On Ethics and Economics
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On Ethics and Economics\footnote{This essay is based on research conducted during my summer MAP (2004), supervised by Professor Bradley Bateman. I would like to thank Mr. Bateman, Mr. and Mrs. Cummins, Mr. Lalonde, Mr. Kaiser and Mr. Strauber at Grinnell College, and Ms. Mary Morgan and Mr. Xavier Duran at the London School of Economics, for sharing their knowledge with me, and for bearing with me patiently. Additionally, I am grateful to my parents Michael and Chandana Chandra, and my friends Divya Saluja and Blair Brown, for their strident criticisms and their unwavering support throughout my research.}

Ill fares the land, to hastening ills a prey,  
Where wealth accumulates, and men decay.  
—Oliver Goldsmith, *The Deserted Village* (1770)

Echoing Goldsmith’s 18\textsuperscript{th}-century lament on the ills of modern industrial society, non-economists frequently bemoan and berate modern economics’ neglect of a wide range of ethical concerns. This criticism is bolstered by the evidence that a standard microeconomics text for undergraduates such as Hal Varian’s book does not even use the word “ethics” anywhere. Even when “bads” are discussed, they are defined as commodities that the “consumer doesn’t like” (Varian 1996: 41). Similarly, utility is interpreted as a “\textit{way to describe [consumer] preferences}” (Varian 1996: 54).

These instances of discord between ethics and economics, however, obscure the fact that there exists a multifaceted historical relationship between ethical and economic ideas. Aristotelian ideas of \textit{eudaimonia} (human flourishing) and justice in economic activities dominated the Western intellectual environment until the Enlightenment, stressing the complementarities between the ethical and economic realms. Enlightenment scholars, notably Adam Smith, sought to supplant the old Aristotelian paradigm with a new relationship between ethics and economics. However, the 20\textsuperscript{th}-century ascendancy of neoclassical economics, with its penchant for mathematical models and “scientific” tools, has meant the neglect of both Aristotelian and Smithian ethics. Although Amartya Sen’s ethical concerns have reintroduced Aristotelian ideas into modern economics without discarding basic Smithian values, Sen’s challenge to neoclassical thinking may itself be inadequate in the contemporary context. This paper analyzes the linkages between ethics and economics in the writings of Aristotle, Smith and Sen, and then provides an alternative paradigm for addressing ethical or normative concerns within contemporary economics.
Eudaimonia, or human flourishing, forms the core of Aristotle’s economic ideas. Eudaimonia should not be interpreted as happiness\(^2\), because the common meaning of happiness is taken to be “enjoying, showing, or marked by pleasure, satisfaction, or joy” (Merriam Webster). For Aristotle, the general meaning of eudaimonia connotes completeness and self-sufficiency: it the supreme end for the sake of which all other things are done, and it makes “life worthy of choice” and “lacking in nothing” (NE 1097b, 1-6, 15). The specific meaning of eudaimonia is framed in terms of Aristotle’s “function argument”: every object has a characteristic activity or function, and “the function of a man is to lead a certain kind of life” identified with the supreme virtue of “living well and acting well”\(^3\) (NE 1095a, 19; 1097b, 25-28). Eudaimonia is thus neither a possession nor a targeted point such as the Christian concept of Heaven, but is an ongoing activity throughout life (NE 1169b, 29-30).

For an individual, eudaimonia entails the exercise of deliberate choice (prohairesis). Deliberate choice means purposive, rational inquiry that enables individuals to choose the “easiest and best” means for achieving ends (NE 1111b, 12-35; 1112a, 1-12; 1112b, 17, 34-36). Aristotelian deliberate choice is formalized through his “doctrine of the mean.” The mean is a state that is equidistant from both extremes of excess and deficiency (NE 1106a, 29-31). Virtues like temperance, generosity and justice represent means, while vices are either excesses or deficiencies (NE 1107a, 1-8).

In practical terms, Aristotelian deliberate choice works in the following way: each individual rationally determines a precise mean that is unique to him and then adheres to this definite conception of the mean (NE 1106b, 1-7). Since reason has precedence over emotions and appetites, abstinence from and excessive indulgence in pleasures are both undesirable (NE 1118b, 29; 1119a, 6-11).

Therefore, a virtuous person characteristically takes a moderate view of wealth, power and other

\(^2\) See H.G. Apostle’s translation of Nicomachean Ethics.
\(^3\) This translation of eudaimonia by John Cooper encapsulates the Aristotelian idea of “living well and acting well” far better than “happiness” (Nussbaum 1986: 6).
fortunes (NE 1124a, 13-18). Such a person as Aristotle’s man of prudence (phronimos) employs freedom and choice responsibly to “deliberate well concerning what is good and expedient for himself” and for other free men (NE 1140a, 26-31, 1140b 9-10). In this manner, eudaimonia for the individual becomes inextricably linked to the common good of the polity.

This conception of eudaimonia requires two qualifications. Firstly, on the compatibility of wealth and virtue, Aristotle points out that eudaimonia requires some external goods like wealth, friends and political power, which are necessary “instruments” for performing virtuous actions (NE 1099b, 1-2). However, there is an important caveat here: although external goods provide a means for attaining eudaimonia, “the good sought is not wealth, for wealth is [merely] instrumental and is sought for the sake of something else” (NE 1096a, 6-8). Therefore, in an Aristotelian sense, external goods constitute a necessary condition rather than a sufficient one for attaining human flourishing.

Secondly, on whether all individuals are equally capable of realizing eudaimonia, three categories of individuals are disqualified by Aristotle. The masses cannot lead virtuous lives because they “appear to be quite slavish in choosing deliberately a life of beastly pleasures” (NE 1095b, 20-21). Here, Aristotle assumes that the life of pleasure is logically distinct from and inferior to those of politics or virtue, and of contemplation (NE 1095b, 17-34, 1096a, 1-6). Then, the commercial classes, or retail-traders and money-lenders, cannot achieve eudaimonia: “the life of a money-maker… is one of tension” since he engages in the unethical, limitless pursuit of wealth for its own sake (NE 1096a, 7). Finally, “natural slaves” cannot be expected to realize the ideal human condition. Although modern social scientists may be appalled at this politically-incorrect remark, slavery was an institutional “given” for Aristotle and his contemporaries, because the unfreedom of slaves and other dependent labor remained crucial for ensuring the freedom of Athenian citizens in the fifth and fourth centuries.
BCE. By adopting a methodology of historical relativism, historical events and authors can be evaluated with respect to the unique ethical considerations of their episteme, not according to modern standards of morality. In this sense, we may take note of the three categories of individuals that are disqualified from achieving eudaimonia, without making facile normative judgments about an ancient society that cannot defend itself.

Complementing eudaimonia, justice constitutes the second half of the Aristotelian ethics-economics paradigm. Although Aristotle defines justice in multiple ways, one particular definition concerns economic activities: just action is defined as “a mean between acting unjustly and being treated unjustly; for to act unjustly is to get more than what one deserves while to be treated unjustly is to get less than what one deserves” (NE 1133b, 31-33). Specifically, Aristotle describes three kinds of justice in economic life. Distributive justice is concerned with ensuring that every citizen gets a fair share of the state’s total possessions. Such justice takes the form of the proportion “Citizen 1: Citizen 2 = X1: X2” (NE 1130b, 31-33). The values for X1 and X2 are imputed according to the social worth of each individual, which enters directly from the Aristotelian hierarchy of human beings. Additionally, Aristotle stipulates two conditions: first, the proportion should be meaningful as an equality of ratios; second, a citizen’s share in the possessions of the state is analogous to a share of profits in a partnership.

4 The key elements of Athenian democracy, eleuthria (freedom), isegoria (civic participation) and parrhesia (free speech), suggest that citizens’ leisure to participate politically was fundamentally linked to the availability and employment of dependent labor (Raaflaub 1998: 26-28; Csapo and Miller 1998: 124-25; Henderson 1998: 256-57). Given the existence of different forms of unfree labor, my argument follows Max Weber’s line of reasoning: economic development is directly influenced by division of labor in society; in modern markets dependent on free wage-labor, economic development implies broadening the market through greater specialization, or shifting the production-possibilities curve outwards; however, in ancient societies such as the one in classical Athens that employed various forms of compulsory labor, economic development simply meant increasing the size of the labor force in order to facilitate greater specialization (Finley 1980: 111-12). As a result, it should be no surprise that virtually every Greek writer of the classical period accepts slavery as an institutional “given,” and Aristotle is no exception.

5 The concept of “epistemes”, or vast socio-political and cultural spaces in time, comes from Michel Foucault’s The Order of Things: Archaeology of the Human Sciences. According to Foucault, it is necessary to evaluate theories and ideas within their appropriate epistemes in order to fully understand their contexts; hence, the modern scholar needs to appreciate consistency within idea sets, and between ideas and the practical realm, just as an archaeologist grapples to recreate the mindset of an ancient society on the basis of artifacts and other material remains.

6 Two other definitions of justice are as follows: in terms of convention (nomos), “the just” is “that which is lawful or that which is fair” (NE 1129b, 1); with respect to virtues, justice is “a virtue in the most complete sense” because the just person, citizen or king, defines his self-interest broadly to ensure his own good and the good of others (NE 1129b, 31-33; 1130a, 6).
in which each partner’s share of the total profits is proportionate to his capital contribution in the business (NE 1131b, 4-15, 28-32). Given these conditions, we can construct a general formula for an individual citizen’s share in the possessions of the state, \( X_i \). Therefore, distributive justice guarantees each citizen a just share of the state’s possessions, and this share has a definite, calculable value. The “just” lies in this precise value, while the “unjust” represents a greater or lesser value.

Corrective justice refers to the “mean” between “gain” and “loss”, i.e., the “possession of equal amounts before and after the [voluntary] exchange” (NE 1132a, 15-19; NE 1132b, 10-21). While this ambiguous definition cannot be explained by invoking either price or utility, it can be understood in terms of the formula for distributive justice. If each citizen has a definite share of possessions based on his social worth, then any attempt to alter this share is necessarily an unjust act. Shares relate to the \( \text{sum} \) of all possessions, including clothes, food, slaves etc. So, if Citizen 1 needs more food than clothes, he can do so by exchanging clothes for food at a mutually acceptable price, and thus, both citizens will end up with the same shares of total possessions as before, despite their heterogeneous preferences.

The third kind of justice equates just exchange with reciprocity (NE 1132b, 22). In Aristotle’s shoemaker-builder example, just exchange requires a reciprocal proportion of shoes and houses on the basis of \( \text{chreia} \) (need), which determines the commensurability of these heterogeneous commodities (NE 1133a, 6-14; 1133b 7-8). \( \text{Chreia} \) also imposes a “natural limit” on market exchange, ensuring that

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7 If ‘n’ is the total number of citizens in the state and ‘i’ is the rank of a citizen, then
\[
X_i = 2X_{i-1}, X_i = 3X_{i-1}, ..., X_i = (n-1) X_{i-1}, X_i = nX_n \quad \text{and} \quad \sum X_i = \frac{n*(n +1)}{2}
\]
From these \( n \) equations, we get:
\[
X_1 + X_1/2 + X_1/3 + ... + X_1/n = \frac{n*(n +1)}{2}
\]
or,
\[
X_1 (1 + \frac{1}{2} + \frac{1}{3} + ... + \frac{1}{n}) = \frac{n*(n +1)}{2}
\]
or,
\[
X_1 = \frac{n*(n +1)}{2* \log (n)} \quad \text{and so on for} \ X_2, X_3, ..., X_n
\]
Note that the first set of equations above satisfies the first condition regarding equality of ratios, while the final equation satisfies the second condition that makes our model analogous to profit-sharing in a partnership.

8 Price, constituting the voluntary agreement of the transaction, cannot be unjust (Finley 1970:7), and I have found no reliable textual basis for arguing that Aristotle uses anything remotely similar to Jevons’ concepts of utility and the calculus of pain and pleasure (cf. Soudek 1952: 12).

9 Aristotle’s emphasis on \( \text{chreia} \) suggests that he does not develop any variant of a labor theory of value: labor costs are not mentioned, and the labor of a philosopher cannot be compared with that of a farmer. This evidence discredits Schumpeter’s claim that Aristotle is “groping for some labor-cost theory of price which he… [is]… unable to state explicitly” (Schumpeter 1954: 60-61, n.1). In fact, Marx himself acknowledges that “Greek society was founded on the labor of slaves, [and] hence had as its natural basis the inequality of men and of their labor-powers” (Capital I.1.3.a.2.iii).
wealth- and pleasure-seeking do not become ends in themselves (Lowry 1974: 57-63). Accordingly, Aristotle accepts C-C and C-M-C forms of market exchange as just to the extent that they furnish external goods necessary for *eudaimonia*, but he rejects M-C-M (retail trade) and M-M (usury) exchanges as sources of unjust gains that do not correspond directly to the social worth of agents (NE 1096a, 6-8; Pol 1258a, 1-14). Additionally, Aristotle does not oppose individuals or states using their “insight” to use the “art of creating a monopoly for themselves”, as his two anecdotes about successful monopolists demonstrate (Pol 1259a, 4-36); however, monopoly profits could be unjust if they enable agents to receive more than their just share of the state’s possessions. In this way, justice in the marketplace and society nicely complement *eudaimonia* for the individual.

These Aristotelian ideas of *eudaimonia* and justice thus join to form a scientific ethics-economics paradigm based on ethical objectivism. The objective conception of human flourishing encompasses all Aristotelian virtues, which must be determined precisely by each virtuous individual for himself. Similarly, Aristotelian justice posits a precise share of the state’s possessions for each citizen. This Aristotelian objectivist paradigm dominated Western intellectual thought for centuries as it was neatly adapted to specific epistemes by St. Augustine in the Early Christian era and later by Thomas Aquinas and the mediaeval Scholastics. In Kuhnian terms, the paradigm became “normal science,” adapted assiduously by its practitioners to suit their “epistemes”\(^{10}\). However, the spurt of 18\(^{th}\) century intellectual activity during the Enlightenment sounded the death knell for the Aristotelian paradigm, because normal science could no longer account for an ever-growing list of anomalies, and the new paradigm that replaced it could successfully explain and even predict novel facts that were previously regarded as unthinkable\(^{11}\).

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\(^{10}\) Note that Foucault’s “epistemes” are broader in scope than Kuhnian “paradigms” that are limited to science. For Kuhn, time consists of relatively calm periods of “normal science” interrupted by scientific revolutions (Kuhn 1970: 66-110).

\(^{11}\) It is not possible to explain here how Aristotle gradually came to discredited in science, literature and moral philosophy, but it may be useful to consider the poet John Dryden’s lament: “The longest tyranny that ever sway’d/ Was that wherein our ancestors betray’d/ Their free-born reason to the Stagirite,/ And made his torch their universal light.”
One Enlightenment scholar whose ideas became extremely influential at this time was Adam Smith, whose ethical subjectivism led him to construct a new paradigm based on natural liberty and moral sentiments. Smith defines the system of natural liberty thus:

“Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men” (WN IV.9, italics added).

In this definition, Smith weaves freedom, subjectivism, egalitarianism, justice, a natural propensity to exchange, and self-interest into his new paradigm, which departs from the older Aristotelian framework on at least ten counts. First, according to Smith, freedom is “obvious and simple” for human beings, because it is a necessary condition for achieving such material ends as economic growth, higher wages, greater productivity, and so on (cf. WN I.8)\(^\text{12}\). This concept of liberty deviates from Aristotle’s view that freedom is valuable as an end in itself and as a means to achieve eudaimonia. Second, in contrast to Aristotle’s precise notions of the mean, justice and eudaimonia, Smith claims that all kinds of human behaviors may be acceptable, “as long as… [they do]…not violate the laws of [natural] justice” (WN IV.9). The following lines capture the essence of Smith’s relativism or subjectivism:

“Man is by nature directed to correct, in some measure, that distribution of things which she [nature] herself would otherwise have made…the rules which she follows are fit for her, those which he [man] follows for him; but both are calculated to promote the same great end, the order of the world, and the perfection and happiness of human nature” (TMS III.5.9).

Third, Smith’s ethical subjectivism, as clarified in the above quotation, rests on a firm faith in unintended outcomes and in the “invisible hand” to produce favorable outcomes, even unanticipated ones. Such faith remains unique to the new Smithian paradigm, since Aristotle had previously argued that virtuous individuals always exercised reason and deliberate choice to act virtuously and to anticipate potential moral pitfalls.

\(^\text{12}\) According to Smith, the progressive state is the “cheerful and hearty state to all the different orders of the society”; furthermore, he believes that high wages are natural and beneficial to such a society, because “[n]o society can surely be flourishing and happy, of which the greater part of the members are poor and miserable” (WN I.8).
Fourth, although Aristotle disqualified the masses, commercial classes and slaves from *eudaimonia*, Smith argues for an egalitarian system of natural liberty. He views man as a “citizen of the world, [and] a member of the vast commonwealth of nature” and does not use the criteria of citizenship to disqualify any groups from natural liberty (TMS III.3.11). Furthermore, Smith’s egalitarianism leads him to famously argue that a philosopher and a porter differ on account of education and customs, not due to some innate abilities; this claim challenges the Aristotelian concept of a hierarchy of human beings, their skills, and their social worth (WN I.2). Finally, Smith decisively denounces the ancient practice of slavery via an economic argument to explain that slave labor is the dearest form of labor in “all ages and nations”; in other words, such essential unfreedoms cannot be accommodated within his system of natural liberty (WN I.8). This argument directly contradicts the Aristotelian paradigm, which treated natural slavery as just, necessary and beneficial for both slaves and masters.

Fifth, although both Smith and Aristotle acknowledge the primacy of justice in holding society together, they differ subtly in their conceptions of justice. For Smith, the “sacred” laws of justice concerning life, property and rights, represent the obligation of human beings, as God’s creations, to their Maker. This theological conception of justice closely follows John Locke’s version of natural law, which treats human beings as “subject to divine imperatives to live in certain ways, but within the limits set by the law of nature,” and natural rights, which are God-given “capacity[ies] for autonomous action” (Shapiro 1996: 56). For Aristotle, however, the virtue of justice arose from the basic need to distribute legitimate shares of possessions among the citizens of the polis, i.e., distributive justice formed the foundations of the Aristotelian framework, and both corrective and reciprocal justice were built on these foundations. Because distributive justice involved precise computations of just shares, we

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13 In evaluating Aristotle’s views on slavery, we have already demonstrated that slavery was not the dearest form of labor in 4th century Athens; in fact, in the absence of freemen willing to work as hired labor, slavery did become an institutional “given.” It is certainly curious that Adam Smith does not make a purely ethical argument against slavery. Instead, his “economic” argument provides a weak crutch for him to moralize on the apparent vices of an ancient civilization.

14 “The most sacred laws of justice …are the laws which guard the life and person of our neighbour; the next are those which guard his property and possessions; and last of all come those which guard what are called his personal rights, or what is due to him from the promises of others” (TMS II.i.2.2).
may conclude that Aristotle had an objective notion of justice, while Smith’s conception is clearly more subjective; moreover, their ideas of justice do not share common intellectual roots to the extent that Smith is heavily influenced by Locke’s arguments from Christian theology.

Sixth, the virtuous souls who exercised eudaimonia in the Aristotelian tradition accepted the “natural limit” imposed by household management, and viewed M-C-M and M-M exchanges as unethical violations of distributive justice. On the contrary, Smith believes that an individual can freely “bring his industry and capital into competition” to the market led by his innate “trucking disposition” and the “invisible hand,” that there ought not to be any limits either to market exchange or to the acquisition of commodities and wealth, that all forms of market exchange are ethical, and that markets usually ensure just outcomes to the extent that they are a natural outgrowth of human self-interest, designed to promote the “perfection and happiness of human nature” (WN I.2; IV.2; TMS III.5.9). Seventh, Smith’s stress on natural liberty means that he categorically opposes monopolies, because they interfere with the smooth functioning of free markets by reducing the supply of commodities below their “effectual demand” in the market, selling their commodity above their “natural price” and earning profits above their “natural rates” (WN I.7). Similarly, the monopoly powers of corporations and chartered companies, as well as all “systems of encouragements and restraints” such as apprenticeships, bounties, and drawbacks “retard, instead of accelerating, the progress of society towards real wealth and greatness” (WN I.7; IV.1; IV.9). This Smithian perspective diverges sharply

15 Despite this fundamental contrast between Aristotle and Smith, their views appear to converge on two issues. First, both authors believe that the “evil of usury” must be countered through state regulation of the market (cf. WN IV.2). Here, we must be cautious to note that usury refers to any interest charge in Aristotle’s writings, whereas it connotes exorbitantly high rates of interest in Smith’s work. Based on this distinction, their arguments for regulating the market for loans are not comparable, in spite of their similar conclusions. Second, while Smith denounces “prodigals and projectors” and their “passion for present enjoyment,” Aristotle was equally critical of those who did not adhere to the doctrine of the mean and those who were “slavish in choosing deliberately a life of beastly pleasures” (WN IV.2; III.2; NE 1095b, 20-21). Clearly, the passions of “prodigals and projectors” lie in a small grey area between Aristotle’s objectivism and Smith’s subjectivism, and hence, we may observe some affinity between their views. In general, however, Aristotle and Smith deal differently with the ethics of market exchange, despite the marginal overlap of their ideas with regard to the passions of prodigals.
from the Aristotelian view that monopoly power may be just, as long as it remained consistent with the objectivist principle of distributive justice\textsuperscript{16}.

Eighth, Aristotle had claimed that \textit{chreia} imparted value to commodities and made them commensurable in market exchange. Although Aristotle’s view remained influential within his episteme, Smith wrote in a different socio-political context during which the Lockean idea of property facilitated the development of a labor theory of value\textsuperscript{17}. In his \textit{Second Treatise of Civil Government}, Locke wrote:

\begin{quote}
“Though the earth, and all inferior Creatures be common to all Men, yet every Man has a Property in his own Person. This no body has any Right to but himself. The Labour of His Body, and the Work of his Hands, we may say, are properly his” (Locke 1823: 353).
\end{quote}

Based on Locke’s theory of property, Smith argues that “labour is the original foundation of all other property,” and is “sacred and inviolable” (WN I.10). Ambiguity surrounds Smith’s labor theory, resulting in two different interpretations: one can say either that the “the real price of every thing … is the toil and trouble of acquiring it” (WN I.5), or that the “labour of the manufacturer fixes and realizes itself in some particular subject or vendible commodity,” and remains in the commodity after production (WN II.3). Regardless of which interpretation we prefer, there should be no doubt that it seeks to supplant Aristotle’s theory of value based on \textit{chreia}; for Aristotle, different units of labor performed by different persons could never be equal since he recognized a hierarchy of human beings.

Ninth, Smith defines self-interest in Stoic terms: free persons act out of self-interest in every situation, constrained by duty and self-command, but without absolute control over their particular goal(s); nevertheless, a divine plan ensures that these self-interested actions necessarily lead to

\textsuperscript{16} Moreover, Aristotle expected the polis, the highest form of human association or \textit{koinonia}, to play a significant role in the economic sphere, analogous to an individual’s management of his household; this expansive role of the state is directly challenged by Smith’s advocacy of the minimalist state, in which the sovereign has only three duties, namely, national defense, the administration of justice and the maintenance of public works (WN IV.9; cf. V.1).

\textsuperscript{17} Chapter V of Locke’s \textit{Second Treatise} discusses property and its relevance to government and law. In this chapter, Locke identifies labor as the key element that permits men to appropriate common property as private property. From the 17\textsuperscript{th} century, this Lockean concept of property vis-à-vis labor became central to political economy. Hence, it is hardly surprising that Adam Smith and the rest of the Classical School built their theories around a labor theory of value.
unanticipated yet favorable outcomes. This definition is incompatible with the Aristotelian paradigm, according to which individuals objectively define *eudaimonia* as their supreme end, and exercise deliberate choice to hit virtuous mean states and to attain the ideal human condition.

Tenth, Smithian theory of moral sentiments and the “impartial spectator” may be linked to a three-step analytical process: initially, an individual perceives an event or action in an *emotional* sense, then makes a judgment of right or wrong on the basis of *reason*, and finally, uses his imagination to transfer his ethical judgment beyond the physical context of his own self (Vivenza 2001: 42-43). Here, Smith, like other British sentimentalists, gives precedence to the role of emotions, or “sentiments,” over the role of reason in the process of judging actions, although reason still remains the ultimate arbiter of right and wrong. This sentimentalist argument necessarily departs from Aristotle’s insistence that the exercise of reason (*logos*) and deliberate choice moderates the emotions of a prudent man. Furthermore, Smith implicitly assumes that reason itself is determined on an empirical basis:

“This continual observations upon the conduct of others, insensibly leads us to form to ourselves certain general rules concerning what is fit and proper either to be done or to be avoided” (TMS III.4.7).

Here, we can infer from Smith’s empirical psychology that reason, the unifying force for most Enlightenment scholarship, may, in fact, be based on social psychology rather than on deductive methods. Consequently, there appears to be the faint suggestion that logical reasoning may need to be weighed down by the burden of social-fact considerations, in order to remain meaningful in a real-

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18 Five explicit acknowledgements of scholarly debt by Smith to the Stoics deserve our attention. First, Smith claims that each individual “intends only his own security… [and] his own gain,” and “neither intends to promote the public interest, nor knows how much he is promoting it” (WN IV.2). In TMS VI.i.1.1; cf. II.i.2.1, Smith himself notes the Stoic origins of his claim. Second, in TMS VII.i.1.15, Smith explicitly credits Zeno with the notion that society benefits from man’s natural attention to his self-interest. Third, TMS III.3.11 and VII.iii.3.17 mention the Stoic roots of the idea that self-interest must be regulated by duty to be interested in the welfare of others. Fourth, there is an unmistakable Stoic influence in Smith’s argument in TMS VII.ii.1.24 that, if each person acts according to the principle of natural liberty in a manner such that his self-love is constrained by duty, then a divine plan and the quasi-theological “invisible hand” ensures that society benefits as a whole. Hence, unanticipated outcomes complement self-interest to the extent that rational human beings do not possess absolute control over outcomes. Fifth, according to the Stoics, the impartial spectator has limited sympathy for physical pain, which results in the “propriety of constancy and patience in enduring it”; in the same vein, Smithian self-command requires us to “restrain our present appetites… to coincide with those of the [impartial] spectator” (TMS LI.i.1.12; IV.2.8).
world context. Obviously, Smith’s assumption and our inference run contrary to Aristotle’s belief that reason objectively determines the mean states for every free man.

In this detailed discussion, ten distinct points of departure, concerning freedom, subjectivism, egalitarianism, justice, a natural propensity to exchange, and self-interest, separate the Smithian paradigm from the older Aristotelian one. Through these points of departure, Adam Smith initiated a paradigm-shift in the moral philosophy of his times, and classical political economy took shape. Later practitioners of the Classical School, such as Malthus, Ricardo, Mill and Marx, modified and refined Smithian ideas to establish political economy as “normal science” in the Kuhnian sense. However, Marx’s searing critique of classical political economy paved the way for the so-called “marginal revolution” of the 1870s, as the likes of Jevons, Walras, Menger and Clark identified value in the consumption and demand of individuals, not in labor and other production costs. Jevons and Walras also pioneered the use of mathematical “models” in economics, abstracting equations out of the complex realm of society and sketching the minimalist homo economicus\(^{19}\).

Over the next century, the mathematical toolkit of neoclassical economics not only became the economist’s best friend, but the “languages of scientific economics,” English, mathematics and statistics, became normal science by the late 20\(^{th}\) century (Morgan 2003: 305). This latest paradigm-shift in economics coincided with the change in the episteme that came along with the postwar preponderance of American power. Mary Morgan has argued that the “values of neoclassical economics were perfectly aligned with the American position” after WWII (Morgan 2003: 297), and this ideological alignment largely explains why political liberty, free markets and free trade have come to be viewed as inseparable threads of a seamless garment. Notwithstanding this ideological basis of contemporary “economic science,” modern economists have continued to assert that the adoption of “tool-based analysis provided a mantle of scientific neutrality with respect to all ideological positions”

\(^{19}\) For a comprehensive account of the historical development of homo economicus, see M. Morgan, “The Character of Rational Economic Man.” *Dialektik* (1997, 1): 77-94.
(Morgan 297-98). In this obstinate denial lie the roots of the ethical crisis in modern economics: in its mildest form, it indicates the embarrassingly loose fit between socio-economic realities and the perverse constructs of the academic mind; in its most malignant form, it points to political or ideological forces that advance specific elite interests, obfuscated by the cloak of scientific objectivity.

Our analysis will take place somewhere between these positions, but we must first examine an interesting countercurrent in contemporary economics, namely, Amartya Sen’s challenge to the dominant neoclassical mode of thinking.

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Amartya Sen’s challenge is two-pronged. On one hand, he draws on selected Aristotelian themes in his scathing critique of the neoclassical tradition, and on the other, he regrets that, “while some men are born small and some achieve smallness, Adam Smith has had much smallness thrust upon him” (Sen 1999: 272). Therefore, Sen’s work attempts to rekindle the Aristotelian flame, while keeping alive Smithian virtues of natural liberty and moral sentiments.

Sen’s thesis of “development as freedom” draws on Aristotelian eudaimonia, to define development as “a process of expanding the real freedoms that people enjoy” (Sen 1999: 3). Sen believes that freedom is both the means and end of human development. Accordingly, economic growth statistics and all freedoms ought to naturally move in the same direction. If they do not, as in contemporary China, then development cannot be said to have taken place in Sen’s opinion.

Furthermore, “development as freedom” treats individuals not simply as passive welfare-seekers, but as active agents who “shape their own destiny and help each other” (Sen 1999: 11).

Sen criticizes the modern “engineering approach” to economic development on three counts.

Firstly, it imbues freedoms with some value to the extent that they contribute indirectly to basic ends such as GDP growth; Sen requires this view to be supplemented with an appreciation of freedom itself.

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Secondly, the engineering approach treats freedoms as useful only if they can increase individuals’ utility levels, or numerical measures of “happiness” in terms of pleasure; Sen says that “happiness” measured in terms of pleasure is an inherently flawed concept, because “the mental metric of pleasure is just too malleable” for vulgar numerical simplifications (Sen 1999: 59, 63). Thirdly, in modern economic theory, utilities matter only in an aggregative sense, regardless of their distribution; Sen argues that distribution issues pertain directly to a person’s capabilities, and hence, the concept of development will be incomplete without considering inequalities in distribution (Sen 1999: 59). On these three counts, Sen’s approach of “development as freedom” critiques mainstream theory vis-à-vis its Rawlsian emphasis on rights and liberties (cf. Sen 1999: 63-67).

This critique of mainstream economics accompanies a strategic interpretation of Aristotle’s works. First, Sen acknowledges an Aristotelian debt when he claims that wealth and growth are not meaningful intrinsically, but only since they permit individuals to achieve “substantive freedoms” (Sen 1999: 14). Second, the concepts of functionings (“the various things a person may value doing or being”) and capabilities (“alternative combinations of functionings that are feasible for a person to achieve”) are Aristotelian to the extent that they are analytical tools meant to explain human flourishing. (Sen 1999: 75). Third, Sen denounces pleasure-based utilitarian measures, as Aristotle disparaged the life of pleasure as suited only for cattle (NE 1095b, 20-21). Fourth, Sen, like Aristotle, recognizes that human flourishing cannot be attained independent of justice: a just society values “the liberty of acting as citizens who matter and whose voices count, rather than living as well-fed, well-clothed, and well-entertained vassals” (Sen 1999: 288). Fifth, Sen follows Aristotle in his policy recommendation of setting up state monopolies to undertake extensive investments for providing public goods such as education and health care²¹. Sixth, Sen’s recommendations on population policy favors Condorcet’s rationalist approach that focuses on comparing the costs and benefits of having children, and stresses

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²¹ “The state and society have extensive roles in strengthening and safeguarding human capabilities. This is a supporting role, rather than one of ready-made delivery” (Sen 1999: 53).
that development will improve the “quality” of children, not their quantity, as Smith and Malthus believed\(^\text{22}\). By arguing that self-interested agents will bring about “reasoned social change” through deliberate choice, Sen’s ideas are compatible with the Aristotelian notion that reason dominates sentiments and anticipates all outcomes\(^\text{23}\). In these six ways, Sen employs selected Aristotelian themes in his own theory-building, complementing his critique of the modern engineering approach.

By building his development theory on a freedom-based foundation, Sen has also extended Smith’s system of natural liberty into a modern setting. First, Sen, like Smith, insists on egalitarianism: the existence of unfree labor or slavery violates essential freedoms, even if workers receive high wages or enjoy large consumption baskets, both of which are acceptable by neoclassical standards (Sen 1999: 28-29)\(^\text{24}\). Second, Sen’s ethical subjectivism, following Smith, encourages pluralism and heterogeneity of choices insofar as different weights can be assigned to different functionings in a capability set (Sen 1999: 77). Third, Sen argues that the “merit of the market system does not lie only in its capacity to generate more efficient culmination outcomes,” but in producing “comprehensive outcomes” that account for basic freedoms and processes involved in achieving these freedoms (Sen 1999: 27).

According to Sen, restricting the market mechanism would amount to throttling the human “trucking disposition,” an unfreedom on its own account, apart from choking opportunities available to people to augment their income and wealth (Sen 1999: 25-26)\(^\text{25}\). This sentiment is heavily influenced by Adam

\(^{22}\) In this context, education can act as a tool of reasoned social change by reducing fertility rates, enabling women to have a greater voice in private and public affairs, etc. (Sen 1999: 145, 190-200, 215, 217-19).

\(^{23}\) Sen cautions against imputing an unqualified notion of “impossibility” to Kenneth Arrow’s theorem without analyzing its underlying assumptions. He correctly points out that Arrow’s theorem assumes “limited information bases” and the results of inconsistency follow from that assumption. Since Arrow’s theorem does not rule out more or different information bases, a broadening of information bases can be expected to lead to “reasoned social change” (Sen 1999: 117-18, 250-51, 253).

\(^{24}\) For instance, essential unfreedoms are created when child laborers work in factories. In Sen’s view, child labor is morally reprehensible, even if it allows poor families in Third World countries to subsist (Sen 1999: 30, 114-15).

\(^{25}\) Furthermore, Sen’s claim that free markets counter monopolistic tendencies in economic activity resonates well with Adam Smith’s perspective that monopoly is a devil market form. Sen’s opposition to a “protected bourgeoisie” is also similar to Smith’s hostility to mercantilists and chartered companies (Sen 1999: 22-23, 123; WN I.7, I.11). Finally, a Smithian basis may also be found in Sen’s call for market regulation in specific situations. In particular, Sen is concerned about “modern-day prodigals and projectors” who define self-interest in a narrow way, waste resources and pollute the environment (Sen 1999: 125). He argues, like Smith, that their actions necessitate “forceful state action” (Sen 1999: 269; cf. WN II.3). In fact, notice that the passions of “prodigals and projectors” occupy a rare confluence between the views of all three authors on the need for state intervention to constrain the passions of prodigals.
Smith’s belief that man’s natural “trucking disposition” leads him to the marketplace (WN I.2). These three points of similarity allows Sen to incorporate the “real Adam Smith” into his economic analysis.

Finally, Sen asserts that social arrangements need to be worked out in such a manner that no ordered ranking system of various social possibilities is necessary, and that “partial agreements” and working solutions can be arrived at through “contingent acceptance of particular provisions” and democratic consent (Sen 1999: 253-54):

The greatest relevance of ideas of justice lies in the identification of patent injustice, on which reasoned agreement is possible, rather than in the derivation of some extant formula for how the world should be precisely run (Sen 1999: 287).

In short, there can be no general formulaic solutions to ethical and economic problems, and specific situations need to be evaluated on a case-by-case basis, in the context of all available evidence (cf. Sen 1999: 126)²⁶. For our purposes, this assertion holds as much significance as Sen’s debts to Aristotle and Smith, and his criticisms of mainstream neoclassical economics.

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Sen undoubtedly represents a countercurrent in contemporary economics. His freedom-based approach reaches beyond the narrow confines of income and utility, to acknowledge the ethical dimensions of economic phenomena²⁷. In effect, he attacks the scientism of modern economics, i.e., the dogmatic belief that analytical tools employed in the “hard” physical sciences can be incorporated blindly into the “softer” social sciences to “harden” them. But neoclassical economics argues that its “scientific” methods encourage greater analytical precision than can be expected of other social sciences. The rejoinder to this neoclassical argument must go beyond Sen: the “engineering approach” to economics violates the Aristotelian spirit of treating each subject with the precision that it permits.

²⁶ As if to mock such objectivist claims, Sen points out that, “in agreeing that the occurrence of a preventable famine is socially unjust, we do not also lay claim to an ability to determine what exact allocation of food among all the citizens will be “most just’” (Sen 1999: 254).

²⁷ Some economists would argue that utilitarianism has its own coherent ethical framework that is also based on subjectivism. However, as Sen points out, the concept of utility relies on the “mental metric of pleasure... [that] is just too malleable” (Sen 1999: 63). Interpreting Aristotelian human flourishing in terms of numerical measures of “happiness” is a kind of vulgar reductionism.
Ethical inquiry within economics must, therefore, remain “content to indicate the truth roughly and in outline,” with the quality of being adapted to the particularities of different societies and epistemes (NE 1094b, 13-26; cf. Sen 1987: 4-5).

Furthermore, Sen, like Smith before him, teaches us the importance of ethical subjectivism in the 21st century. For Smith and Sen, all human behaviors are acceptable as long as they do not violate basic principles of justice. But should all societies be judged by universal principles of justice determined by an elite group of Western and Western-educated economists? No, because just as every episteme deserves to be evaluated according to its own set of ethical values and practices, each society ought to be free to form its own ethical ideas on the basis of its unique historical and cultural experiences. In Sen’s refusal to accept this proposition, lies an inherent weakness in his prescriptions, and consequently, in his challenge to neoclassicism. This weakness can be traced to his normative premise that rational individuals will necessarily embrace capitalist democracy. Regardless of attempts to incorporate this premise into the UN Declaration of Human Rights and other weighty documents, there are good reasons to be skeptical of such universal axioms and blanket generalizations28.

Given this caveat, there is considerable merit to Ian Shapiro’s empirically-motivated argument that capitalist democracy is the best working system insofar as there is “no serious political competitor in the modern world”29 (Shapiro 1996: 3). Moreover, an underlying ethical structure has always existed at the heart of the efficiency-driven capitalist economy30. If you do not trust your local grocery store,

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28 Hence, capitalist democracy cannot be taken axiomatically to be the best system “in all ages and nations” (WN I.8; Sen 1997). This perspective might disappoint those social scientists who have been emboldened by the decline of communist systems and the Third Wave of democratization in the late 20th century to work with normative axioms regarding democracy and capitalism, but I shall be satisfied if it is considered by those who appreciate my relativistic methodology.

29 This statement in support of democracy should not neglect Ian Shapiro’s three “truths about power”: (1) “power relations are ubiquitous”; (2) “the possession of it is always corrupting”; (3) “lack of power in a world of ubiquitous power relations is demeaning and destructive for the powerless” (Shapiro 1996: 49-50). For all the attempts to create a pluralistic society, both democratic and non-democratic societies remain subjected to perpetual competition between power-seeking elites. Thus, Shapiro’s empirical studies allow us to appreciate the consequentialist claim that democratic societies are more successful than non-democratic ones, in terms of satisfying a wider set of interests.

30 Sen 1999: 262: “Successful markets operate the way they do not just on the basis of exchanges being “allowed,” but also on the solid foundation of institutions (such as effective legal structures that supports the rights ensuing from contracts) and behavioral ethics (which makes the negotiated contracts viable without the need for constant litigation to achieve compliance).
then you will not make purchases there, and in this manner, market exchange without trust sounds as
absurd as human survival without food. Yet, despite the pivotal importance of market ethics, they do
not find mention in standard economics textbooks, making for a poor fit between theory and practice.

Notwithstanding these virtues of modern capitalist democracy, Sen himself warns that it is
deeply limited with respect to income inequality, environmental protection, public goods and civic
participation (Sen 1999: 263). These limitations may be countered considerably by viewing inequalities
in terms of capability deprivation, treating environmental protection and the provision of public goods
as essential duties of the state, and building “social capital” (cf. Putnam 1993, 1995). It would be
extremely convenient yet highly presumptuous to provide some neat theorem on how these goals could
be precisely accomplished within a community. These details need to be determined through the
democratic participation of citizens, accounting for “context-specific, circumstantial and
consequentialist social-fact considerations” (Strauber 2002: 2). This skeptical approach goes beyond
Sen’s universalism via a relativistic methodology. After all, in a democratic polity, who among us has
the right to take the moral high ground and condemn others for their behaviors?

Venturing further beyond Sen’s views, it is possible to construct an alternative “paradigm” that
seeks to supplement, or even supplant, conventional neoclassical thinking. This paradigm can be used
to evaluate contemporary ethical questions that may arise either in the discipline of economics or in the
economic lives of ordinary people. The paradigm consists of three steps. First, each individual begins
with an initial set of moral intuitions on a given issue. Second, individuals strives to gain as much
“information” as possible; “information” refers to the “context-specific, circumstantial social facts”
attendant upon the particular issue. Because mainstream economic theory can yield equally cogent
arguments for both sides of an ethical debate, the accumulation of social facts necessarily enables
individuals to gain access to social facts used by their opponents. Third, on the basis of all available
social facts, individuals reach a final ethical judgment. The dialectical thinking process employed
means that one's final judgment is almost certain to differ from one's initial moral intuition, although
the degree to which they differ will obviously vary across individuals and issues.

This three-step mode of thinking departs radically from conventional economic analysis. For
instance, consider the anti-trust case against Microsoft. Mainstream economic theory will generate
equally acceptable theoretical arguments for both sides (e.g. the virtues of perfect competition,
economies of scale, incentives to entrepreneurs to create positive supply shocks, etc.). A more
sophisticated analysis combining law and economics may further examine legal precedents, for say,
Standard Oil and AT&T, or employ some kind of cost-benefit analysis, considering the pluses and
minuses of a Microsoft monopoly. Ethical issues will be either confined to the periphery of such
debates, or be simply ignored. However, ethical concerns assume central importance in my paradigm.

This centrality of ethics in economic thought remains consistent with Aristotelian
recommendations. Additionally, this methodology employs extensive empirical evidence, adopting
methods that are commonplace for historians, yet unfamiliar to economists\(^{31}\). Such empirical methods
are well-suited to our era of information technology, in which access to social-facts has become easier
than ever before in history. By adopting this interdisciplinary methodology, economists can achieve a
better fit between theory and socio-economic realities. This prescription also permits a more robust
defense against the allegation that economics neglects ethical concerns. Furthermore, it allows
democratic citizens to develop a pluralist understanding of the intricate relationship between ethics and
economics, based on social-fact considerations and the legitimate diversity of normative views on a
given issue. Such a pluralist understanding of ethics and economics recognizes the inherent fragility of
modern democratic polities, yet at the same time, it can actually strengthen these polities through
greater civic involvement and civic tolerance, i.e., building social capital.

\(^{31}\) This methodology has a precedent in economics, namely in the work of the German Historical School. Scholars like
Wilhelm Roscher and Gustav von Schmoller practiced similar methods, but their economic writings have been lost beneath
the stacks of theoretical treatises that have come to dominate the discipline. Note that the Mercantilists and Adam Smith
also relied heavily upon extensive empirical and historical evidence in their writings (Spiegel 1952: 363-77).
Finally, my prescription provides a good defense against the accusation that scientific objectivity cloaks ideological forces and elite interests. While tools of economic analysis, like all forms of representational knowledge, are affected by ideology, this claim, in itself, cannot be sufficient grounds for dismissing economic theory entirely. The ideological basis of contemporary economic science should, in fact, push us towards a more sophisticated conception of power in its myriad facets. Moreover, analytical tools enjoy “partial autonomy” to the extent that they possess the independent power to influence users and their scholarly output. On account of this partial autonomy of tools, economists, as good Popperians, must recognize theory-building as crucial to scholarly advancement. In short, a focus on ethics does not reject economic theory, but makes it more “this-worldly.”

Therefore, my skeptical, relativistic methodology takes forward this critique of contemporary economics beyond the work of Amartya Sen, whose best efforts cannot initiate the kind of paradigm-shift that Smith and the Enlightenment scholars were able to achieve. In fact, my methodology goes as far as possible, without rejecting the theoretical endeavors of economists altogether. Adopting this methodology does not suggest that economists should abandon building theories and models. However, it does mean that historical study and philosophical investigations are just as relevant for economists as mathematical models and statistical analysis. As discussed above, a social-scientific paradigm that focuses on social-fact considerations is not only well-suited to our age of information technology, but is also conducive to the formation of social capital, a crucial bulwark for modern democratic polities. This paradigm will certainly be useful to those who view the current state of economic science as distasteful. For these readers, I am hopeful that this paper can be a starting point to work towards a paradigm-shift within economic science. For those readers who remain unimpressed by my effort, it may yet be possible to share Albert Hirschman’s eloquently-stated aim to not “resolve issues, but to raise the level of debate” (Hirschman 1977: 135). This, in itself, remains a highly ambitious goal.
Works Cited


