The recent international events, with a major financial crisis all over the world, involve important questions about the relation between ethics and economics and the responsibilities of the economic market in relation to broader social and political concerns. In this paper I will present some of the dimensions of the debate between ethics and economics that are behind the fundamental issue of the role of ethical responsibilities in the financial crisis. I want to argue for a close link between ethics and economics which can be presented as a challenge to the traditional view that there should be a strict separation between ethical and economic rationality.

Introduction

In this sense the problem of the relation between ethics and economics in business concerns the concept of economic action and the role of ethical responsibility in economics. The debate about economic rationality and political philosophy depends on the problem whether there can be something like a common good or social justice for all members of society. From the standpoint of mainstream economics we can say that this problem is a problem about how to deal efficiently with limited resources. In this sense we may argue that neoclassical economic theory is a system of thought that seeks to deal rationally with the problem of sacrifice, that is the problem of who, how or what society should sacrifice in order to seek optimal and efficient use of resources. With the separation of economics from political philosophy, economics has become the rational use of resources based on the principle of the rational profit maximization of homo œconomics.

Accordingly, the idea of economic rationality depends on the concept of economic action. This concept is marked by interplay between individualism and altruism and personal responsibility for economic actions. The idea of an ethical correction of economic action implies a critical attitude to the concept of self-interest as the basis for economic action. It is argued that economic calculation should exclusively be based on individual utility maximization but include an altruistic concern for the common good and for other human individuals. In the perspective of such an ethical correction of economics we think of the economic actor as an individual, who makes an economic calculation which is extended to include the responsibility for other human beings and society integrating economic calculation in well-founded moral norms and ethical customs of society. In the following, I want to address this issue in five parts 1) Ethics in economic history 2) The neoliberal concept of economics 3) Welfare economics and the criticism of neo-classical concepts of rationality 4) Ethics within economics 5) Economic anthropology and the foundations of rationality.

1. Ethics in economic history

Looking at the relation between business and ethics in the perspective of economic history, we
can see that the idea of the rational profit-maximizing individual based on self-interest is a newcomer for understanding economics. Although we find preliminaries of the concept in the classical materialist philosophy of Epicurus, it is only with the modern economic thinkers of the 16th and 17th century, in combination with the emergence of an autonomous capitalist economy based on efficiency and utility, that this view of economic actors becomes predominant. The concept of the political and social neutrality of the market has emerged in this context of independent economic markets. In classical political economy market action was conceived in the perspective of political community. Aristotle argued, for example, that wealth and money are not goods that man seeks for their own value but rather as a means to obtain the good life in community. And Thomas Aquinas developed the doctrine of the “just price” in which economic exchange relations were based on respect for the natural law and political justice in society.

Even though he was the founder of the modern economic doctrines of self-interests and the invisible hand, a similar conception of economy as science of the good for community can be found in the works of Adam Smith. In the Theory of Moral Sentiments (1759) Smith seems to argue that the relation between persons and other mutual moral sentiments are the basis for economic action. Self-interest is only one among the human virtues and of the natural inclinations of human nature. Therefore, even Smith argued that utility maximization has to be seen in the perspective of other virtues like generosity and justice. And therefore rational economic calculation is founded on a broader view of human nature than the idea of “economic man”, which has become predominant in neoclassical economics.

At the same time, with Adam Smith we can perceive the beginning of the emancipation of economics from moral philosophy. With the emergence of the modern individual it has been possible to find a concept of rational action with is totally based on individual self-love and egoism. Smith was inspired by the provocative work of the Bernard Mandeville who, with his book the Fable of the bees, announced the new foundations of the modern concept of economic rationality, based on the idea of “private vices, public benefits”. Smith integrated this view as the foundation of his concept of economic action in the Wealth of Nations from 1776. With this point of view, we can argue that Smith was very important for the degradation of economic action to personal preferences and self-interests of homo œconomicus. Economics is a private affair and the state has only the very limited function to protect the liberty and rights to exercise personal choices of the individuals in society. Therefore, it is very enigmatic how Smith could combine the belief in self-interest with the analysis of morality and the possible sympathy of human beings with one another in the Theory of our Moral Sentiments. Smith seems to argue that the broader social relation between persons and other mutual moral sentiments can be the basis for economic action. However, we should remember that sympathy in the perspective of Smith is analyzed as a part of the sensibility of the individual. Sympathy does, however, not come from egoism or selfishness, for the subject feels an inclination towards another. Accordingly, self-interest seems to be only one among the human virtues and of the natural inclinations of human nature.

Therefore, as already stated, even Smith argued that utility maximization has to be seen in the perspective of other virtues like generosity and justice. And therefore rational economic calculation is founded on a broader view of human nature than of the idea of “economic man”, which has become predominant in neoclassical economics. However, it may be argued that
Smith did not solve the tensions between egoism and altruism implicit with his view of the economic subject. Because of his emphasis on self-interest Smith cannot really integrate the sympathy for the other in his theory and therein remains a tragic tension between homo oeconomicus and sympathy for the other. Moral judgment is captured between egoistic economic rationality and the passions and emotions for the other.\[^{xiv}\] In fact, the idea of the invisible hand shows the heart of the tension because the concern for community is removed from the individual to the mysterious divine force of the invisible hand.\[^{xv}\] It is only through the sympathy of the others that the individual requires sympathy for his or her self as based on self-interest.

In the perspective of the history of political economy we can argue that economics originally was viewed as a moral science, not as a mechanical natural science, but as a part of the art of “good government”. According to Amartya Sen, among others, this view of economics has been forgotten in modern economics, which is more interested in the engineering problems of economic efficiency than in ethical and political problems of rights and social achievement.\[^{xvi}\] This tradition includes classical authors like Ricardo and Malthus and is continued by the neoclassical tradition of Leon Walras and Jevons and developed by authors like Alfred Marshall in his *Principles of Economics*\[^{xvii}\], which focuses exclusively on individual utility and seems to forget the importance of concerns for the common good in economic theory. Due to this concentration on self-interest, economic theory, the idea of economic rationality is exposed to a strong tension with deontological constraints on economic markets based on protection of rights, interest and freedoms of other human beings.\[^{xviii}\] According to this view, the concepts of well-being and rationality in neoclassical economic thought must be considered in accordance with ethical principles. We should look more closely on the ethical aspect of human motivation and integrate questions of the good life in economics. Therefore, without disregarding all the important insights of descriptive positive economy, we may argue for a normative view of economic theory in saying that business ethics is providing us with the “missing link” between traditional “political economy” and micro-economic rationality.

In order to provide such a link between ethics and economic rationality, we have to look closer on the foundations of the neoclassical tradition in political economy, its view of economic rationality and its ethical implications. The neoclassical concept of rationality implies an unlimited conception of rationality according to which economic agents have unlimited competencies of decision making in order to maximize personal self-interest within an exogenous space of possibilities.\[^{xix}\]

### 2. The neoliberal concept of economics

The conception of political economy within neoliberal thought can be conceived as a generalization of the economic concept of self-interest and economic rationality to be the basis for organizing society and social justice. According to a liberal like Hayek, free competition among individuals in the market within ethical custom is the best argument for human happiness and luck.\[^{xx}\] It may be argued that economic equality cannot be viewed as important at competitive markets based on economic freedom. Neoclassical economic thought privileges the pursuit of self-interest and implies the view of human beings as competitive natures. Property rights liberalism does not imply any principles of equality as the basis for economic markets...
because economic freedom is essential to property rights. It is argued to be paternalistic to limit human freedom by rules of justice on economic markets. Radical libertarians and some liberals are indeed somewhat critical to the deontological perspective, because it implies moral restrictions on personal liberty.

Hayek links this argument for the unlimited economic rationality of the market with a criticism of the proposal to use the state actively to establish social justice in modern society. Such justice would be somewhat the same as socialism and Hayek thinks that there is no meaning in the idea of planned social justice. Human beings do not have the perspective of the invisible hand but they are always situated in a culture and history where they live by the human capacity of learning by trail error and imitation. Hayek criticizes the idea of a planned social justice from an epistemological point of view. We cannot rationally construct social rules, we can only use our faculty of imitation. We can only follow specific patterns by tacit recognition of meaning and of imitation of others. Freedom is what the individual does with what society has done with him or her. It is the freedom of the situated individual to act in a given social condition. Hayek approaches economic and ethics from the point of view of methodological individualism. Human beings are responsible for their society, but they cannot fully know what the result of their actions is and they have no control over the collective level of society, which is much more complex than the level of individual action.

The level of society can in this context be conceived as a complex cybernetic system that human beings cannot control. Society that is created by individuals is more complex than the individuals and we cannot conceive the system in its complexity. Human beings act in society but society goes beyond their reason and they cannot conceive society. Society is more complex and even contradictory. The social order is a spontaneous order that no-one really wanted to be like that. The spontaneous order can be conceived as a kind of reinterpretation of the idea of the invisible hand. Social order is established between a natural order and an artificial order. The abstract order is a result of the increasing complexity of cultural evolution. The social world is a result of a large evolutionary process like the process of evolution of the natural world described by Darwin. There are no general laws of evolution. We are in an open society, the society of individual freedom as proposed by Adam Smith. There is selection of the most efficient rules in evolution. They depend on information and efficiency. Utility and calculation of lives is the instrument of evolution. The market is the essence of the evolution of this spontaneous order. The market is the foundation of social organization, auto-development, division of work and efficiency in evolution. Hayek develops an information theory of price. They are signals not instruments of distribution of wealth. It is not possible to calculate price from the collective point of view. The market is becoming meta-tradition of all economic traditions. It is competition that makes progress in the economic market. Information is the essence of the economic development in the market. Competition makes people act rationally according to efficiency in the market.

We can observe such a utilitarian justification of liberty and justice in Hayek’s economic theory. Externalization and self-transcendence are a liberating alienation of the individual. You have to leave yourself to the forces of the market and to forget social justice, because you cannot control society anyway. The individual is requested to act in conformity with the rules of the spontaneous social order of which it is a part. Justice cannot be planned but it is a concept that is generated by the spontaneous social order. Property rights are the rights of
personal freedom. And imitation is the basis for the personal development of individuals and for their social and economic self-regulation. Selection out of path-dependence plays an enormous role in social evolution. The markets results are without ethics. They are blind. Social politics breaks with the connection between individual and the market.[xxiv]

We also find this idea of the ethical consequences of self-interested individual action in Hayek’s philosophy of the “spontaneous order” of economic and social development. During evolution based on interaction among self-interested individuals those practices which are based on individual freedom and rational choice of the most efficient alternative will, in the long run, contribute to social betterment. And indeed better legal and moral systems will be a result of this spontaneous order. Fair competition and healthy economic institutions will, in an economic system based on fair competition, contribute to a better society. In this perspective the idea of competition includes an ethical dimension of fairness and transparency contributing to the spontaneous order of society. Social orders are spontaneous. No-one can control them. Hayek seems to want to establish the good and just society on the contingency of social spontaneity and social affairs.[xxv] But this is really an argument against any attempt to formulate a rational foundation of the political constraints of actions of individuals and corporations. According to the invisible hand and to the idea of the spontaneous order, the market should have the right to exist as a free human institution, because this is the guarantee of development of society. Thus, economic action should be based on the supremacy of free individual decision making and on open economic markets with as little government intervention as possible. It is the result of the liberal concept of economics that economic rationality should be liberated on its own and ethics should only be introduced as an external limitation of economics when it goes beyond the acceptable requirements of economic rationality, by, for example, not respecting the rules of fair competition on free and open markets.

The ideal of perfect competition in Hayek’s thought and neoclassical economics presupposes the rights of individuals to make their own rational choices in economic markets. This view of economics can be argued to be based on the presuppositions of perfect competition, rational independent decision-making, a perfect market, a homogenous product, many competing sellers and free possibilities of entry/exit into economic markets. It is presupposed that the firm consists of one rational individual rather than a group or coalition of individuals. The firm is a category of the individual and a production unit in order to provide goods to be exchanged on economic markets.[xxvi]

In the view of neoclassical economy ethics is regarded as external limitations of the market. Ethics is not integrated in economic decision-making but useful to ensure free economic action in the markets. Economics refuses to integrate external values in economic rationality. Therefore I would argue that the only ethics present in this doctrine is the ethics of competition, which is to maximize self-interest and personal preference maximization. A promise of total opportunistic and selfish action is a handshake, as some has characterized this ethics of competition. In this way ethics seems to be an exogenous element of social action at the limits of economic rationality. However, a presupposition is that the conditions of fair competition and perfect markets should be accepted by all participants in economic competition, which is restricted by the rules of the game, for example property rights and contract law. A generous interpretation of the thought of Smith and Hayek may be that the ideas of the invisible hand and spontaneous order are attempts to integrate a concept of the common good in liberalism. From
this optimistic perspective, liberalism always goes beyond pure egoism because self-interest is supposed to somehow serve the general interest. Although such an interpretation may be closer to the original moral intent of liberal philosophy, it is a point of view, which seems to have been more or less forgotten in the economic self-understanding of neoclassical economics that isolates the concern for the good from the concept of economic analysis.

Moreover, even though they heavily disagree with neoclassical economic theory, some other paradigms of economics – for example game-theory and agency theory – seem to share the same view of the separation between ethics and economics and the idea of egoistic rational utility-maximizing individuals as the ideal protagonist of economic action. They prioritize the individualistic approach as the basis for economic action rather than considering economics from the point of view of society as a totality in search for a common good.

Game theory contributes to solving an important problem in neoclassical economic theory – the problem about harmonious equilibrium leading to monopoly, which is contradictory to the ideal of perfect competition. In order to avoid static harmony, game theory operates with “non-cooperative games” as the ideal of economic interaction. According to the economic mathematician John Forbes Nash a situation of equilibrium is the case where every participant in the game chooses a strategy, which is the best response to compete with the strategies of the other. Perfect equilibrium in non-cooperative game theory is a combination of strategies, where no player has reasons to choose another strategy to improve pay-off. Indeed, this theory of competition presupposes external limitations on markets and firm behavior. The players have to play within certain rules and they have to share the same concept of rationality regarding economic actors as self-interested utility maximizers.

A similar view of the economic man may be said to be present in agency-theory building on rational individual agents acting in firms in order to maximize their own interests. In agency theory corporations are primarily viewed as instruments and devices to maximize profits. And we may even mention some views of the economic man in transaction cost economics, arguing that if we look at men “as they really are” we are likely to meet not only self-interested utility maximizers, but potentially opportunistic individuals, who, even though they are not rational in any ideal sense, in their daily actions, with limited knowledge, are likely to follow a non-ideal strategy of personal utility maximization. Even though transaction cost theories argue for the importance of governance structures and agree that cooperation, personal honor and integrity matter, this institutional economics regards self-interest as the primary motive for action.

We can say that we are confronted with an instrumental concept of economic rationality, which is presupposed in the systems of neoliberal and neoclassical economics rather than explicitly argued for. But why consider self-interest as the only motive for economic action when we know that real people also are motivated by a plurality of values and ethical choices? A plausible answer could be that economics is viewed not as a science applied to a specific realm of being, but rather as a general set of assumptions and tools that can be applied as a fundamental method in all aspects of human life, including ethics, which is only justified insofar as it allows such an economic methodology to work as freely as possible. The foundation of this concept of economics is the anthropology of the individual as maximizing self-interest and individual preferences – even under conditions of bounded rationality and finitude of voluntary reflectivity.
The concept of the common good does not play any important role in this concept of economic action where the drivers of economic activities are not social institutions with common values but the interests of individual utility maximers.

3. Welfare economics and the criticism of neo-classical concepts of rationality

In fact, looking closely on the concept of welfare economics we can criticize the focus on a pure economic concept of rationality as foundation of political economy, as it is the case in neoclassical and neoliberal thought. In contrast to the neoclassical liberal model focusing on individual maximization, welfare economics works with macro-economic choices in relation to society as a whole. Welfare economics works with the concept of personal preferences as foundation of economic theories and economic models. This concept of rationality emerged out of the separation of ethics and economics that developed with the emergence of modern economic sciences. Welfare economics constitutes a normative theory of maximizing of personal preferences. Specifically, the rational theory of welfare economics in macro- and micro-economics is a normative theory of maximization of preferences in conditions of risk and uncertainty rather than a descriptive theory of factual economic conditions. In welfare economics this theory is used as the basis for economic action in order to determine results with the most efficient economic outcome. This economic theory of rationality does not operate with a substantial theory of rationality. We cannot determine the content of each individual preference and their may even be irrational preferences. Therefore economic theory is based on a formal theory of individual actions as basis for determining the outcome of economic action.

Within this context, Daniel M. Hausman and Michael S. MacPherson argue that there is not necessarily an absolute separation between economics and ethics. In fact rational decisions according to preferences are in the end tested according to moral concepts of minimal goodness. When economic actors like the World Bank develops economic plans or proposals like dumping waste from the Western world onto developing countries, such a proposal is in the end not only evaluated according to economic rationality, but also all other things being equal considered from the point of view of minimal goodness or ethical value. We may argue that it is a presupposition of economic theory that it should be a good thing to satisfy personal preferences of an individual. This concept of goodness behind the economic rationality of welfare economics can be illustrated by the concept of Pareto-optimality, which means that an economic situation has achieved Pareto-optimality when it is impossible to improve a condition of one individual without making others worse off. Dumping garbage in the developing countries may improve the situation in the Western world, but it is does not lead to any improvement of the living conditions in the developing world and it therefore does not fulfill the conditions of minimal goodness of ethical actions.

However, welfare economics shares the presuppositions of liberal economics by emphasizing that free competition is an important condition of free economic choices of individual actors. The ideal of free competition as the basis of efficient economic action is shared by most welfare economists. Moreover, welfare economics also shares with liberal economics the idea that satisfaction of rational preferences is the foundation of economic decision-making. Indeed, this is also based on the idea of minimal goodness or ethical evaluation of the economic choices as...
the basis for decisions in macro economics. This concept of preferences in national economics may be said to imply that individuals are supposed to be rational and well-informed and their preferences are also supposed not to be odd and totally un-ethical. In this sense the idea of minimal goodness or ethical acceptability may be conceived to be a condition and a minimal presupposition in the welfare economic conception of individual preferences.

We may say that welfare economics must presuppose the ethical awareness of economists in order to be acceptable as an economic theory. The counterargument from neo-liberal or neoclassical points of view is sometimes that economists cannot be ethical because ethical constraints would destroy the requirements of free competition. It is falsely supposed that there is a close relation between free competition and immorality. But this may not be the case and it may even be better for a company or public authorities to be moral than immoral in order to ensure long term sustainability and cost limitation of the institution. From this point of view the critical skeptics have not really demonstrated that there is a close connection between free competition and immorality. Still welfare economists cannot have their theory of rationality without looking at the possible moral limits and consequences of their actions. In this sense we can argue that ethical evaluation has to be an internal aspect of economic theory in welfare economics.

However, this does not mean that there is a clear relation between economic rationality and ethics. Rational action may in some cases be moral, but in other cases it cannot be said to be acceptable from the point of view of ethics. But, from another point of view, rational preferences in welfare economics may not always be individual preferences. The concept of rationality in welfare economics can be based on altruistic concerns and it is not necessary to exclude altruism a priori from economic models in welfare economics. Indeed, welfare economists have argued that moral norms and virtues have had positive impacts on economic development, for example a code of ethics in business makes economic action more reliable and it contributes to increase economic welfare. However, there may also be moral norms that are inefficient from an economic point of view and in cases where they are not even justified from an ethical point of view, for example when we perceive discrimination or suppression of employees, it may be justified not to accept these norms within economic theory. So from the point of view of welfare economics moral norms of economic actors may have an impact on economics even though there may be no direct link between conceptions of moral deontology or moral duty and economic efficiency or rationality. This means that although individuals may have meta-preferences which outlaw actual supposed preferences, there is no direct link between economic rationality and ethics.

4. Ethics within economics

Common to the ideas of neo-classical theory and welfare economics is the idea of a close connection between ethical rationality and economic rationality. Some even argue that there is an internal ethical dimension of economics and even that it is possible to define what can be considered as valid ethical behavior out of economic reason. The issue is what
economics can help to say about the good life and how economics as a moral science may contribute to a better society. According to the Austrian economists like Karl Menger, Ludwig Von Mises and to some degree Hayek, economics may be considered as a kind of “praxeology”, a normative science of practical reason, based on universal categories of human action and helping to realize the human good. They proposed a rationalistic and interpretative paradigm of economics in which it was argued that economics could be based on synthetic a priori principles. Also there is much convergence between utilitarian ethics and traditional views of normative economics. Economics is viewed as the science of calculation of efficiency, profit and maximization of personal and common human preferences.

In so far as institutional organization theory is founded on ideas of self-interest and efficiency in maximization of profits it seems to presuppose some kind of utilitarian ethics. But this is utilitarianism with strong emphasis on personal and egoistic interests. Indeed this is the case with neoclassical economics and we have seen how the concept of human beings as self-interested and potentially opportunistic actors has been taken over by theories of economic organization like transaction costs economics and agency theory. Transaction cost economics considers firms as contractual relationships among individuals who seek to maximize self-interest and the fight against opportunism on the basis of lawful behavior within contracts can be considered as a defense of an ethics of good governance and high performance in efficient economizing market institutions. Agency theory focuses on economic property rights as the basis for economic behavior. When we propose an ethics of welfare economics we are not only looking at the firm in the light of micro-economics but we also consider the organization as integrated in larger social and political systems. We want to state that individual instrumental economic reason has significance only within the framework of ethics subordinating individual goals to the common interest of a community.

In opposition to this view we have to admit that there may be many important aspects of economic principles of self-interest and rational action that can help to shape ethics. Orthodox economists argue that efficient allocation of scarce resources is based on minimal governmental and legal intervention and that free actors are the best to know how to respect the norms of the market and ethical custom of society. As mentioned, major economists like Adam Smith and Milton Friedman, but also John Stuart Mill believed that the economic rationality of seeking self-interest and profit maximization in economic markets contained on its own an important form of rationality whereby everyone who seeks to fulfill his own interest will contribute to the common good. Business ethics cannot ignore this ethics of the market, which can contribute to an original form of ethics, given within the rules of market economy, yet sensitive to the common good of society.

According to what may be called the cost-benefit efficiency view of economic ethics, free economic action in economic markets is the best way to deal with scarce resources. This view may have two formulations. The former stresses the role of the state in giving dynamics to economics, whereas the latter stresses that the autonomy of the private sector is the most efficient way to allocate scarce resources. Economic actors are characterized by responsible and conscious use of scarce resources. In essence, economics is about efficiency and the prudent use of resources. Moreover, organizational action should be profitable. According to economic rationality we cannot ignore the bottom-line of income and expenditures for the success of business action. Economics is about creating value and maximization of profits in
terms of individual or social wealth and utility. Economics is the science of efficiency and utility for society and economic action is about ensuring the most efficient way to deal with scarce resources.

Additionally, economics can also be regarded from the perspective of social development. Utility theory is based on Pareto-optimality (that is a situation of economic arrangements where a change of the situation cannot make the situation better for some without making it worse for others). Welfare-economists stress the role of the state in such situations while libertarians consider that the free market gives the best optimality. Thus economics is considered as the science of how to compare and weigh different goods of society and allocate scarce resources most efficiently. Economic action is about how to contribute to creating wealth on markets and thereby create wealth in society. It is advisable to contribute to economic goods within the basic rules and ethical principles of society. And it would not be just not to respect the laws and principles of economics when acting on economic markets. Economic action based on utility contributes to maximization of efficiency within limits of respect for basic rights.

An important aspect of such a concept of economic ethics is the already mentioned idea of the “invisible hand” from Adam Smith, stating that if everyone acts according to his own interest respecting the rules of fair competition on economic markets, society will flourish and individual self-interested action will be a contribution to the common good. As we have described, we also find this idea of the ethical consequences of individual self-interested action in Hayek’s philosophy of the “spontaneous order” of economic and social development. During evolution based on interaction among self-interested individuals those practices which are based on individual freedom and rational choice of the most efficient alternative, will in the long run contribute to social betterment. And indeed better legal and moral systems will be a result of this spontaneous order. Fair competition and healthy economic institutions will in an economic system based on fair competition contribute to a better society. In this perspective the idea of competition includes an ethical dimension of fairness and transparency contributing to the spontaneous order of society.

If we conceive economics as implying a particular ethical rationality we may therefore consider how economic institutions contribute to ethics. The ethics of economics in institutional arrangements is the promotion of rational self-interest and fair competition as an instrument for economic progress. As John Dienhart acknowledges, according to the institutional view of economics, markets are considered as “ethical engines”. The aspect of economizing that we have discussed, may very well be considered as a part of economic institutions as ethical engines. However, the concept of economic rationality is broader and more pluralistic than the view of fair economic markets as exclusively based on the pursuit of self-interest.

Thus, we can distinguish between an internal and an external approach to ethics and economics. According to the external approach economic rationality is based on self-interest and there is complete separation between ethics and economics. Economic engines can help us to attain ethical values, but economics as such is neutral. However, there seems to be an ethics implied in economic rationality. So we can argue for an internal approach according to which ethics is not only considered as external limitations to economics but rather as a part of economics. But the internal approach does not necessarily have to rely on a utilitarian and neo-classical concept of economic ethics. Rather we can have a pluralistic approach to the
ethical values that have an impact on economic action. Thus, ethics is to be considered as an internal aspect of economic institutions, for there is an ethical dimension to economic concepts like property, risk-reward structures, information and competition. This implies that we should have an institutional approach to economics emphasizing that institutions determine economic action.[iii] The constitutive rules and principles of economic markets based on property, risk-reward structures, information and competition include certain ethical ideas which are the conditions for development of economic systems. Douglass North has for example shown how the act of promising is a condition for good contracts that in turn conditions predictions of future economic action.[iii]

When we deal with the institutional aspects of property rights, risk-reward structures, information and competitive relationships we may say that the internal ethics of the economics of fair markets is about how to organize scarce resources in economic systems in a fair way. To respect property rights is viewed as the foundation of the economic system and a part of fair competition is not to question basic property rights. Adam Smith and after him most libertarian economists have for example always been saying that property rights should be considered as the foundation of the economic order.[liii] We may say that our use and definitions of property rights in the center of corporations are not only based on considerations about self-interest, but rather on a combination between consequentialist and teleological considerations. External intervention is necessary when basic rights are not respected in economic transactions on economic markets. This is the case when we encounter widespread corruption with regard to property rights in economic systems.

Concerning contracts we can emphasize some implicit ethical values that are required to be fulfilled in economic interactions. This is evident when some transaction cost theorists have stated that governance structures to avoid opportunism as well as confidence and promise-keeping matter for economic interaction.[liv] With regard to information we may also encounter certain ethical principles within economic interactions. Correct and reliable information is a condition for trustful relations of economic action on different economic markets. It is a requirement for good contracts that they are based on reliable information.

The principles of fair and healthy competition may indeed also be an important aspect of the ethical principles of competitive markets.[lv] Norms about monopolistic practices constitute internal limitations of economic interactions. It is a widespread belief that monopolistic action is at the limits of economic systems and possibly of economic behavior as such in liberal economic markets.

If we analyze the ethics of transaction costs economics it may be argued that a contract view of the firm is not sufficient to conceptualize the ethical dimensions of organizations. Organizations are not only universes of micro-contracts but are based on values that function as organizational goals for corporate behavior. Transaction cost economics addresses ethical problems in organizations when it discusses problems of opportunistic behavior with regard to information, agency and liability of individuals, but it cannot explain loyal and altruistic behavior in organizations. It may be true that organizations try to control organizational behavior and ensure efficiency in competition by setting up institutional infrastructures based on contracts.[lvi] But the question is if this really is sufficient to understand cases of lack of opportunistic behavior in organizations?
With Herbert Simon we can argue that transaction cost economics cannot explain why people identify with organizations and feel much more committed that what is required from the perspective of self-interest. Authority-employee relationships and motivation cannot be understood as incomplete contracts, but rather as based on the goals and values of the organization as implicit premises for decisions. Employee motivation is therefore not only based on economic incentives but also on loyalty to the goals of the organization. Moreover, organizations should not only be understood as micro-markets of competitive contracts, but rather as instruments for coordination of human action, which facilitate action on economic markets. In such a goal-based view, the rationality of utility based on the “economic man” cannot be the only explanation of the function of organizations on economic markets but goal-oriented and community-based behavior is a much more important aspect of organizational action. However, within new institutional theory we can perceive an orientation towards integration of different aspects of rationality when dealing with economic institutions. Therefore it may be possible to find a sort of convergence between a goal-based and a contract-based view of organizations.

From this initiative to deduce ethics out of economics we may conclude that ethics is not always external but also sometimes implicit in economic rationality. We can say that ethical aspects of economics are based on the values of the basic concepts of economic systems. We can point to organization of market structures and the most important concepts of economic markets: “Property, risk-reward relationships, information and competition”. The system of these concepts is not neutral but cannot but implies ethical values. These values are not only based on economic efficiency but include a plurality of ethical rationality reflecting individual goals, organizational values and community values. Moreover, economic organizations are not only determined by self-interested individuals acting according to utility values but the ethical values of economic organizations are more complex and they also include personal values of individual members of organizations. However, the plurality of values also implies great tension between traditional economic values of utility and self-interest with community values based on an ethical view of the economy.

5. Economic anthropology and the foundations of rationality

The debate about the relation of economics to ethics and politics centers on the view of economic anthropology and on the motives for action of human individuals. With welfare economics, we already were able to propose a more complex view on concepts of preferences and economic rationality. As mentioned common criticisms of the idea self-interest of economic actors argue that human beings are not egoistic utility maximizes but belong to human communities and social cultures where concerns for the common good cannot be excluded from understanding motives for economic action. Moreover, neoclassical presuppositions of ideal situations of economic action are conceived to be very far from the conditions of action in concrete social contexts of economic life.

Arguments for a broader ethical foundation of economic action state that economic anthropology is characterized by a tension between egoism and altruism. Some authors argue that wise economic action implies reciprocity and concern for other human beings.
Therefore, self-interest is never the only motive for economic agency. In opposition to such a social view on economic action economists like Gary Becker have defended altruism as an advanced form of individual utility maximization. Becker advances the so called “Rotten Kid Theorem” stating that people acting altruistically do so in order to improve their self-interest – like the child who behaves nicely in order to get a great reward from his or her parents. In this perspective strategies of cooperation and sympathy are only forms of advanced self-interest recognizing the importance of truth-telling, promise and contract keeping for future collaboration and exchange. This argument has been fully developed by Axelrod who, in his book The Evolution of Cooperation (1984), states that cooperative behavior can be founded on individual maximization of utility because in cooperative strategies in the long run will benefit individuals more than opportunistic strategies.

As we saw in the discussion of welfare economics fundamental preferences are not always egoistic and maximization does not always have to be based on individual profit maximization. In fact, an important development of welfare economics in the direction of corporate citizenship, business ethics and corporate social responsibility is to show that the economic subject is not exclusively to be conceived as an atomistic preference maximizer, but can be said to have altruistic preferences at the fundamental level of economic anthropology. We may say that the “economic man” should be accomplished by a “social man” or rather that individuals are characterized by a structure of double preferences where individual preferences are also related to other persons. Christian Arnspurger gives us support for this argument by considering the French anthropological tradition coming from Marcel Mauss and the concept of responsibility in the phenomenology of Emmanuel Lévinas as possible criticisms of the liberal and neoliberal restriction of economic subjects to be “atomist monads” of individualist profit maximization.

With this approach we use the French tradition of anthropology to illuminate the concept of economic subjectivity. With his Essai sur le don. Forme et Raison de l’échange dans les sociétés archaiques from 1924 Mauss analyzes the anthropological foundations of the concept of exchange. The main point is that the reduction of all exchange to economic exchange does not capture the anthropological basis of exchange which really is a condition of social integration. By doing an archeological analysis of the origins of exchange Mauss can help to understand the foundations of modern social institutions. By analyzing the concept of exchange Mauss shows that the original concept of the gift is in sharp contrast with the neoclassical concept of economic exchange. In fact by looking at the triadic structure of giving-receiving and giving back (donner-recevoir-rendre) we can see how exchange is a condition of social interaction indicating exchange as a form of social integration between human beings. This is illustrated by the phenomenon of Potlatch that was practiced by Indians in Vancouver and Alaska. Potlatch was a form of aggressive gift leading to a fight of giving (prestations totales de type agonistiques) between adversaries, where the winner was the one who could contribute with the largest gift. In Polynesia, exchanges of gifts were a part of important and symbolic events in society, for example religious ceremonies. In this context the gift had a religious content and to receive something from other persons was to receive parts of a symbolic substance, for example as divine mediation between giver and receiver. Today, in contrast to economic exchange, the gift still has parts of such significance. However, in the metaphysics of the gift exchange is not reduced to an economic calculation of preferences but it is linked to spiritual relations between individuals, and even when we deal with economic transactions this
spiritual dimension is a part of the exchange. A gift includes an obligation both from those who receive and give the gift and in some situations this also includes the obligation to return with expression of recognition and gratitude. In the ancient mythology of India, God is defined as divine generosity of giving the world to the human beings and in the archaic Germanic societies the gift was related to intimate social relations, a symbolic and sometimes spiritual instrument of integration between different groups of society.

Mauss argues that modern society still contains elements of this original concept of the gift. In economics and trade the interactions are often characterized by expectations of mutual satisfaction between buyer and seller and it is presupposed that the relation of exchange is based on reciprocity and recognition. Moreover, our concepts of generosity are defined as a transgression of the ordinary concepts of exchange. According to Mauss, the modern idea of the economic subject that has emerged with the neoclassical liberal traditions may be conceived as a sort of alienation of the original concept of the gift. Although we still live by the metaphysics of the gift in modern society, we have developed an economic system where the gift has been forgotten in favor of the concept of methodological individualism of individual profit maximizers. However, there are many phenomena that show the limits of this concept of social interaction, for example social security in the welfare state, corporate philanthropy, charity movements, and also gift giving for different kinds of ceremonies. Mauss is regretting that the economic concept of exchange as personal maximization is replacing the spiritual and generosity-based aspects of the gift. In neoclassical economics the maxim of mutual exchange that is based on the idea that all give as much as they received, has been replaced by individual preference maximization.

Mauss’ anthropological concept of exchange helps us to question the liberal concept of economic maximization. This economic concept of exchange must be considered in the perspective of our social life and it is limited when we want to understand all relevant aspects of human motivation. Mauss helps us to formulate a more complex concept of economic exchange linking economics to altruistic motives as well as concepts of giving and receiving, thus linking economic markets to social life. From an ethical point of view, human subjects are not only “profit maximizers”, but in their giving and receiving they are always linked to logics of social integration, which is also an important aspect of economic interaction.

The central insight of Mauss is that economic anthropology cannot solely be based on the concept of individual preference maximizer, but that economic interaction presupposes a social concern of mutual social interdependence of economic actors. Moreover, this concept of society presupposes a broader conception of the human self than the one which is proposed by neoclassical economics. In fact we can say that the mutual relations of giving-receiving-returning is not external to the market, but rather the real truth of the market, because the market presupposes mutual dependence and mutual relations between economic actors. With Christian Arnsperger we may propose a “methodological altruism” to accomplish methodological individualism of profit maximization. In this context the concepts of altruism of Becker and Axelrod do not take account of what altruism really is. They are begging the question of altruism because they only want to count for altruism in terms of enlightened egoism. Rather, altruism is based on the essentially social character of the market involving basic conditions for the exchange relation as described by Marcel Mauss. Instead of the foundation in the monadic subject of mathematical, axiomatic economics, we...
have to acknowledge the relation between economic theories to the moral sciences. Economic theory cannot abstract from the morality of exchange, because exchange after all is a social event. With the focus on anthropology we have learned that it is possible to accomplish methodological individualism with a methodological altruism that also accounts for possible altruistic preferences in the economic subject and furthermore acknowledges the importance of ethical evaluation of economic preferences and of economic motives.

Emmanuel Lévinas helps to enlarge the ethical foundation for this altruistic approach to economic anthropology. Lévinas proposes a phenomenology of the intimate encounter of the other human being as the basis for our view of human motivation. The encounter of the other human being is an infinite demand of responsibility and self-sacrifice. This concern for the other is the basis for social relations. The reciprocity with the other should not be defined as a relation of “alter ego”, but rather the other is someone fundamentally different from me. In the perspective of Lévinas the fundamental respect for the other as other is the foundation of ethical relations and this concern for “the other as other” precedes the relation of economic egoistic exchange. The ethical relation is more fundamental than economic relations and this ethical ideal of respect for the other as other is the foundation and condition of possibility for economic exchange. Therefore, Lévinas says that ethics precedes reciprocity as mutual recognition and altruism as enlarged self-interest.

The criticism of the atomistic economic subject that is revealed by the analysis of Mauss is supported by Lévinas’ ethical anthropology, which situates economic action as secondary to the fundamental human responsibility for “the otherness of the other” as revelation of what is the innermost purpose of human action. This implies that economic action is embedded in larger social structures and economic rationality cannot be separated from ethical and political rationality. Christian Arnspenger suggests that Lévinas’ phenomenological description of individual subjectivity as implying a fundamental responsibility for the other shows that the logic of the gift is a possibility of individual choice that precedes “every constitution of subjectivity as purely autonomous”. We may say that this ethics of otherness constitutes the fundamental openness for generosity that precedes the economic account for particular preferences. Lévinas emphasizes that responsibility is the most fundamental constitution of subjectivity and it this sense we may say that ethical subjectivity is more fundamental than the economic subject of neo-classical and neo-liberal economic theory.

This view on the relation between economics and ethics helps us to understand that individual rational maximization can never be fully isolated from the idea of ethical subjectivity as fundamentally responsible for other human beings. The ontology of economics and the reach of economic method based upon sheer individual maximization cannot be conceived as all-encompassing and absolute, given that economic rationality is secondary to political and ethical reciprocity. From such a point of view economic decision-making should have external restrictions in the laws of political justice and the ethical principles based on fundamental principles of human existence. Economic reason is submitted to responsible subjectivity who, when evaluating economic preferences, cannot avoid asking questions about the ethical ideas of universal moral rules, the search for justice in the political community, and considerations of community welfare.

In the perspective of the philosophy of Lévinas we may say that responsibility for the other
human being conditions the legitimacy of economic action. Moreover, viewed from the ideals of political community, responsibility is not only an intimate relation with the other but should be extended in time and space to society as a whole. This is the argument of the German philosophy Hans Jonas, who thinks that responsibility does not only concern present human activities but should be extended globally in time and space and include the future of humanity.

However, such an integration of ethics and politics in economic rationality is not without a price, because basic economic considerations are considered as relative to ethical principles. Concepts of efficiency, utility, production, demand, consumption, accumulations of goods, property are not considered as intrinsic values, but as only valid insofar as they do not violate basic ethical principles or contradict our moral values. Ethical and political limitations of economic action propose an ethics of responsibility as the basis for social regulation of economic action.

Conclusion

What we can learn from this analysis of economic rationality as linked to social conditions of exchange and to the responsibilities of ethical subjectivity is not that business decisions are exclusively ethical or economic in any ideal sense, but rather that it is always possible that decision-making will be dependant on a kind of “mixed rationality” including elements from both economic and ethical rationality, as well as other fields like politics and law. But in a deeper sense, we can also conceive business ethics as the foundation of decision-making in corporations, because business ethics is not only about economic means and rationality but also about the social and political goals of economic behavior. Yet how to define this political and ethical rationality as basis for economic action?

We can emphasize the fact that it follows from subjective ethical responsibility that economic rationality can never be justified without good ethical reasons. In fact this is not only supported by economic anthropology, but also within welfare economics, which relies on the concept of individual preference maximization, i.e. the same homo oeconomicus of the neoclassical tradition, but does not exclude ethical evaluation of proposals for maximization. Indeed, it is a great advantage of welfare economics, somewhat in contrast to neoclassical economics, that it does not separate ethics from economic rationality but rather recognizes that theory of economic rationality should always be justified from the point of view of ethics. It is very important that economists accept this ethical constraint on economic action even when they do not agree upon what ethical reasons should be used to justify particular economic actions.

We may say that such a kind of normativity implies that we conceive the concepts of wants, utility (pleasure), competition, freedom to consume in neoclassical economics in tension with social values like needs, self-actualization, cooperation, freedom to growth, and self-realization through work as a potential good. These ideas may be considered as what is necessary in order to promote of justice as the basic structure of society. It is, in the perspective of business ethics, the aim of business institutions to be founded on a close link between ethics and economics in the sense that economic rationality is based on good and well-founded ethical reasons and
arguments.

Endnotes:


Adam Smith: *The Theory of the Moral Sentiments*, (1759), Cambridge Texts in the History of Philosophy, Cambridge University Press, Cambridge 2002. Patricia Werhane: *Adam Smith and his Legacy for Modern Capitalism*, Oxford University Press, Oxford 1991. Werhane formulates the tension between benevolence and egoism in the following way “Rather in the *Theory of moral sentiments* Smith criticizes any moral theory that derives its basis for moral judgments merely from self-interest and equally, questions any moral theory that derives these judgments solely from benevolence. Distinguishing passions from interests, Smith argues that human beings are not motivated merely by selfish passions, but that both prudence and benevolence are virtues of the self-directed and social interests, and the basic virtue is justice” (Werhane, 1991 p. 13).


Ibid. p. 94.

Ibid. p. 6.


Christian Knudsen: *Økonomisk metodologi II*, Jurist og Økonomforbundets forlag,


[xxxi] Ibid. p. 63.


Ibid., p. 66.

Daniel M. Hausman and Michael S. MacPherson: refers to Kenneth Arrow (1974) for this point of view.


See for example John Broom: *Ethics out of Economics*, Cambridge University Press, Cambridge 1999. Broom even thinks that ethics and politics should learn a lot from economics. However, Broom seems to work within the utilitarian tradition of welfare economics and it is not clear whether he would speak for the neoclassical view of the necessity of a market without legal and political restrictions. Broom’s views seem to impose rather strict limitations on economic markets in comparison with the radical libertarianism of Robert Nozick and also with Milton Friedman, who both argue for an ethics implicit in economic markets.
François-Régis Mahieu: Éthique économique, fondements anthropologiques, Bibliotheque du développement, L'Harmattan, Paris 2001, p. 120.


Ibid. p. 211.

In fact, there are many arguments for corporate social responsibility and corporate citizenship that rely on economic concepts of self-interests. These arguments are based on the idea of the invisible hand and strategic action of self-interest as leading to the common good. This approach argues that it is possible to use concepts from game theory in order to justify action for corporate citizenship from a strategic perspective. Accordingly, altruistic action for the common good may be justified in terms of satisfaction of egoistic preferences.


Ibid. p. 146.

Ibid..

See for example Milton Friedman’s discussions of healty markets in *Capitalism and Freedom*, University of Chicago Press, Chicago 1962.


[lxi] Ibid. p. 182


[lxiii] Ibid. p. 152.


Marcel Hénaff: Le prix de la vérité. Le don, l’argent, la philosophie, Le Seuil Paris 2002. In this book we find a very profound development of theme of the gift. The problem is whether it is possible to unite gift and exchange. Since Socrates a particular philosophical tradition has been reluctant to allowing this, arguing that a philosopher could not sell his knowledge without reducing the gift of truth to exchange and thereby making it illegitimate. However, there is also another current accepting a link between gift and exchange, which is for example expressed in the philosophy of Montesquieu, who argued that trade implied unification of nations and Max Weber who in a certain sense can be said to reply to the theme of the gift with his idea of the Protestant ethics. However, from our point of view these discussions emphasize that the economic exchange is not something isolated, but a case of general human exchange based on reciprocity and recognition. Economic exchange, therefore, cannot be isolated from general human practices and economics must indeed be treated and conceived as a social practice. Economics cannot be separated from the social exchange processes of gift and return even though money seems to neutralize the exchange relation.


The critical reader may insist that Lévinas cannot be used in such a way as to argue for the primacy of ethics over economics. Such an approach would state that the phenomenology of the other implies a negative reaction to the instrumentalism of economic exchange and an ethics of situational ethical demand on the individual that goes beyond economic exchange. I agree with that, but this is indeed also a good argument for the primacy of ethics in the reciprocal relation of social exchange between human beings. Accordingly, ethical responsibility is a primary constitutive element of human existence. See for exemple Emmanuel Lévinas: L’humanisme de l’autre homme, Paris Gallimard 1972, p. 82-83: “Par cette susceptibilité, le sujet est responsable de sa responsabilité, incapable de s’y soustraire sans garder la trace de sa désertion. Il est responsabilité avant d’être intentionnalité. See Christian Arnsperger: “Mauss et l’éthique du don: Les enjeux d’un altruisme méthodologique” in Revue du Mauss, Éthique et économie. L’impossible (re) marriage? No. 15. La découverte/Mauss, Paris 2000. p. 114.

Ibid.

Hans Jonas: Das Prinzip Verantwortung, Insel Verlag, Frankfurt am Main 1979.