

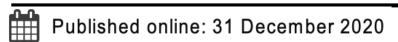
## HARMONIZING THE FUNDAMENTAL PRINCIPLES OF ECONOMY AND MORAL PHILOSOPHY

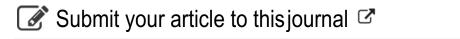
Cemil Ertuğrul, & Ebru Unat

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REVIEW ARTICLE

# HARMONIZING THE FUNDAMENTAL PRINCIPLES OF ECONOMY AND MORAL PHILOSOPHY

Cemil Ertuğrul, & Ebru Unat\*

#### **ABSTRACT**

In its simplest form, morality refers to the value judgments that we define as "good" or "right" in human relations. Here, questions arise such as "what is understood from good?, what is the criteria?, and what is good for whom?". Basically, morality has formed the basis of value judgments in almost all religions. Being moral is a phenomenon that should also be present in economic thought as it is present in every place in life. The conditions of free competition essentially provide the necessary situations for being moral in economics but it is not possible to ensure morality in terms of production and distribution under monopolistic structures. Taking these into concern, this review article attempts to prove that economics and morality are not independent from each other and both of them complete each other by means of fundamental principles in economy; and thus, provide suggestions.

**KEY WORDS:** Moral philosophy, morality, value judgments, economic structures.

\*Correspondence concerning this article should be addressed to Ebru Unat, Department of Economics, Izmir Democracy University, Turkey.

E-mail: ebru.unat341@hotmail.com

#### 1. INTRODUCTION

The "invisible hand" explanation of A. Smith, who is a moral scientist beyond being the founder of the science of economics, predicts that while individual



results.

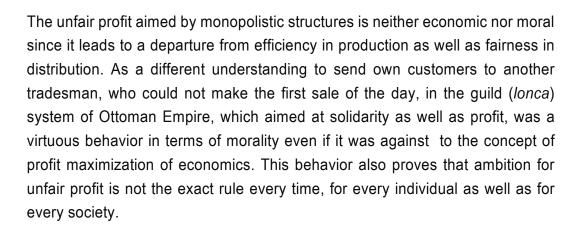
Market systems need to be examined according to their moral aspects. It is sure that market system based on free competition with the definition of Classics, or perfect competition with the definition of Neo-classics is the best economic system not only from economic point of view but also from moral point of view.

which also maximizes social benefit, is moral and assuredly virtuous in its

The imperfect market systems (especially monopoly), in which freedom and competition are limited, or not at all, are required to be examined from moral and economic efficiency point of views. In today's conditions of globalization, imperfect competition, especially monopolization increases and becomes more serious problem day by day. Therefore, we will especially focus on imperfect competition, especially monopolization in this study.

As a market system, the free competition market, which is free from state intervention and monopolies as envisaged by A. Smith, enables the use of freedom (independence, and/or liberalism) in economic life in the broadest sense, and is effective and moral in terms of its results. The main problem here is that the free competition market turns into a rare, even an utopian market form in real life due to the increasing prevalence of other market systems, especially monopolistic markets, against the ideal market type of free competition. As being moved away from the free competition market as a result of monopolization, it is not possible to talk about efficient use of resources, and fair income distribution. Under these conditions, both economics and morality are abandoned, and the ability of the "invisible hand" to maximize the benefit of the individual and society as a whole is lost.

It is not proper to assert that economists, including Marxists, have any significant criticism of the free competition system. The main criticisms are directed against other market systems, especially monopoly. In monopolistic market conditions, it is not possible to talk about liberalism together with the existence and virtue of the free competition market in this context. It is necessary to consider the differences between free competition market and monopoly.



Based on the view that economics is an independent field of science, while particular importance is given to concepts such as rationalism and efficiency in economics, the importance of morality has been ignored (Zelizer, 2007). Asserting that there is no close and direct relationship between the science of economics and moral philosophy since economics is an independent science, and morality is a hindrance to the development of economics is an approach that help the operation to protect and develop their existences in the development process of the monopolistic market system as well as to masquerade their economic and moral problems. It is neither scientific nor moral to cover up the probable mistakes of the economically and morally wrong aspect of monopolistic market system, and to separate economics and moral philosophy from each other. It is an inevitable responsibility that especially economists and moral scientists intervene in this process within the framework of their interests.

Institutions such as culture, law and politics are also closely linked to economics. They also should be included in economic in some aspects, but they are fully ignored by Orthodox-oriented approaches. These institutions are closely related to economy, and should be included in thought of economy in contrary to Orthodox thought of economy. For instance, unemployment insurance are the practices originated from social policies but it also has economic aspects. Orthodox Economics adopts an incomplete and wrong approach due to its narrow and myopic view that ignores other disciplines.

The perspectives of Orthodox Economists that purport no close and direct relationship between economics and morality, and assert that economics is an independent science is not regarded as valid. The existence of a relationship



between economics and morality cannot be denied. It is, thus, inevitable that the economic system should be placed on a moral basis. However, it is very difficult to establish such a connection and harmony.

Indeed, Sen (1987) stated that the convergence of ethics and economics involves significant difficulties, and argued that the reward of such an effort is only be obtained by looking at the subject from a broader perspective. There is a definite and unavoidable relationship between economics and morality.

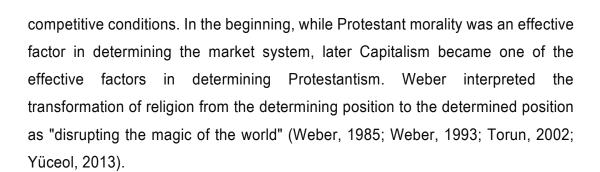
With these in mind, this article attempts to prove that economics and morality are not independent from each other and both of them complete each other.

### 1.1. The relationship between moral philosophy and economics

In its simplest form, morality refers to the value judgments that we define as "good" or "right" in human relations. Here, questions arise such as "what is understood from good?, what is the criteria?, and what is good for whom?".

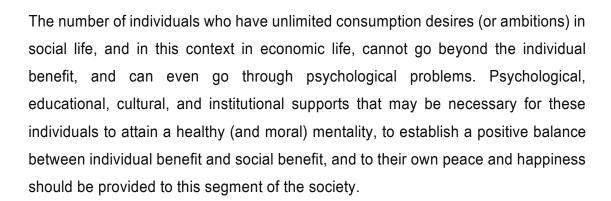
Morality has formed the basis of value judgments in almost all religions. F. Bacon and other proponents of the secular understanding of morality have argued that an individual can reach morality even without religious beliefs and rules (Aktan, 2020).

Weber endeavored to prove that the economic system could be determined by belief systems, and belief systems could be determined by the economic systems, as well. According to Weber, the ideological element in the formation of capitalism is the "Protestant morality", which advises people to take it as their duty and work for their worldly gains. The spirit of Capitalism is the spirit of Protestantism, and at the same time, it is the morality as well as the rules of conduct of the believers. The tolerant and encouraging approach of the Protestant morality has been an effective factor in the adoption and development of the market system in terms of profit, wealth, financial success, rationality, interest, and speculation compared to other beliefs, especially mystical beliefs allow Protestants to be wealthier than other belief segments. The Protestant morality has adopted working, saving, capital accumulation, avoidance of luxury, successful economic activities, and profits as religious and moral activities. Emotionalism should give way to rationalism in



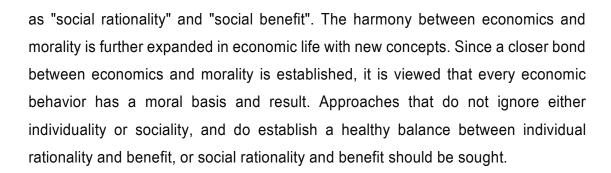
"Is there a harmony or contrast between moral philosophy and the principles of economics?", "If there are contradictions, should they be harmonized with each other?", "If a harmony is to be achieved, which one should match the other?", and similar questions are important topics of discussion. In this context, it is necessary to contemplate without hesitation with "decency" as Yunus Emre put forward. In all sciences, including economics, it is regarded as an inevitable necessity of thought and behavior to be moral. Economics should definitely not isolate itself from morality, and if there is an opposition between economic thought and morality, economics should seek ways of being compatible with morality. Virtuous thoughts and behaviors that are based on moral basis, and have moral consequences can be a source of sustainable prosperity and happiness on an individual and social scale. If a thought and behavior is not based on morality, its consequences are unlikely to be beneficial on an individual, and in general, on a social scale.

Defining the rational individual as defined by Orthodox Economics as a mechanical actor with unlimited needs and acting only with the motive of personal benefit maximization-cost minimization is a definition that may create dilemmas. It is not moral to ignore that Neo-Classical economics also have the moral side of the individual, and when there is a conflict between individual benefit or profit and morality, it inclines to choose the moral, not the benefit or profit maximization. In this context, it is a wrong and misleading definition to define the individual as an economic actor who has unlimited desires, and never ignores rationalism and utilitarianism in order to accomplish these desires. To view the individual as merely an individual utilitarian-costist, and to ignore that s/he can be socially utilitarian-costist is a humiliation, and disrespect to the individual.



However, the main problem here is that rationalism is usually handled with a micro-level approach on an individual scale. Nowadays, it has become more evident that negative consequences of individual rationality are more than its positive results. Many approaches, which are seen as individual rationality in the short term, can turn into individual irrationality when they conflict with social rationality. Rationalism should be considered not only at the individual but also at the social scale. The rationalism approach should take the individual cost and benefit into account more importantly than the social cost and benefit. In case of a conflict or incompatibility between individual cost and benefit, and social cost and benefit, a balance based on moral basis should be sought that will not ignore either the individual or the society.

It is not always the case to seek economic rationality and utilitarianism in the Orthodox sense in individual and social behavior. As a matter of fact, as a deviation from economic activity and rationalism in social life, in cases where market rules cannot be practically applied (such as in the lighthouse where free service is provided), or considering the moral, social, cultural values and institutions (as in the example of free services provided for the disabled), the benefits of another group can be sacrificed for the individual economic benefits of one segment. It is a proof that the individual and society do not act only with the Orthodox sense of economic activity, rationalism and utilitarianism under all circumstances, and even more, it does not ignore moral, social, cultural values and institutions, hence in a sense, economics and ethics are in harmony even if they are not originated from the discipline of economics but from other disciplines. This situation, which is defined as market failure in Orthodox Economics, should be redefined by seeking a harmony between economics and morality, and explained by more acceptable concepts such



Both morality and rationality lace individuals with the idea of what to do, and not to do. In the case where morality and rationality overlap, there would be no problem. On the other hand, if they do not, should we choose "the moral one" or "the rational one" in our decisions? If there is a public opinion poll, the moral one will be mostly preferred (Demir, 2003, p.82-84). In fact, instead of defining rationalism as pure cost-benefit analysis as defined by Orthodox Economics, it is necessary to redefine rationality by adding morality, and even conscience to rationality and considering social benefit as well as individual benefit. With the redefinition of the "economic mind" instead of "the moral, or the rational one?" approach, it may be possible to prefer both "moral" and "rational".

### 1.2. The necessity of harmonizing some principles of economics with some principles of moral philosophy

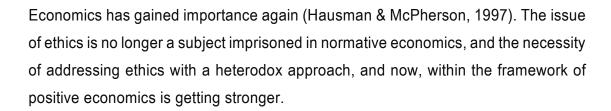
Morality (moral philosophy) is a phenomenon that needs to be dealt cautiously in every field, especially in the field of science (Kazgan, 2006). The concept of morality is emerging as a concept that is more and more interested in all social sciences such as philosophy, religion, economics, sociology, law, and politics. In fact, it is inevitable that every science and every behavior has a moral basis (Aktan, 2020). Some economists claim that redefining economic principles by harmonizing and integrating them with the principles of moral philosophy can contribute significantly to the economic problems, and many social, political and social problems fed by such economic problems.

Contrary to these views, some Orthodox Economists argue that economics is a separate discipline with its own rules and techniques, and that it has no close and direct connection with moral philosophy. According to the opinions put forward in this

context, "morals determine the goals" and "economics determine the tools" for decision-makers to achieve their political goals; however, this does not mean that there is, or should be a close and direct relationship between morality and economics. According to Orthodox Economists, putting economics into a pattern of philosophy, especially a pattern of moral philosophy, and looking at economics through the glasses of moral values is an approach that can prevent economics from being an independent and scientific discipline.

Even if different opinions were put forward by both economists and moral scientists about the relationship between economics and morality, the views which argue that economics and morality are dependent on each other, and that it is necessary to harmonize some principles of economics and morality are becoming more widespread. Especially, Institutional Economists have made serious criticisms against Orthodox Economics by highlighting individual and social moral values by arguing that economics is not independent from moral value judgments.

When economics and morality are dealt together, some difficulties may arise in the harmonization of these two concepts. When economics focuses on issues such as efficiency, consumption, distribution, and the transfer of assets, it is not possible to focus attention on moral issues (Zelizer, 2007). The transfer of the concept of morality to the theory of economics has long been met with suspicion, and even with underestimation by Orthodox Economics by the idea that it has moved away from the scientific criteria that dominate the discipline of economics. The basic assumption of Orthodox Economics "everyone should rationally pursue their own benefit" was effective in the emergence of such a situation. The morality of economic theory took the form of Selfish Morality. Orthodox's current point of view, on one hand, takes the morality as a chattering subject that is directed towards different ways, and on the other hand, regards "utilitarianism" as the most appropriate form of behavior to ensure human welfare (Insel, 2000). Although economics and morality were dealt together in the beginning, economics became independent from morality over time, and especially after the marginalist revolution, by isolating itself from other social sciences, it was dealt with the subject in a narrower area, and remained away from the subject of morality. However, in recent years, the convergence of Morality-

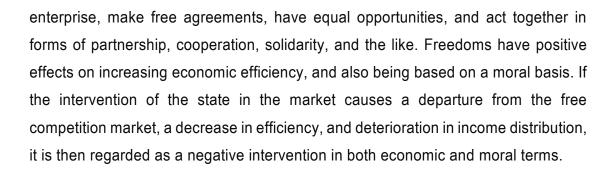


Considering the classification and opinions of Hausman and McPherson (1993), who are prominent in this field, moral theories that stand out in economics are briefly explained below. Hausman and McPherson discussed these theories under four headings: (1) economic efficiency, and Pareto optimality, (2) libertarian theories, (3) utilitarian and consequential theories, and (4) contractual theories.

Economic efficiency is divided into two as "efficiency in resource use" and "efficiency in resource allocation". Efficiency in resource use defines the production process that minimizes production cost, especially with the effective use of labor and technology besides the complete use of resources. Efficiency in resource allocation, also defined as the Pareto optimum, defines resource allocation where it is not possible to improve the situation of another of these actors without worsening the situation of one of the market actors.

Considering that free competition market provides efficiency together with the Pareto optimum, it is supposed that it is an economically efficient, and at the same time, a morally virtuous system. However, even if achieving the Pareto optimum is theoretically possible under free competition conditions, it is not possible to reach the Pareto optimum since free competition cannot be achieved especially under the conditions of dominant monopolistic structure. Market failures encountered in the monopolistic market system may lead to departure from free competition, and therefore, from the Pareto optimum. Hence, today's dominant monopolistic markets emerge both an economically and a morally objectionable situation.

Liberal theories are theories that predict the development of individual freedom in the economic life as well as in other fields as a basic human right, and the restriction of the state's intervention in economic life. These are the views that envisage individuals who are the decision-makers of economic life to freely enter into free



According to utilitarian or consequential moral theories, if there is no alternative with better results, an action, rule, or policy then can only be considered moral, or right. Here, the question stands out: "What is a better result?" Utilitarian and consequential moral theories are approaches that views the goods in the benefit.

The contractual approach is based on the requirement that the members of a society make a rational, moral and acceptable contract, and those members of the society should act in accordance with this contract. Here, rationality is based on maximizing common and mutual benefits expected to stand for all members of the society in case of compliance with the contract, and the maximization of average individual benefit by equating the rights fairly. Such an approach is moral besides its acceptability for everyone. It faces the problem of remaining as a theoretical approach before the contractual approach is able to be applied in the case where common and mutual benefits of the society are ignored, and the maximization of individual benefit comes to the fore instead of maximizing average welfare.

According to Sen (1997) and Polanyi (1944), economic activity and economic policy should be handled according to moral values. Sen (1987) argued that an individual takes moral values into account in his economic decisions, and that his economic decisions should be taken into account in addition to individual benefits and motives such as altruism, or not considering individual benefits. Sen also argued that the issue of morality should be the subject of not only normative economics but also positive economics. An important step in the moral issue gaining a practical place in economics was the definition of altruistic behavior as a conscious and logical concern. In this case, it seems possible to determine a different function of "altruistic satisfaction" from the function of individual utility, and to maximize the function of



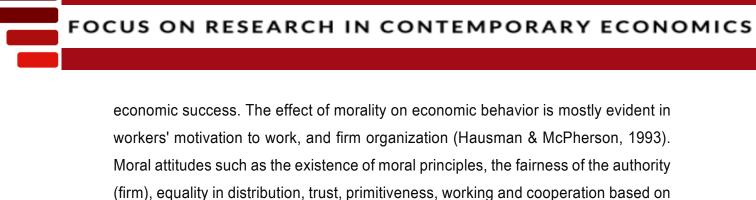
individual utility, and function of altruism utility together (Insel, 2000).

According to Rowen and Dietrich (2004), and Encinar et al. (2006), if individuals act in accordance with their own benefits, the role of morality remains limited in the economic decision-making process of individuals, and society. The concepts of "utility" and "rationality" are basic concepts in decision-making, and can be useful in determining the role of morality in the decision-making process. Rowen and Dietrich (2004) have also argued that individuals may consider their own benefits when making decisions (self-interested), and that individual's self-interest behaviors may not mean that the individual is selfish (egoist), or does not behave morally. Selfishness can only be the case when ignoring the others' benefits for the sake of their own benefits.

If the individual acts by considering social benefits within the framework of values such as morality, tradition, law, and the like besides his own personal benefit, it can maximize social benefit legitimately and morally, as well. Even if we assume that immoral and unlawful behaviors such as tax evasion, fraudulent product, unfair profit, harsh competition, and the like can maximize the personal benefit of some individuals, it is unlikely to think that they also maximize social benefit. In Smith's "invisible hand" system, there is no such idea of individual benefit (Hazlitt, 1999).

According to Hausman and McPherson (1993), some incompatibilities between rationalism and moral values may arise especially within the framework of the theory of "utility". Today, the "economic person" (homo economicus) is viewed as the "rational person". The economist should look at events not only from the concept of individual utility, which is seen as a requirement of economic rationality, but from a more comprehensive perspective that includes both rationalism and self-sacrifice for moral responsibility. Rationalism actually does not exclude moral values albeit it has significant overlapping aspects.

Highlighting moral behavior may allow other important developments to emerge in economics. Gambetta (1988) has suggested that there are many studies emphasizing the moral framework of behavior as an important tool in achieving



#### 2. RESULTS AND RECOMMENDATIONS

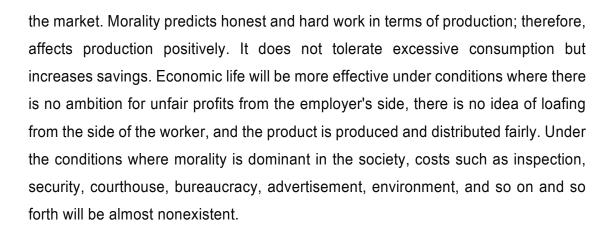
way (Akerlof, 1984).

Smith predicted in his work "The Wealth of Nations" that the state should not interfere with the economy, and there should be no monopolies in order for the free market economy to function effectively. Therefore, it is stipulated that a free market system, which is based on free competition, and does not have monopolies and state intervention, as envisaged by Smith, is efficient in production, and fair and moral in terms of distribution. However, the current situation is that monopolies become widespread, and the state intervenes in the economy in a way that supports monopolies.

social and cultural relations generally affect the performance of workers in a positive

In the process of the market economy adventure, a structure dominated by giant companies and finance capital has emerged, albeit not free competition. As it is experienced today, as the free competition is distanced and the system turns into a state-sponsored monopoly system, efficiency and justice in production and distribution are being distanced. Although Orthodox Economists ignore it, and some even do not find the moral aspect of the issue worthy to take into consideration, the market system has now turned into a system that is both irrational and immoral, which is far beyond what Smith put forward once.

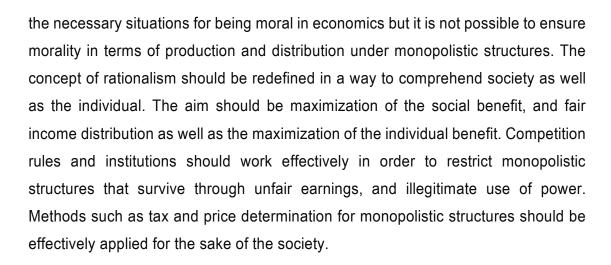
Morality is one of the most desired institutions in economic life as well as in social life. The dominance of morality in markets will allow many problems in economic life to be solved automatically. As long as all decision-makers of the free market economy such as firm, household and state behave morally, the existence and effective functioning of the free market system can be enabled. Morality has a significant cost-lowering, production-increasing and saving effect. Morality also helps the market to function effectively and fairly by limiting the use of nonmoral power in



The increasing dominance of the monopolistic market system in national and global dimensions leads to ineffectiveness in economic life, loss of wealth, unemployment, injustice in distribution, and also causes serious problems in social, political and moral sides in addition to its economic aspects. In order to reduce these problems, it is inevitable to include the concept of morality among the basic concepts of economics more clearly, and to ensure a harmony between the concepts of economics such as rationality and utility together with the concept of morality. In this context, in order to increase and spread social welfare, it becomes a necessity to move away from monopolistic market structures that are the source of important economic and moral problems but to direct state support in a way that will reduce the negativity of monopoly, and strengthen the free (even social) market system.

As the economic life becomes more complex, the economic problems are diversified and enlarged, and the interactions with other disciplines become widespread, it emerges as an inevitable necessity for economics to adopt morality as one of its starting points, and to harmonize its original principles with the principles of moral philosophy. The harmonization of economic principles with moral principles, and taking an attitude towards the realization of economic behaviors and activities based on these principles will surely contribute to the solution of many existing complexities and problems as well as a healthier interaction and integration with other disciplines related to economics (sociology and political science besides moral philosophy).

Being moral is a phenomenon that should also be present in economic thought as it is present in every place in life. The conditions of free competition essentially provide



Economics should see the individual not only with its economic rationality aiming at maximizing individual profit, and benefit expressed by the Orthodox economic approach, but also with the moral, social, political, cultural, emotional, and such aspects which determine the welfare of the individual and society together with the economics. The definition of economic rationality should be based not only on individual profit, and maximization of the benefits, or as a narrow definition of rationalism based on cost-benefit analysis, but also on the discipline of ethics, philosophy, social science, political science, and the like besides the discipline of economics, aiming at the individual and social welfare altogether.

In such monopolistic market conditions, enriching a small segment otherizes the big segment, leaving them starved, unemployed and impoverished. For a significant part of the population, this also leads to committing crimes, being the source of conflicts, and even wars at all levels, or being among the most important causes of environmental pollution and global warming problems. Besides, it may continue to exist as a habitual crisis against the existence of a social benefit, a healthy economic thought, morality and conscience which is acceptable to everyone without question. It is becoming more evident day by day that this economic, moral and unconscientious situation resulted by the monopolistic market is not suitable for a sustainable society, and the world. Thus, there is a need for a social rationalism to sustain our existence rather than the economic rationality that imposes a process that threatens our existence.





Institutions of morality, culture, law and politics should be oriented between the individual and the society in a way that enables the individual to exercise his/her individual rights and freedom as much as possible, and in a way that creates individuals who consider the benefit of society as well as their individual benefits. The realization of a more peaceful, fairer, more fraternal, more prosperous and happier world largely depends on the common will together with a strong cooperation of economists, moralists, educators, politicians, jurists, other social scientists, and even more, by all segments of society in order to accomplish this goal.

#### DISCLOSURE OF CONFLICT

The author(s) declare that they have no conflicts of interest.

### **AUTHOR(S) DETAILS**

Cemil Ertuğrul, PhD.

The Department of Economics

Izmir Democracy University, Turkey

E-mail: cemil.ertugrul@idu.edu.tr

ORCID ID: https://orcid.org/0000-0002-8125-2431

Ebru Unat, PhD. Candidate

The Department of Economics

Izmir Democracy University, Turkey

E-mail: ebru.unat341@hotmail.com

ORCID ID: https://orcid.org/0000-0003-0004-5375

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