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Ethics and Economics: an Internal Relation

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Abstract

The relationship between ethics and economics in the modern age is typically viewed as external. This view is most usually articulated in the notion that for economic relations to be ethical, an ethic must be imposed; otherwise, economic relations are amoral. I try to show how the relationship is actually best explained by adopting an explanatory framework of interdependent arising, according to which the emergence and development of both ethical and economic relations is a matter of mutual determination. Ethical values emerge in the course of developing economic relations and, in turn direct or at least implicate economic relations. The consequences of a such a view, however, are that exchange values inform moral concepts (e.g., of what is morally owed to members of a community) and moral concepts help frame economic ones.

I offer an argument that starts with a description of a historical relationship between two disparate cultures (English and Iroquoian). The interactions between these cultures were determined initially by trade and then military interests. These interests eventually underwent pressure to evolve into legal and even religiously informed arrangements that necessarily involved certain moral values. Using a presupposition analysis, I show how this evolution was no accident and did not depend on some agent(s) imposing the moral values onto the relationship. Rather, those values arose as a matter of course. In conclusion, the paper advances the idea that, since the relationship between ethics and economics is internal, the ethics of economic relations needs to be formulated more in terms of understanding what economic relations are most fundamentally to achieve.

Recognizing the Embeddedness of Ethics and Economics

Introduction

Does an attempt to re-embed ethics and economics make sense? If so, what approach makes most sense? In an age that is attempting and seemingly failing to re-attach disciplines, practices, modes of understanding, sectors, all of which have been rendered apart by modernist forces, the task may seem futile. Detachment, insularity, isolation, separation and specialized study are today's norm, despite the many calls to develop holistic views of life and approaches to managing human affairs, because modernist forces and values remain deeply entrenched in our way of thinking; the attraction of modern values – clarity and precision of analysis and the focus on efficiency of decision-making – support and perhaps even demand a disembedding (detaching) of economics and ethics. Further, it is not difficult to generate mistrust of holistic approaches (e.g., via accusations of fuzziness and fascistic intent [see Marietta]). The approach to the idea of re-embedding ethics and economics, for this paper, is heavily influenced by these considerations. It is to show how ethics and economics are in fact mutually embedded, despite all our reasons for thinking they are not and ought not be. The primary aim is to challenge certain core beliefs about the nature of both economics and ethics. A second aim is to show how the notion of inter-dependent arising best describes the emerging of the relationship. If successful, it will tell us that the first task of economists and ethicists is to re-conceive their relationship, with the aim of avoiding error and correcting perversions of the fundamental relationship.

The separation of ethics and economics might be said to have had its greatest impetus during the modern era. David Hume's disclosure of the fact/value distinction and related separations of church/state/, reason/faith, description/prescription, have influenced the detaching of ethics (a normative discipline) and economics (a descriptive, scientific discipline) and helped define that relationship as an external one. The great achievements of Modernity – the protection of the individual from arbitrary state and church rule, the protection of the private sphere, the wealth generated by free enterprise and freeing of governance structures and cetera – became powerful reasons to accept the separating of the once embedded elements that constituted society: it helped diminish oppressiveness, gave more people more freedom to acquire, enjoy social mobility and choose destinies. Fundamental to this kind of freedom is the ability to assign or confer value onto anything in any way one chooses, since one's values are matters of the private sphere. The connection between this kind of freedom and the free-enterprise market economy is close. Allowing the market to regulate itself without impositional moralistic interference connects powerfully to the human desire for autonomy and privacy. Since it is difficult to imagine people wanting to abandon these freedoms and values, proposing a re-embedding of economics and ethics can seem a major step backwards into more oppressive times.

So, if there is to be re-embedding of ethics and economics, it is not likely to be owing to people willing to forgo freedoms and abandon related values. In my view, it will only occur as a result of identifying a mistake in the separation thesis. But where could this mistake lie? Since, in answering this question, I have a potential policy and decision-making audience in mind, I will begin, not by proposing an alternative framework, such as one derived from an analysis of *oikos* or by adopting a holistic approach, but by tracking down this mistake. To do so, I examine an actual economic relationship from its beginning, in order to disclose how that relationship developed and how ethical considerations enters the story. The question, "Was the emergence of ethical factors external to the economic development, or was it internal?", focuses attention on where

the mistake is committed, by focusing on the process whereby the relationship came to be guided and even governed by moral concepts and principles. By examining how these concepts and principles came to be relevant, it is possible to determine whether they were imposed, or emerged as a matter of course. While considering the evidence, I will keep in mind a two-pronged critique: that economic interests are ultimately governed by hedonistic calculations; that, unless otherwise demonstrated, evidence of moral values at work is not evidence of an internal relationship, but derives from some world foreign to the economic one.

I begin with an examination of an economic relationship, which is readily assumed to have been based purely on utility, so that the starting point is clear and non-question-begging. In fact, the moral factors that seem to have arisen in that relationship have been viewed either as trivial [Washburn/Trigger], or, at best, something forcefully imposed onto economic relations by people who had the power to do so. That relationship is described in the early North American colonial records that describe First Nation/British Crown treaty interactions and agreements. During a meeting between the Five Nations (also known as the Iroquois) and the British Colonel Schuyler (Albany, 19 July, 1712), the Aboriginal partners said, "Thus (say they) our first entering into a Coven't with you was Chiefly grounded upon Trade." Time after time, the records indicate how various sachems and intelligence agents for the British Crown announced the need for cheap goods and fair trade. So, there is no doubt that economic (trade) interests clearly initiated and initially defined the relationship. When direct evidence of moral directives can be found, it appears in relation to certain figures who were viewed as particularly fair and honest or when certain people forced trade relations to comply with moral norms (e.g., clergy or more devout religious men insisting that alcohol is not to be used to manipulate First Nations into signing deeds to land).

As the relationship developed, these trading partners became military allies to combat the alliance between the French and mostly Algonquian speaking peoples to the north of the Iroquois. As these trade and military alliances developed into treaty relations, the relationship became a negotiation forum, a forum for establishing formal agreements, a complaint hearing forum and a place to settle disputes. So, by all counts, it was a relationship in which both sides got what they could from it; it appears to have been based purely on utility calculations. However, over time, it began to take on characteristics of a legal arrangement (regarding fairness in trade relations, conflict resolution, punishments for murder etc.). In this development the records begin showing how these trading partners and allies began accusing one another of being untrustworthy, lacking in courage and fidelity, undependable, unjust, among a number of others. [a quote is possible here] Obviously, trustworthiness, courage etcetera, had become part of the set of expectations these partners had of one another.

Were these normative principles imposed? If so, by whom would they have been imposed? Certainly, it was not one side imposing these principles on the other, since the alliance was based on mutual advantage. And there is no evidence that both sides came to a mutual agreement to impose such principles. One of the first things to note is that, as each side invested more into the relationship (e.g., military resources, legal resources), more became at stake, which is evident in situations where one partner threatened to leave the relationship. Former partners could then potentially establish trade and military alliances with enemy nations. Establishing robust, stable and orderly relations, then, became a priority, which generated a further interest in satisfying their partner.

In any but the crudest, one-time trade interactions, trading partners become interested in

the future of their relationship, orienting themselves toward the possible turns the relationship could take. Both sides in the Covenant Chain relationship wanted to maintain the benefits of trade and to give their current partners no reason to begin trading or allying with enemy nations. Both European and Aboriginal partners began, as a consequence, to judge one another with respect to their dispositional orientations; whether their partners were reliable, prone to fickle, cowardly, honest and trustworthy. It is not difficult to see why trade-based relations that move beyond the crudest one time interactions must transform into ones that incorporate new interests and involve different kinds of judgments. These new interests can be articulated in terms of values, some of which are normative and which change the orientation of their holders toward their trading partners. They begin observing and judging their partners in terms of their reputation and histories. The dynamics of the relationship change, as result, because accountability, praise and blame, accusation and defence become part of its governance. These interests become more evident when we read about threats of withdrawal. Such threats were used to gain the compliance to expectation from the partner. They resulted from the failure of one side to satisfy expectations. In its defence, the accused would defend its reputation and often reciprocate with counter accusations to balance the force of the initial accusation.

This kind of reciprocation evokes acts of reflection that make accused parties recognize that they must be able to defend their reputation as reliable etc. An orientation and logic of reciprocity emerges to shape the ways in which each party is obliged to reflect on its own actions and to communicate its interests in ways that are consistent with the expectations generated in the history of the relationship. Each party begins to understand that, while it expects trustworthiness, courage and the like from their partner, their partner also expects it from them. An exchange of recognition and of normatively right actions, then, becomes part of a more comprehensive economy of exchange.

Where normative values come to be reciprocated, the resulting relationship can be called a ‘moral economy,’ according to which people engage in exchanges, often implicit and hidden, based on such normative features such as trust, dependability, fairness and even-mindedness. In this way, an economy of norm-oriented values emerges as a consequence of trading partners taking a future orientation toward the relationship and having to think reflectively about their own and their partners’ dispositions, histories and, indeed, openness to reciprocity.

This future oriented trade context presupposes a community of interlocutors who can recognize one another as having abilities to calculate, form intentions, choose, make judgments and form expectations of one another. These factors, among others, constitute a framework or economic culture that affects the ordering of the relationship, in accordance with distinctions between suitable/unsuitable, trustworthy/untrustworthy, acceptable/unacceptable. These distinctions are indicative of directives (indicating how interlocutors should and must not act), which, in turn, transforms the community into a more complex system of exchange than it initially was. In this way, normative values emerge from holding economic values and emerge as a matter of developmental/evolutionary course. I prefer the use of the term ‘evolution,’ because it implies a process of adaptation to conditions and forces that might not have been anticipatable at the beginning of a relationship. If these normative values are not moral values straightway, because they are not articulated as principles, they are at least proto-moral values, in the sense that they create an implicit frame of reference that includes judgments about how the relationship ought to be governed and how interlocutors ought to behave and communicate. The idea of violation, associated with dessert, punishment, retaliation, gives these new values the character of a moral

imperative. If this analysis has been able to show that the identified norms are really only proto-moral norms, the only thing remaining to make them actual moral values is an explicit formulation, as moral virtues (e.g., honesty) and principles (e.g., justice). This making explicit occurred quite rapidly in the course of the Covenant Chain's evolution.

The point of using the term, 'evolution,' is to emphasize the internality of the moral norm/economic interest relationship. Moral values and norms evolve in response to adaptive needs that arise as a result of relationships becoming more complex, which, in turn arises as a consequence of taking a future orientation toward self-interest. To advance this initial analysis, we can examine how the relationship between interlocutors itself became a matter of concern. The relationship did not remain simply a vehicle for the individual interlocutors to get what they wanted.

A future oriented trade relationship, as described thus far (not necessarily one that has become much more complex), creates a situation in which reciprocity generates identifications as insiders and outsiders. Insiders satisfy certain criteria (e.g., they have engaged in reciprocal relations through exchanging commodities, trust etc.). Those who have not so reciprocated remain outside the relationship. This relationship is an intentional grouping, in the sense that it is formed of a limited number of interlocutors who recognize one another's acts of reciprocation. It can also be intentionally dissolved (e.g., if person A feels betrayed by Person B, or reciprocity ends). Where such intentional communities survive, the interlocutors gain a sense of belonging.

This sense of belonging is perhaps best illustrated in cases where a partner begins to feel threatened by a third party who either attempts to begin trade relations with Person A or who threatens to destroy the relationship altogether. This threat makes explicit to one or both partners the fact that the relationship (not just the particular interests) is something that involves commitment, not just to trade, but to the values that make an ongoing trade relationship possible. For instance, once trust is exercised and demonstrated (exchanged), even if one partner loses her source of trade goods, her partner can still be expected to commit to re-establishing her trading ability, rather than simply abandoning her to her own devices. In part, this is a consequence of the nature of trust; it is something that informs and transforms a relationship into one that carries new expectations of loyalty. In this way, the relationship, in itself, becomes something to be protected. Even if some in the relationship remain purely calculative with respect to their self-interest, they can see the value of those who maintain the relationship as a whole, because they can then continue to exploit the relationship. As Hobbes well recognized, the relationship begins to take on an identity of its own, which compels partners to give over some of their identity and autonomy as individuals to the whole, thereby allowing their identity as individuals to be shaped and defined, at least in part, by the relationship. For example, they begin to identify as a member of a family, clan, political unit and accept responsibilities they did not have when acting alone.

As reciprocal relations develop, partners expect one another to understand what they desire (what their values are) and realize themselves that they must understand their partner's desires. As the stability and reliability of the future of the relationship becomes more a matter of concern, a demand to increase the robustness of the arrangement arises, which in turn, demands greater mutual understanding and agreement on matters of values, beliefs and practices. Mutual understanding involves a development of modes of communication that are adequate to avoid misunderstanding. Once this happens, A and B recognize that they belong to a communicative community. Forming such a relationship, establishes a sense of mutual identity, as members of a single community. In this way, future oriented trade relationships involve a sense of collective

identity and an awareness of potential collective harms. As a consequence, the original motivation of acting on pure self-interest eventually becomes a threat to both the group and to individual members. The concern over collective harm becomes important to the governance of the trade/exchange relationship in a way that matches or sometimes supercedes (as in times of war) the importance of individual harm.

Collectivity, consequently, becomes a focus for economic development, as obligations and responsibilities to protect from harm (the harm principle) shift from the individual to the whole. Individuals begin to act on new kinds of moral value, when their actions serve to protect the community (not just themselves), help community members reach mutual understanding and help maintain stable community relations. Trade and exchange relationships then become more than just devices to enable individuals to prosper, but become devices that enable a moral economy to work, which in turn, enables a continuing exchange relationship to develop and flourish.

My point is not to advance a collectivist socio-political model over an individualist one, but to expose the extent to which moral values and principles become entrenched in economic relationships, to the point where each serves the other. This entrenchment does not occur because some members impose the moral values onto the relationship, but because they co-evolve; they belong to a context of inter-dependent arising, where the economic relationship provides impetus for the moral relationship and the moral relationship enables the economic relationship to develop into a communal relationship of mutual provision/protection.

If this analysis is correct, inter-dependent arising implies that all future oriented economic relations involve deep-seated normative forces that maintain the viability of other economic relations. Indeed, the two are different faces of the same head. On the one hand, then, it is doubtful that moral values and principles would have ever come to be, if not for economic relations. On the other hand, economic relations would not have evolved into much more than immediate, one time interactions, apart from the potential for human beings to be directed by normative forces.

Where then is the mistake in the dominant assumptions of economics. Obviously, on the surface it lies in treating ethics and economics as externally related. Taking the idea further, however, it can now be seen in the failure to appreciate the full extent of the evolutionary character of economic systems and the belief that initial interests can remain as they first operated, once subject to evolutionary forces. A second mistake is the conception of economics purely as a science, as opposed to a normative discipline. This conception is an attempt to strip economics of an essential defining characteristic, a forced redefinition of economics as a quantitative science, similar to the attempt at re-defining philosophy by the logical positivists as a follower of science, in which metaphysics and ethics would be recognized as mere historical curiosities. Re-embedding ethics and economics, then, is more a matter of identifying and removing forced re-conceptions and definitions, than it is a matter of working ethics back into economics.

Obviously, I can only briefly sketch what some of the operations of re-embedding would be. At a fairly fundamental level, owing to the inclusion of a complex array of values (central ones of which are moral) and expectations, re-embedding would involve developing a more comprehensive understanding of the underlying value system and resisting simplification and reduction tendencies. We need to understand how the various modes of exchange work together to form communities and then what measures need to be taken to protect that community, ensuring that emphasis of one mode of exchange does not undermine the other. In this effort, people's

sense of community and commitments need to be incorporated into the framing of economic relations.

Addendum

By failing to maintain an attunement to the inter-dependent arising of the moral and trade economy by simplifying terms of reference distorts our understanding of what makes economic systems work frame of reference. When the primary frame of reference for policy and decision-making, this simplification/distortion contributes to the undermining of the *raison d'être* for the economic system. It undermines its ability to protect the community from the harms (various forms of suffering) it was intended to relieve. For instance, if trust is a vital element of social exchange that maintains social cohesion and an ability to ... and an economic focus on materiality and quantifiability devalue or even ignore such elements, then, policy and decision-makers will fail to respect what they are taking for granted. And when we ignore the centrality of trust, we also ignore the conditions that support it and those that can undermine it. Recently, we have seen just how fragile an undermining of trust might be, as world leaders have struggled to avoid a massive economic collapse. They have had to get people not to protect their individual wealth by saving (not spending) and to utilize various spending and investment incentives. This all on money that governments do not have. They, therefore, depend on their citizens believing that their governments' policies will work, in the end, to bring the economy to a robust state. But even here, governments have relied on trust of the community. If trust had disintegrated, the world economy would have spun into depression. The violence shown toward bankers and governments would likely have been accelerated.

It is fitting that Alan Greenspan (Chairman of the Federal Reserve, 1987-2006) at a 2008 Congressional hearing has admitted that he did not understand how the world worked, because of the particular ideology he held (i.e., the belief in a self-regulating market economy). Clearly, I want to argue that his mistake runs more deeply, but it is sufficient here to point out that a mistaken believe in how the world actually works can lead to disaster. The question then arises, "How deeply and comprehensively does one have to understand how the world works to be able to make decisions that do not?"

Addendum

Perhaps, a fully satisfactory answer is not possible, given the complexity of the world. But perhaps like Socrates, once we establish that a particular path is not going to work, a new attempt must be made. And if we understand that the problem has much to do with simplification and reduction to quantifiable variables, the appropriate turn would be toward an approach that would enable a more complex understanding to be developed. If my analysis of the ethics/economics relationship is correct, then a more adequate approach would first be to re-frame economics and ethics as an inter-dependent arising. Our principal task would be to attune ourselves, as much as possible, to the full array of values and resist resorting to short-cut measures (e.g., the invisible hand) as a way to deal with them. More specifically, we can begin to re-focus on developing a sense of community, where the fostering of trust remains central.

If we accept that the detaching of ethics from economics stems from modernist influences, then it might be tempting to argue from a Straussian point of view that we must return to pre-modern conceptions of the relationship. This approach would not serve us well. In many respects, the pre-moderns were not self-consciously aware of the need to embed ethics and economics; for the Ancients, the embeddedness of these elements was part of an assumed (implicit) backdrop of

ideas and sensibilities (what Habermas calls “??”). The ancient conceptual framework, epistemology and cosmology, sustained through the authority of the church, enabled people to assume the inter-connectedness of all functions and reality, as products of the will of God or emanations of the Good.