic and cultural prestige, while it was ethics that once had priority during the first stage of the process. Ethics exercised its control with a holistic view of society, whereas the focus has now changed to analyse why individuals from different cultural backgrounds adopt similar ethical and cultural norms with respect to moral behaviour.

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