

# Economics and Morality

## How to Reconcile Economic Thinking and Broader Social Thinking

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# Neoliberalism and Virtue Ethics

- Private and public morality in neoliberalism
  - Neo-liberal political ideology sharply divides the two
  - This divide is the dominant determinant of the features of the concept of human flourishing in neoliberalism
- Private and public morality in virtue ethics
  - A divide between private and public morality is deeply controversial
    - What a public official does in his private life is also important for the job that he does, not in the least because of the example which he gives to fellow citizens
  - Many phenomena important for human flourishing cross the border between private and public. From the point of view of virtue-ethics, such phenomena are therefore also subject to moral regulation
- => *Virtue-ethics perspective on economics crosses the border between public and private*

# Virtue Ethics and Neoclassical Economics

- Neoclassical economics
  - Dominant set of economic theories, studied at the world's leading universities
  - Analytical tools of neoclassical economics can be used to explain a multitude of problems of the contemporary economy and society
    - Many such problems can be seen as market failures, i.e. failures of the markets to themselves lead to efficient outcomes
      - Markets will fail when we have instances of market power, incomplete information, externalities, or public goods
    - But, the efficiency of any given allocation of goods is a category which can be evaluated only subject to certain set of preferences

# Virtue Ethics and Neoclassical Economics

- System of values and neoclassical economics
  - The efficiency of any given allocation of goods can thus be evaluated only subject to a certain set of preferences
  - But, the choice of the set of preferences is determined by a desired system of values
  - This is the link between the preferences – which determine utility functions and the efficiency of an allocation of goods – and the system of values which inspires these preferences

*=> Economic thinking and broader social thinking could be reconciled through the choice of preferences*

# Example: trade in food and jewelry

- Whether a certain outcome can be considered efficient will depend on the system of values that was used to inspire a set of preferences
- Example: trade in food and jewelry
  - Suppose that two countries trade food and jewelry
  - If their citizens are allowed to freely trade, each may specialize in the good in which it has a comparative advantage
    - Both will be able to consume more than in autarchy, so specialization could be considered an efficiency improvement and an efficient outcome
  - But, if the two countries were to go to war, the one producing jewelry would have to beg for peace so as not to be hungry
  - To the extent that its citizens care about sovereignty and national culture, specialization may well be an inefficient outcome

*=> efficiency depends on the system of values*

# Example: trade in food and jewelry

- Note that:
- Once we choose a set of preferences inspired by a certain view on the society, we can use the standard procedures recommended by neoclassical economics for correcting any market failure
  - e.g. government intervention could prevent free trade in food and jewelry
- After choosing a different set of preferences, the distinction between what could be considered decisions that concern only the individual, and those that concern the whole society (alternatively the division between private and public morality) is reduced or even fully removed

# Virtue Ethics and Neoclassical Economics

- Virtue ethics and neoclassical economics
  - One way to inspire a certain set of preferences is by using a system of values that stems from virtue ethics
    - Virtue ethics is thus not in clash with contemporary economic theory
  - By joining the lens of virtues-ethics with the toolkit of neoclassical economics, we can propose solutions to various problems of the contemporary society

# Uniting Virtue Ethics and Neoclassical Economics in Practice

- Consequentialist and deontic morality
  - Consequentialist moralities justify actions based on the consequences they produce (e.g. utilitarianism justifies actions by taking into account the sum of utility they produce for everyone concerned)
  - Deontic morality arises from certain substantive principles concerning what the agent does, often regardless of the consequences (e.g. always tell the truth, always respect property rights, ...)
  - *But, both consequentialist and deontic criteria for morality can be inculcated into preferences used in a utility function*
    - This is in line with virtue-ethics since deontic criteria, such as virtue, can also be the goal of consequentialism

# Uniting Virtue Ethics and Neoclassical Economics in Practice

- Public and private morality
  - Liberal ethics insists on a division between private and public morality, where the latter could, or even should, exclude deontic criteria
  - Virtue ethics instead rejects this division, and sees the members of the elite who hold public office not only managers of aggregate interests, but also those who provide a moral example and further values
  - We argue that virtue ethics, using the same morality for both private and public sphere, could for several reasons lead to a higher expected level of utility, both in the aggregate and on average, than liberal ethics

# Uniting Virtue Ethics and Neoclassical Economics in Practice

- Using the same set of morality for both private and public sphere could lead to higher expected level of utility compared to a case where moralities are separate:
  - 1.) To the extent that decisions of public officials in the exclusive jurisdiction of the state, such as foreign or defense policy, are affected by their personal preferences, a unified morality will lead to a lower difference between the choices of the state officials and the preference of the citizens
  - 2.) If heteronomy truly reigns in society (in which one's freedom is limited by the structures and rules in the society), to the extent that decisions of public officials are affected by their personal preferences, a unified morality will make decisions of state officials that affect daily lives of the citizens more similar to the preferences of the same citizens

# Uniting Virtue Ethics and Neoclassical Economics in Practice

- Using the same set of morality for both private and public sphere could lead to higher expected level of utility compared to a case where moralities are separate:
  - 3.) A unified morality will allow the elite to serve as a role model for the rest of the society, which will lead to convergence of values of individual citizens at the values of the elite. The sum of individual utilities should rise as the average difference between personal preferences and the choice of the public officials declines
  - 4.) The level of utility of a citizen could depend not only on the difference between his preferred choice and the choice made by public officials, but also on the type of values that inspired his preferred choice (e.g. family oriented lifestyle could in the long term lead to more happiness than a promiscuous one). A unified morality would allow the elite not only to unite the citizens around a single set of values, but also make this set of values that which maximizes the total utility of the society

# Uniting Virtue Ethics and Neoclassical Economics in Practice

- Using the same set of morality for both private and public sphere could also lead to solutions that are both more humane and improve economic efficiency:
  - 1.) Creation of cohesive value communities reduces the need and cost of state intervention, reducing the need for taxation, since social stigma can play a role that costly legal sanctions can play in a liberal society
  - 2.) Better informed expressions of solidarity and mutual help, manifestations of the solidarity more likely to occur in cohesive value communities, can bring about the joy of giving and thankfulness for receiving instead of the emotionally cold and administratively costly redistributive taxation

# Economic thinking and broader social thinking in small open economies

- The need to reconcile economic thinking with broader social thinking is particularly important for both the social wellbeing and the sustainability of economic growth in small open economies.
  - Even more so in those economies that recently underwent economic transition
- We give three examples:
- 1.) Small markets are more likely to experience market failures as a consequence of market power of a few mighty firms. Government ownership of at least one market player in the industry could correct this failure
- 2.) The sudden change to an open economy, undoubtedly beneficial in many respects, could also endanger the positive aspects of national business culture and culture in general
- 3.) The process of beneficial economic changes characteristic for small open economies in transition could well be politically challenged and reversed without a social consensus on the division of benefits that stem from these economic changes

# Economic thinking and broader social thinking in small open economies

- Conclusion
  - For small open economies, even more so those that recently underwent economic transition, our virtue-ethics perspective on economics can support:
    - Some government intervention with the aim of correcting market failures in order to preserve the economic wellbeing, sovereignty, and national culture
    - Cooperation and solidarity between societies in such a similar situation
      - For example, extending the market size could help to reduce market failures and preserve elements of similar national cultures