

Does Morality Matter? Reflection on Relationship Between Ethics and Neoliberal Capitalism

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Abstract

Capitalism, in its neoliberal form, gives priority to the market forces in organization of social life. Homo economics is required to principles of private property and individualism. Economic reasoning rather than moral norms directs actions of neoliberal economic agent. However, rising inequality and poverty throughout the world has not only decreased trust in the discipline of economics, it led to doubts regarding the legitimacy of the prevailing neoliberal economic paradigm. There is a need for seriously reconsidering the ethical foundation of the neoclassical economics that reduces economic goals to individual material gains. The main objective of this paper is to explore unacknowledged affinities between economics and morality. The underlying assumption is that ethical disposition of an individual has a causal influence on his economic behavior. This provides us a reason to think that economic life would grind to a halt without moral commitments of economic actors. This paper argues that even though at theoretical level economic behavior and moral judgment might be separated but in practical life both of them have a strong connection with each other and ethical concerns unavoidably enter into economic activities. This paper concludes that neither abandoning capitalism nor adopting a completely new economic system is an intellectually plausible option. However, one practical option to conceptualize the complexities of the contemporary global economy, as long as feasible alternative to neoliberal capitalism are not available, is to envision the possibility of capitalism within a moral framework of society.

Keywords: Capitalism, Economy, Ethics, Society

Introduction

The word economy is derived from the ancient Greek word (οἰκονομία), which, in a broad sense, stands for household management. In the social theory of Aristotle, economy was considered to be a field of practical philosophy, which operated in an already determined framework of societal norms. Because of this, in earliest philosophy, using morals with economy would be superfluous (Götz, 2015). Even at the time of the middle ages, the understanding of economy was somewhat limited and it was looked at from a familial and moral viewpoint. Profit motives or macro-economic connections were not evident in economic deals. However, eighteenth century *cameralists* and *physiocrats* held

commerce and national accounting to be important facets of economy. This discussion took the place of Aristotelian discourse on economy that was guided by the morals. Consequently, household economy was replaced by the rules of market economy (Götz, 2015).

Despite being a crucial part of early political economy, contemporary theory, that too is often misunderstood, seldom references morality. Morality is taken as a matter of personal preferences that lies outside the domain of public validation. (Sayer, 2000) From a contemporary observer's perspective, this change from normative to positive economics is a paradigm shift. According to Schotter (1994) normative or welfare economics is prescriptive as it focuses on what ought to be rather than what is, that create a possibility to involve some value judgments. As normative economics is subjective it is hard to put it to validation. Whereas positive economics claims objectivity, therefore moral justification is omitted from consideration in economics. This separation in normative and positive economics led to the de-rationalization of values, thus dismissing the moral questions from the premise of positive economics (Sayer, 2001).

In modern societies, traditional morals are replaced by functional differentiation. In modern societies there is high levels of inequalities and social differentiation (Habermas, 1981; Weber, 1947;1968) as compared to pre-industrial societies and shift from *Gemeinschaft* (pre-industrial) to *Gesellschaft* (industrial) societies, characterized by individualism, social disintegration, weak family bonds, and competition. In pre-modern '*Gemeinschaft*' societies, economy was embedded in society and served human needs (Bolton, and Lasser, 2013). Land and labour were considered as a part of the natural structure of society in premarket societies. Economy was regulated through a moral architecture that characterize pre-market economies. '*Gesellschaft*' societies disembedded economic transactions so that social relationships became soaked "*in the icy water of egotistical calculation*", but also "*resolved personal worth into exchange value*" (Marx and Engels, 2009: 7).

Exclusion of sociological issues from economic inquiry and emphasis on functional differentiation led to the separation of market and social sphere as separate domains of life. Durkheim (1984) gives much evidence in his study of solidarity that in the market-oriented society social relations shift from strong personal ties to a weakening of interpersonal relations. Depersonalized relations thus characterize organic societies (Sayer, 2004). Markets are "a set of social institutions in which a large number of commodity exchanges of a specific type regularly take place, and to some extent are facilitated by those institutions." (Hodgson, 1988, p.174).

There are two prevailing opinions regarding the role of the market, namely, *doux-commerce* (gentle business) that rests on the assumption that market and capitalism will give rise to a moral environment where society will prosper in economic and social wealth (Aspers, 2011). Proponents of market capitalism think of it as most efficient system with exponential growth and the best overall outcome. However, its critics are of the view that

it has destroyed other societal values along with increasing inequality. From the view of neo-liberal economic theory, market participants are thought of as rational actors with the sole desire to maximize their utility, and economic responsibility does not exceed what is defined in the laws. Single individual is subject of economic system unhindered by familial obligations and responsibilities. Correspondingly responsibilities are also marketed (Sayer, 2000). This idea got more credence than what it actually deserves. According to this viewpoint, business deals are not immoral, however, they are not subject to the same moral restraints and practices covering other areas of social relations (Shepard et al., 1995).

As a result, in the history of the liberal market economy, duties of the business are narrowly defined and limited only to negative duties. The basic postulation in orthodox economic theory termed as *Euclidean economics* (Clark, 1921; 132 ff) is that business is an exceptional realm within society that has different set of moral principles. Morality in the business domain derived its efficiency from the self-interest of mutually benefiting commercial agents. The market is presented as an impartial force that is historically built on fundamental doctrines of economic individualism and personal preferences (Stehr et al., 2006).

Neoliberal capitalism has evolved in a way that has created a rift between economic consideration and moral values. It has not only provided systematic way of economic organization but also provide overall socio-economic framework in which social and economic relations are ordered. However, over the years persistent increase in social and economic inequality and insecurity among the masses at a wider scale has not only deteriorated trust in the market economy, it has also raised a red flag about the legitimacy of prevailing economic paradigm. Neoliberal capitalism is perceived to privilege economic elites. The moral basis of the Neoliberal economic model is built on the model of *homo economicus* individuals: individuals driven by self-interest.

However, as this paper argued, is not a true reflection of human nature. The dominant homo economicus model of human behaviour works only under limited conditions. There are wide range of human emotions and motivations. Therefore, exclusive focus on utility maximization of subjective material preferences fails to acknowledge other valuable human sentiments such as selflessness, faith, wellbeing, and happiness. Neoliberal economics is often criticized for supporting egoism that disregards ethical considerations for quest of material ends. This paper argues that even though at theoretical level economic behaviour and moral judgment might be separated but in practical life both of them have a strong connection with each other and ethical concerns unavoidably enter into economic activities. Although one cannot deny the role of self-interest in economic transactions but there are other emotions that play a vital role economic activity. Individual actions are also often derived through altruistic goals (Alvey, 2011). Human feelings cannot be simply divided on extremes such as egoism and altruism. In fact, there is a wide range of human emotions such as generosity, gratefulness, empathy, and aptness. Economic practices are governed by all these sentiments (Sayer, 2007).

Looking back at the history of economic thought in the 18th and early 19th centuries show that Adam Smith- a founding father of modern economics and a most enthusiastic supporter of commercial society- himself was convinced that happiness is not caused by acquisition of material goods in life. Instead, he argued that the constant and ceaseless desire for more and more material objects is detrimental for individual's wellbeing. People in modern societies are more satisfied than other forms of societies not due to increased access to material things, but rather relative liberty and security help them to act morally and to have more gratifying relationship with their friends and family. Hayek suggests that capitalism should have a combination of cooperative and moral aspects as foundational principle. Other conservatives such as Wilhelm Roepke also emphasize the importance of the morality of the market economy. Market economy needs a broad moral base to function efficiently. Markets without required moral foundation become too costly to function. Coercion and shoddy workmanship are damaging to markets. Moral normative constraints increase market efficiency. It seems reasonable to conclude that Smith envisioned a market economy embedded within the moral framework of equality and justice. According to Sayer (2004), Adam Smith's economic theory is rooted in a broader ethical framework. Thus, for Smith, money or wealth is not a source of happiness in itself, but commercial societies have tended to reduce dependence and insecurity which was a great source of despair in pre-commercial societies. Economic activities like all other social interaction are affected by actor's sense of justice.

Moral Dimensions of Economic Life

The relationship between ethics and economics often tends to fall into an either/or dichotomy. Neoliberal economics is based on the premise that markets are mechanical systems inhabited by self-interested, autonomous "economic man" that aim at maximizing mathematical utility functions. However, there is a call from within economics to pay attention to the moral dimensions of economic life. Though, what can be counted as moral as opposed to immoral behavior is quite a contested issue. Research in this area has benefited from older perspectives on economy and society. Marx and Engels (1967) and Polanyi (1944) persuasively pointed towards the problem created by dis/embedding forces of economic systems.

However, this is a challenging task to normatively frame the economic activities. The term moral can be used both in positive and normative terms because economic behavior is not just driven by self-interest; rather, it has closer ties with moral values. There is constant tension and interdependence. This provides us a reason to think that economic life would grind to a halt without moral commitments of economic actors. This is not a new idea rather its conceptual history can be traced back to Aristotle. According to Aristotle, individuals gain their moral sensibilities through their repeated practices. Such predispositions to act (un)ethically are a precondition of social life and moral order (Sayer, 2007). In early literature, the relationship between economic practices and moral order was natural and given (Sayer, 2004). Social relations of production, distribution and consumption have implicit moral norms and assumptions.

Looking back at the work of classical economist like Adam Smith, it is clear how he conceptualizes individuals as sentient beings having moral sentiments in relation to others. Adam Smith himself appreciated that pursuit of self-interest would neither decline quality of life nor it will automatically bring improvement in social life. He was consciously aware of problematic outcomes of pursuit of self-interest. However, this social conception of morality was later replaced by reason-based notion of justice rather than moral sentiments. As trade relations expanded to distant others self-interest replaced moral sentiments as a regulator of economic activity (Sayer, 2000; 2001).

Industrial market economy is a distinct system with its own unique features. The rise of modern capitalist societies led to the waning of traditional responsibilities, embedded in traditional hierarchic order that characterized primitive societies. Neoclassical economics was detached from its societal context. As old scheme of values lost their relevance and force there was a pressure from more differentiated society, which demands from plurality of normative order, resulting in development of a new moral division of labor. (Sayer, 2004)

‘Moral division of labor is a double-edged sword; on one hand it restricts our responsibilities, and on other hand, responsibilities are extended to distant others, who are linked to us through extensive networks. Though a degree of stability is presupposed in such moral frames but there is also a possibility of monitoring and willingness to change. However, in moral division of labor in capitalist societies serve the end of profit. (Sayer, 2004) Moral division of labor is subject to constant change and innovation due to competition. Economic activities are framed by excluding moral sentiments. Attempted rationalization and bureaucratization of market economy drained it of moral goals (Sayer, 2000). Although abstract economic science has become a prestigious science, the problem of its abstraction continued to surface and casted doubts about the real-world application of economic models (Götz, 2015). Many thinkers such as Bourdieu (1998), Gray (1998), Hutton (1995) and Strange (1998) constantly warned about the dangers of increasingly proliferating global neoliberalism and resultant economic fatalism. These persistent economic problems have affected the quality of life and wellbeing of people at wider scale, which led to demands of reevaluation of economies from a moral perspective’.

Markets are not the default form of economic organization, as commonly portrayed in neoclassical economics. This is a flawed assumption as markets are one among many other modes (ways) of coordination economic exchange. There are both market and non-market forms of coordination of division of labor in capitalist system. Interpersonal relations in economic organizations are governed by combination of instrumental and moral motives. Analysis of modern economies cannot overlook their linkages with nonmarket and non-economic processes. There are economic activities that do not involve any market exchange and take place outside the orbit of cash economy. Simple categorical

differentiation of normative and economic action defies the possibility of the hybrid character of actions that are motivated by mixed motivations. (Sayer, 2004)

Institutionalized activities also have normative and material preconditions that involve framing in terms of what is included and what is excluded from a given space. This involves contestations and negotiations. Hence we need to adopt a more fluid approach to understand economic activities. We need to distinguish between what is established and what is debated. There are some moral economic norms that are fundamental to frame economic activity. Nature and legitimacy of profit in the 19th century was matter of normative contestation, but it has become normalized over the years. It has gained the status of timeless fact. According to Habermas “*questions of validity have become turned into questions of behavior*” (Habermas, 1979).

Institutionalization of economic arrangements also involves moral judgments, and decisions of economic agents with regard to others. Drawing upon the economic theory of Adam Smith we can understand moral considerations without separating them from economic ones. According to Smith’s economic theory, moral sentiments and norms not only influence particular form of economic organization, but also are themselves influenced by economic organization. Even in course of economic activities actors often make moral judgments like they do in other domains of their life. However, in some cases there is a tension between moral and economic valuation. Moral dimensions of economic activities are of increasing concern and we must be willing to accept at times competing rationales of economic activities. Smith himself was ambivalent about these relations (Sayer, 2004)

Though Smith approach has limitations, as Polanyi points that he failed to see the destabilizing impact of self-regulating markets on labour. He also did not acknowledge material and symbolic domination that are supported by the cultural values. Like many of his contemporaries he underestimated the role of cultural discourse and values. (ibid) According to Polanyi Instituting of economic activities require settling of normative issues related to rights and responsibilities either by argument or by power (imposed or negotiated) e.g. whether we should allow trade of human organs is subject to heated moral debate. Legitimacy of economic activities is established through normative frameworks. Once such normative questions are settled they become naturalized and normative questions about these issues are forgotten. Such established economic norms are rarely challenged. According to Habermas this is a shift from questions of ‘*validity to questions of behaviour*’. It is now widely accepted that economic practices are socially embedded. The common denominator is that it is difficult to understand economy in abstraction. Concern for human wellbeing provides common ground to ethics and economics (Sayer, 2007).

However as Sayer (2000) elaborates, modern capitalist societies are not completely devoid of moral norms, rather, the exclusion of moral consideration from economic frameworks is no longer accepted for the reason that economic exchange takes place within

in existing social systems (Granovetter, 1985). Under the smooth surface of the global capitalist system, there are constant contestations. Thus, it came as no surprise that economists themselves have started questioning the micro foundation of economic structures and ideological construction of utility maximizing homo economicus (Bolton et al., 2012).

Considering the vulnerability of human kind, we need to devise ways and means to fulfill economic responsibilities towards others such as care of the physically dependent people such as elderly (Sayer, 2004). These normative questions arise in societies where care has become largely marketized. However, the market is alone is not capable of dealing with the issue of care in increasingly interconnected and global world. Consequently, economic responsibilities towards others demand more serious attention (Sayer, 2004). Morality plays an important role in an individual's life because it is associated to the objects that have worth for people. Normative rationales matter and are unavoidable even for economic actors. Economic exchanges are also governed by moral economic norms about rights, obligations and privileges. According to Sayer (2004) moral frameworks have their own intrinsic worth for actors in society.

However, it cannot be denied that in some situations ethical and economic valuation of an activity may contrast. According to Jessop, (2002) in societies where capitalist forms of organization are ecologically dominant often what seems good has to be scarified for economic gains.

Conclusion

Despite constant contestations neoliberal capitalism has retained its cognitive hegemony. However, growing global inequality and poverty among the masses at a larger scale has raised red flag about the hegemony of the governing neoliberal economic theory and practice. The moral underpinning of the neoliberal capitalism, which reduces economic goals to individual material gains, has been challenged at many fronts. This paper is also an attempt to explore unacknowledged affinities between economics and morality. The underlying assumption is that ethical disposition of an individual has a causal influence on his economic behavior. Therefore, the economic life would grind to a halt without moral commitments of economic actors. Therefore, neither abandoning capitalism nor adopting a completely new economic system is an intellectually plausible option. However, one practical option to conceptualize the complexities of the contemporary global economy, as long as feasible alternative to neoliberal capitalism are not available, is to envision the possibility of capitalism within a moral framework of society.

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