

# REDEFINING ECONOMICS FROM ETHICAL PERSPECTIVE

*Human beings should be treated as 'ends' and not as 'means'.*

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**Abstract:** *The current global economic crisis is costing the world trillions of dollars, a protracted recession, millions of lost jobs, a huge loss of confidence in financial markets and a reversal in our efforts to cure global poverty. It is the result of the combination of several failures. A failure of business ethics is one of them; one that lies at the epicentre of this financial and economic earthquake. This paper considers an apparent dichotomy, with companies investing in ethical programs whose worth their employees and managers question. A major problem we identify in business is that organisations are designed as profit making mechanisms and have no interest in the good of society. The challenge is to convince such organisations that a direct benefit accrues to them through their own ethical behaviour. In order to do this, organisation must first be shown the importance of long termism. Executives, managers and other employees can be expected to attain high ethical standards only when they feel they are an integral part of an organisation and the organisation itself respects those standards. One of the keys to unravelling the undesirable situation of a perceived absence of ethics in business is in encouraging a greater identity community, company and workforce. We provide some examples of ways companies can meet the challenge of encouraging more ethical, long-sighted behaviour. In addition, we highlight ways in which the expectations of the organisations of the organisation can be communicated more strongly through corporate structures that foster ethical action that benefits the long term interests of the individual and the organisation. Overall implementing a successful ethical program is shown to parallel that of the implementation of a quality program.*

**Key words:** *ethics, means, economics, individual, profit maximization*

## INTRODUCTION

Ethics does not have any structured format or framework. It is abstract in concept. Therefore, it has not any universal acceptance. The concept of ethics deals with the human being only because only human being can do anything according to their choice and free will. Ethical decision is one of the result occurred due to the choice. Each and every person has the different viewpoint. Ethical practices of people are also different. Therefore, the ethical decisions differ with the individual perspective of different person. Ethical decision is not uniform it may vary from person to person and situation to situation

Properly speaking money is a resource that should be used to serve our ethical ends making sure that our society functions in a way that addresses the needs of everyone but we have collectively become so preoccupied by money itself that we have lost touch with how to stay ethically oriented in the world. Also, people should be regarded as ends in themselves having intrinsic worth, but when economics replaces ethics, the value of people is reduced to their being consumers and/or workers, that is, as means to the economic end of profit. Giving economics priority over ethics thus dehumanizes people, hides or pushes out the ethical dimensions of our problems, and weakens our relational abilities and ethical reasoning skills. Examples abound from our personal lives to business practices, politics, and global relations. Traditionally, economists have not worried about unethical or untrustworthy behaviour. It was assumed that even though individuals were almost entirely selfish, market incentives would punish cheating and untrustworthy behaviour. It was thought by the classical economists that the only objective of business was profit maximization and business has nothing to do with the ethics. There were two views The Unitarian View and the Separatist View vis a vis this philosophy.<sup>1</sup> According to this view, business and morality cannot be separated and business must play by the rules of morality and ethics of the community which guides the activities of the community. This view was emphasized more by the Church in the European countries and Church prescribed that business must exist only to do good for the society. Dramatically opposite to the Unitarian View, classical economists like Adam Smith and Milton Friedman asserted that the only goal of business should be profit maximization; and that ethics and morality plays no part in business conducts. Theodore Levitt, the well-known psychologist, believed that if ethics and morality were allowed to enter the realms of business, then there is a danger of business values ultimately dominating over social values. He expressed thus, in his famous article,<sup>2</sup> "The danger is that all these things (social aspects of business functioning) will turn the corporation into twentieth-century equivalent of the medieval Church. The Corporation would eventually invest itself will all-embracing duties, obligations, and finally powers ministering the whole man and moulding him and society in the image of the corporation's narrow ambitions and its essentially unsocial needs"

Apart from above two views, Talcott Parsons has founded the Integration View as quoted in the book "A study in Business Ethics" written by Rituparna Raj<sup>3</sup>. This view states that business is an economic entity and it has the right and need to make profits, but, it must also discharge its obligations to the society where it exists and operates. This view states that society consists of a number of subsystems and business and morality are just two of these subsystems.

## OBJECTIVE OF THE PAPER:

The purpose of the study is to contribute to the understanding of role of ethics in economics and particularly it reflects the modern business practice with the application of code of conduct. The study concentrates on how the modern businesses can be accelerated by applying ethics in the economic environment. The study also focuses on why the modern business needs the application of ethics in their

survival in the society. The focus of this paper is the relationship between ethical behaviour and economic efficiency. Ethical behaviour in particular might lead to a 'fairer' distribution of resources, and trustworthy behaviour might improve the quality of relationships between people in the community. This chapter is not an argument that these outcomes are unimportant. Instead, the chapter asks whether, in addition to these issues, we should also be concerned about ethical behaviour because it might enhance economic performance.

## LITERATURE REVIEW

Numerous studies by international development organizations have concluded that even though corrupt practices may offer short-term economic benefits, there is a direct correlation between unchecked corruption and stifled development over the long term. Conversely, studies of markets worldwide indicate that transparent political institutions, sound laws, independent dispute resolution forums, honest bureaucrats, and strong separation of politics from business foster healthy economies. Among economic development researchers and practitioners, there is a concerted effort to raise awareness of the global importance of effective public and corporate ethics systems in instilling the market confidence necessary to encourage and sustain capital investment and business development.<sup>4</sup>

The Classical economists like Adam Smith and Milton Friedman were of the opinion that the only objective business was profit maximization and business had no right to 'meddle' with ethics. Today many businesses are involved in social action. A decision as to whether companies should extend their social involvement requires a careful examination of the arguments for and against such actions. Certainly society's expectations are changing and the trend seems to be toward greater social responsiveness. In fact, most respondents in a study Of Harvard Business Review readers consider social responsibility a legitimate and achievable aim for business<sup>5</sup>

Deetz(1992)<sup>6</sup> reminds us that, by many standards, the business organization has become the central institution in modern society, often eclipsing the state, family, church, and community in power. Organizations pervade modern life by providing personal identity, structuring time and experience, influencing education and knowledge production and directing news and entertainment. From the moment of our birth to our death, organizations significantly influence our lives in ways that often go unnoticed. The classical paper by Gray, Dey, Owen, Evans and Zadek, (1997)<sup>7</sup> is one from some of the leading contributors to the social accounting literature. It offers a comprehensive analysis of the major challenges facing those engaged in the theory and practice of social accounting.

The study of (Parker 1988)<sup>8</sup> provides a deeper background for most of the more contemporary theories in business ethics. The study made by (Kaler 1999)<sup>9</sup>, questions the value and the function of ethical theories and in so doing is very readable and through provoking. In combination with a reply by Tom Sorrell in a later issue of the same journal, this debate helps us to understand the potential and the limits of the theories.

Similarly recently, however, several authors have noticed a renewed focus on organizational ethics, among them Lynn Sharp Paine (2003)<sup>10</sup>, a noted Harvard professor of business ethics. In her book, *Value Shift*, Paine explains that ethics has found its way back onto the agenda of Organizational leaders.

Trevino, Hartman and Brown (2000)<sup>11</sup> address the question of what it means to be an ethical leader. Featuring the results of a survey of employees it shows the importance of different dimensions of ethical leadership. A 'must-read' for anyone hoping to develop a reputation for ethical leadership. Business malpractices have the potential to inflict enormous harm on individuals, on communities and on the environment. Through helping us to understand more about the causes and consequences of these malpractices, business ethics seeks, as the founding editor of the Journal of Business Ethics has suggested (Michalos 1988)<sup>12</sup>, 'to improve the human condition.

In *The Economics of Integrity*, Anna Bernasek (2010)<sup>13</sup> provides compelling evidence of the extent to which markets require integrity or ethical behaviour in order to function effectively. Bernasek's description of the workings of real world markets reveals an economy that is very different to that traditionally assumed by many economists. It is interesting to note that the recent findings about selfish behaviour have also led to a more careful interpretation of Adam Smith's work. As well as the *Wealth of Nations* (1776)<sup>14</sup>, Smith also wrote *The Theory of Moral Sentiments* (1759)<sup>15</sup>. In that later work, Smith argued that people have a natural sympathy towards others. Smith argued that this natural sympathy led to the motivation of benevolence. A careful reading of the famous quotation about buying dinner (above) shows that Smith was contrasting 'benevolence' with 'self-interest' (Alvey 1999)<sup>16</sup>.

Gross Domestic Product per capita is influenced by many factors, and it might be that not controlling for these other influences gives rise to a false relationship where some of these ,Other factors are correlated with ethical behaviour. The evidence suggests that good institutions – well-defined and enforceable property rights, effective and fair justice systems, and controls over public corruption are critically important for economic growth (Acemoglu and Johnson 2005; Glaeser et al. 2004; IMF 2003a; World Bank 2001)<sup>17</sup>. It is possible that these institutions also engender a high level of ethical behaviour, and so give rise to a spurious relationship between economic output and ethical behaviour. The global financial crisis also provides insights into the relationship between ethical standards and economic performance. One view is that an important cause of the global financial crisis was a failure of ethics and integrity within large multinational financial institutions. This point was made succinctly in early 2009 by the secretary-general of the OECD when he stated (Gurría 2009)<sup>18</sup>:

A further example is the laws governing a relationship of trust where the risk and consequences of unethical behaviour are significant. Fiduciary duties create requirements for ethical conduct in contracts where one party has to rely on another to act in good faith. In this area, statutory requirements may also be more specific. As well as general fiduciary duties, some countries have specific bans on self-dealing and related-lending by directors and senior managers (Djankov et al. 2008; La Porta et al. 2003)<sup>19</sup>. Bicchieri (2006)<sup>20</sup> is of the view that social norms are a collection of rules, preferences to follow rules, and expectations. A key feature of these norms is the general expectation that they ought to be followed, but this is conditional on other people also following these norms. Ethical social norms will be effective where principles of ethical conduct are clearly articulated, where behaviour is transparent, and where people can be informally punished (Harms and Skyrms 2008)<sup>21</sup>.

One study claims that social norms can be influenced (Cialdini 2006)<sup>22</sup>. One way is through the use of descriptive norms (informing people of what others are doing) and another through injunctive norms (identifying the ethical course of action).

(Collins 1994)<sup>23</sup> study is very readable and provides a good overview of the challenges facing business ethics. It goes on to identify a route forward that emphasizes the importance of managers building trust and creating value. The article of (Stark 1994)<sup>24</sup> suggests that where business ethics as a subject may be going wrong and how it can become more relevant and meaningful for practicing managers.

Others have used related slogans like "the revival of political economy" (Bowles & Gintis 1993)<sup>25</sup> and "the collapse of the fact/value dichotomy" (Putnam 2002, 2003)<sup>26</sup> in economics. In my opinion these ideas give rise to the rejection of a narrow value-neutral and positivist conception of economic science in which economics and ethics have nothing to do with each other. Recently various authors have indeed stressed the importance of ethics for the economic science. Daniel Hausman and Michael McPherson (2006)<sup>27</sup> for example argue that moral philosophy can enrich economic theory and to some extent is already implicitly part of it. Economists should therefore take ethics seriously.

Amartya Sen (1987)<sup>28</sup>, in turn, emphasizes that economists should pay greater attention to ethical considerations that shape and affect economic behaviour.

### WHAT IS ETHICAL BEHAVIOUR IN ECONOMIC CONTEXT?

The relationship between economics and ethics should not be portrayed too positively. In my opinion, economic and ethical considerations are led by own principles and consequently often conflict. Ethics may be cross-breeding with economics in creative ways but there is also a tense relationship between both. Discussions on for example income distribution, property rights, taxation, minimum wages, global poverty and so forth above all take place because of an economic-ethical difficulty. At first sight economists and ethicists have their own interests, for instance efficiency versus justice. I believe that, in view of these tensions, the field of economics and ethics (i.e. the intersections between economics and ethics) is in need of a philosophical reflection. Such a reflection should at least lead to clear definitions of economics and ethics and an exposition of their leading principles, scope and limitations.

Strangely enough this is also approximately how most moral philosophers and economists think about the relation between their disciplines, as a result of a tacit agreement to perpetuate mutual ignorance and antipathy. Ethicists think economists are clumsy buffoons with an impoverished view of human nature and morality, obsessed with incentives and markets as the answer to everything. Economists think ethicists are obsessed with discovering mystical intrinsic values, at the expense of systematically thinking through their real world relevance. These are caricatures with some truth to them. But to the extent that they prevent ethicists and economists from taking each other seriously, they block the real scope for mutual learning.

Although the learning can and should go both ways, it has generally been a one-way road. Moral philosophers have been reprimanding economists for their lack of ethical reflection since even before economics was founded as an independent science. They have rightly criticised economics for evading its responsibility for explicit ethical reasoning in favour of a scientist identity of strict neutrality; it's impoverished and flawed normative theories (rational choice for individuals; welfare economics for society).

### ECONOMICS IS ABOUT ETHICS

Economics is an ethical science, an important branch of applied moral philosophy. For it concerns how to understand, manage and fulfil the heterogeneous and often conflicting values, interests, and capacities of large numbers of individuals operating within the constraints of limited resources in a particular community.

Economists as social scientists have been working on this area for a very long time, and have much of importance to say about it. For example, economists have addressed the centrality of scarcity by developing the concept of opportunity cost. Given scarce means you will not be able to do everything you want. The economist's understanding of values in terms of choice under constraints also leads to another interesting conceptual innovation from which moral philosophy can learn. Economists present individuals as having not simply values, but preference relations between those values. In other words, people are assumed to evaluate not only whether things are valuable or not, but also to work out how valuable they are in relation to other valuable things, to work out 'better than' comparative relationships.

This puts the individual in a strong position to make choices in a rational way in those rather common circumstances when we cannot have everything we would like. In contrast, much of moral philosophy is concerned with merely identifying sources of intrinsic value, for example of Nature or communitarian identity. That leaves out entirely the question of how to relate these moral discoveries to our other moral values, such as fairness, autonomy, well-being, and so on.

### ECONOMICS CAN PROVIDE LOGISTICAL SUPPORT TO ETHICS

Economics' particular contribution to practical ethics is a sophisticated form of consequentialism concerned with the systemic mapping of both the implications of our ethical claims and the unintended but foreseeable consequences of our actions. It does this by 'modelling' what might happen to the things we are concerned about under various counterfactual conditions.

#### Better utilitarianism

Economics is not only good at analysing the logical implications of concepts and values. It is also good at quantitative logistical analysis, at figuring out what is likely to happen if we try this or that well-intentioned idea. Economists model the interaction of significant causal mechanisms to map the likely long-term extended consequences of changes in agent behaviour or government regulation in a complex but closed system. By doing so, economists can identify and assess the unintended but predictable consequences of a sensible seeming proposal.

Attending to logistics is essential. In a closed system normally good behaviour can have bad consequences. Keynes for example identified the 'paradox of thrift': that the aggregate result of individuals acting prudently (even 'morally virtuously') by increasing their rate of saving in uncertain economic times can be catastrophic for society as a whole. On the other hand, an aggregate increase in prosperity can be catastrophic for some individuals, as when an economic boom causes house or food price increases which leave those who didn't benefit from the boom much poorer than they were before.

Economic modelling can be used to map the distributive effects of such economic events or government policies, and thus to identify vulnerable individuals and socio-economic groups in advance, allowing a society that cares about such things to intervene. Economics can identify ways to compensate the poor so that we can have our cake and eat it too.

Sometimes bad behaviour may have good consequences. This is the sneaky Mandevillian side of economics, the analysis of how private vices can generate public virtues. For example, Kaushik Basu (as chief economist to the Indian Government) proposed legalising paying harassment bribes (when officials demand money for doing their job, such as issuing identity documents or schooling certificates). People have little choice about paying these, but they really don't like it. If they could get what they needed and then report the crime, many of them might do so. Knowing this raises the risks (cost) to officials of demanding a bribe in any particular situation. So, counter-intuitively, legalising the paying of bribes may be expected to reduce levels of corruption.

Interestingly, although the aspects of economics that I am promoting here are descended from utilitarian moral philosophy, they can make contemporary self-professed utilitarian's look rather shallow. The economist would ask for rather more information and logistical analysis before jumping into shallow pond of good intentions. Utilitarian's, after all, are supposed to maximise the good they actually achieve, not the goodness of their intentions. For utilitarian's, inefficiency is a vice. To be a good, efficient and utilitarian you need to understand and employ the best logistical techniques, and the place to get them is economics.

**Perspicuous contrasts**

Economists are shy about introducing explicit moral arguments of their own and much prefer to analyse the value systems they can derive from their observations. But that doesn't mean that their analysis of the values we reveal in our actions has no moral bite. Without promoting any values of their own economists can confront us with the moral implications of our own actions in a way that can be extremely discomfoting and no one likes to have their complacencies and hypocrisies exposed.

**Is Ethical behaviour important for Economy?**

Trust is at the heart of good governance, and good governance, in both the corporate and public sectors, promotes sustainable business growth. In the absence of good governance, unethical behaviour can flourish. The problem is circular; if unchecked, unethical behaviour undermines the rule of law, thereby further weakening legal and administrative institutions. The cost of poor ethics management goes beyond padded payrolls or monies siphoned into personal expense accounts. A lack of reliable, transparent, and consistent governance is a powerful disincentive to invest or otherwise do business. Ethical considerations are as important in management as in any other occupation. Since the business exists and operates within the society and is a part of subsystem of society, its functioning must contribute to the welfare of the society. To survive in the society a business must earn the social sanction of the society. The alluring paradox of self-interest within markets has often led economists to argue that selfish behaviour should be encouraged within markets, and even that ethical behaviour should be discouraged. However, in recent decades evidence has emerged to suggest that many of the basic assumptions of the traditional economic approach are misleading. In particular, the evidence suggests that many people behave ethically and that ethical behaviour is necessary to allow markets. A key finding is that markets sometimes fail or function poorly because of selfish behaviour. As a result, individuals spend a great deal of time constructing governance arrangements to reduce their risks from selfish behaviour. To assess whether ethical behaviour plays a meaningful role in economic growth, it is possible to use the variation in ethics between countries. Countries that have higher ethical standards should, other things being equal, have higher growth rates and higher levels of per capita economic output.

Figure 1 shows the relationship between gross domestic product per capita and the index of ethical behaviour described. As can be seen, a reasonable correlation exists between a country's ethical ranking and gross domestic product per capita. Countries with high levels of ethics tend to be richer, and those with lower levels of ethics tend to be poorer.

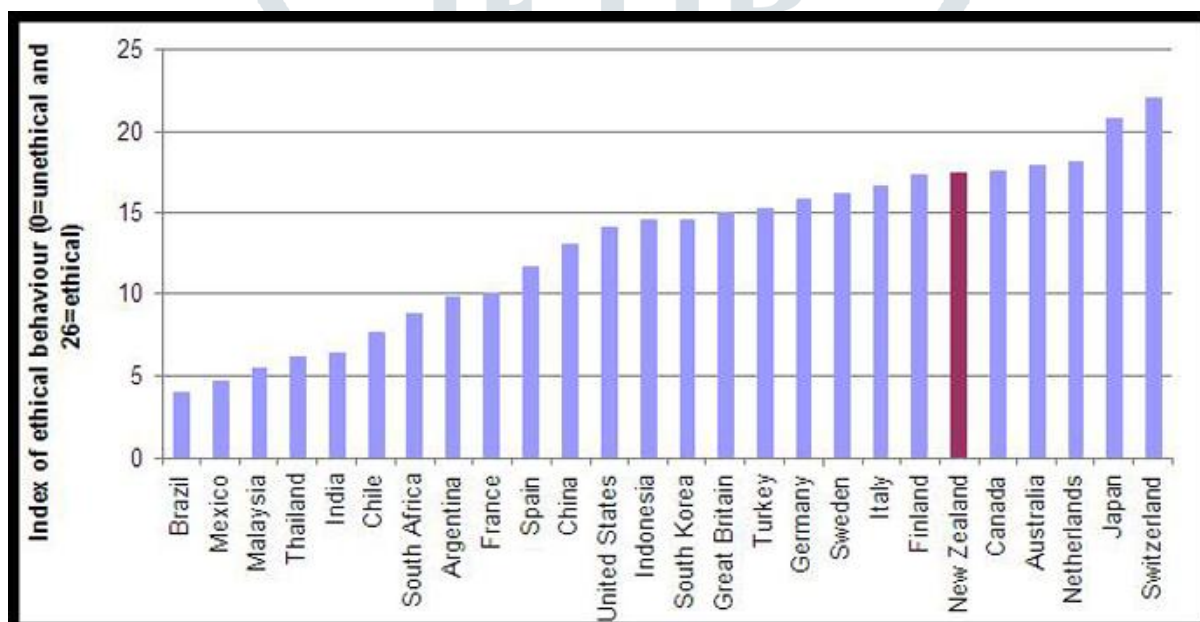


Figure 1: Index of ethical behaviour and gross domestic product per capita across 26 selected nations, Note: The index of ethical behaviour is the average of each country's ranking on eight indicators of ethics. Source: Gross domestic product per capita data is from IMF (2003b), otherwise Rea (2010).

**ETHICAL ISSUES IN INTERNATIONAL FUNCTIONAL AREAS**

As businesses have become increasingly internationalized, ethical issues have emerged in international functional areas of businesses. The ethical issues faced by organizations in international human resource management (HRM), international financial management, international marketing, production, and information and communication technology (ICT) are presented in Table A.

Area	Issues
International human resource management	Globalization has presented complex challenges for international HRM. Due to cultural differences, the commitment between employer and employees has become fuzzier. A significant challenge for management is to maintain objectivity in hiring, promotion, and compensation. Child labour has emerged as a complicated issue. Other important issues include discrimination, fraud, and sexual harassment. Since past decade and half, companies like Nike, Kmart, JC Penny, Reebok, Levi Strauss, The Gap etc have been trying to overcome these issues but lot of progress needs to be made [4].
International financial management	The primary goal of management is wealth maximization for the shareholders. There is little direct support that ethical behavior leads to shareholder's wealth maximization [5]. Indirect studies have also not found any substantial relationship between corporate financial performance and social responsibility [6][7]. But for long term sustainability, organizations should engage in ethical practices. Fairness in trading practices, trading conditions, financial contracting, sales practices, consultancy services, tax payments, internal audit, external audit are the areas in which ethical financial practices need to be followed. Other important areas are creative accounting, earnings management, misleading financial analysis, insider trading, securities fraud, bucket shops, forex scams etc [8].
International marketing	In international marketing, the needs and wants of various groups vary, which leads to ethical conflicts. Most ethical issues are related to marketing policies, communications, pricing approaches and distribution practices. The specific ethical issues are: prudence of targeting vulnerable sections for consumption of redundant or dangerous products/services, transparency about source of labor, fair treatment and fair pay to employees, product or service transparency, appropriate product labelling, product/service safety and liability, truthful and honest advertising, fair pricing and distribution, forthrightness in selling etc [9]. Ethical behavior by a company in these areas leads to positive attitudes in customers about company, its products and services.
Production	This area of business ethics deals with the duties of a company to ensure that products and production processes do not cause harm. Defective, addictive and inherently dangerous products and services (e.g. tobacco, alcohol, weapons, motor vehicles, chemical manufacturing, bungee jumping) are not ethical practices in production. The company should also maintain a harmonious relationship with the environment. It is important to deal with ethical issues caused by new technologies like genetically modified food, mobile phone radiation, health etc. Certain other ethical issues are use of animals and disadvantaged groups as test objects [10].
ICT	The internet, private exchanges, global satellite linkages, RFID and other forms of new technology hold great promise in terms of allowing global supply chains to operate more efficiently and provide faster response to demand. However, these new technologies also present some cultural and ethical challenges to firms operating in the global environment. There may be varying views among countries on goals, decision-making approaches, information sharing and trust and many other cultural differences.

TABLE A ETHICAL ISSUES IN INTERNATIONAL FUNCTIONAL AREAS

### ETHICAL INFLUENCE ON STAKEHOLDERS

Business ethics propel the stakeholders of company towards higher level of performance. Shareholders, employees, customers, suppliers, competitors, government and civil society are considered as stakeholders of businesses.

- Shareholders – A shareholder's perspective of business ethics focuses on making decisions for the best interest of the company's investors. Ethical shareholders tend to take greater responsibility for the profitability of the company.
- Employees – Globalization provides better opportunities to the employees. Ethical conduct enables them to integrate their personal goals with goals of organization.
- Customers – Globalization enables greater product variety to customers. They get cheaper products but learn to use them responsibly.
- Suppliers – Globalization enables suppliers' better connectivity with their customers. Ethical suppliers supply higher quality products and seek long term profitability.
- Competitors – All the competing companies get wider market. They can also engage in collaborations in mutually beneficial areas.
- Government – Globalization enables collaborations among governments across the globe. The government can provide better services to citizens, check corruption and enable transparency in processes.
- Civil society – Due to increasing connectivity caused by globalization, civil society is better aware of the problems of the populace and can rapidly take up issues with the pertinent authorities.

### CONCLUSION

Ethical considerations are an important part of the personality of any individual. The ethics are like the supporting pillars of the human structure which gives life to the human body. A dead person can be regarded better over the unethical and immoral organisms. Morality and human values are the differentiating factors which categorizes human from others.

On the other hand, we cannot leave economic development altogether. We need to sustain life in this world and for that we should be vigilant for our footprints which should match the pace of the world. We are living in a technical era where the economic development is going on a geometric progression. And every country is after its economic growth to attain the dignity over the globe.

The single most important bridge between ethics and economics relates to the pragmatism that drives the logistical techniques of economics. Moral philosophy embodies a particular perspective and attitude, standing back from common-sense presumptions about a situation or relationship, and then wondering out loud about how to see it truly. Its central question is, Shouldn't we think about that too? Economics is about proportion, about looking closely at how important things really are when considered as part of a complex closed system. Its central question is, how much does it matter? Good judgement needs both sense and sensibility, both proportion and perspective. Ethics and economy should go hand-in-hand. Where we need to give space to economy, we have to compromise a little on our ethics. But compromising ethics does not mean entering an unfair play. More ethics into economic development would give a better economy and a secure living. Unethical measures in the development might give a frequent high rise, but the fall following that would be very hard to bear.

Building an effective ethics management system is an ongoing effort, not a one-time project. Even in countries with well-developed economies and government institutions, ethics management systems undergo frequent revisions. It would be always ethics outweighing when compared with any other means. Ethics into any project would give a sustained growth and a better and secure stage to perform.

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