



BEHAVIOURAL ETHICS
 AND ECONOMICS ACHIEVEMENTS¹

Honourable Rector, the Director of the University,
 Professor Bono,
 Professor Casas,
 and ladies and gentlemen.

I feel very deeply moved and quite overwhelmed by this wonderful honour you are conferring on me. It is indeed a great privilege to be associated with this ancient and famous university. The ceremony itself is one of an elegance and dignity that would be very hard to match anywhere in the world. If I may also take the liberty of making a personal remark, I am extremely touched by the care and acuteness with which the statement on my work, read by Professor Bono, has been prepared. I am very profoundly grateful to the University of Valencia.

The Neglect of Behavioural Codes in Standard Economics

I want to speak on the part that behavioural ethics play in the achievements of an economy. But I should begin by noting that in much of standard economics no role whatever is given to codes of behaviour in the success of an economy. Good performance in business is supposed to depend on hard-nosed cultivation of self-interest. Indeed, the so-called «economic method» that many economists have attempted to impose not just on economics, but also in other social disciplines, asks the analyst to see behaviour in terms of the intelligent pursuit of self-interest, steering clear of the deontic demands of morals and values. This is taken to be both (1) the best explanation of actual behaviour, and (2) also a fine basis for achieving whatever good results the market mechanism has to offer. Morality may be good for one's soul, but it is not, so the argument runs, particularly useful for business or for the economy.

This conviction is quite widespread among practitioners of economics, though it is more often taken for granted implicitly rather than asserted explicitly. We have to understand

1. The text of an address at the University of Valencia on being awarded an honorary doctorate on 12 April 1994.



better what that conviction rests on, to be able to see its limits and inadequacies. Here, as in many other areas of knowledge, the importance of a claim depends to a great extent on what it denies.

How did this idea of the redundancy of ethics get launched in economics? The early authors on economic matters, from Aristotle and Kautilya (in ancient Greece and ancient India respectively – both lived in the fourth century B. C., as it happens) to medieval practitioners (including Aquinas, Ockham, Maimonides, and others), to the economists of the early modern age (William Petty, Gregory King, François Quesnay, and others) were all much concerned, in varying degrees, with ethical analysis. In one way or another, they saw economics as a branch of «practical reason», in which concepts of the good, the right and the obligatory were quite central.

How did this tradition get abandoned? As the «official» story goes, all this changed with Adam Smith, who can certainly be described –rightly– as the father of the modern economics. He made, so it is said, economics scientific and hard-headed, and the new economics that emerged, in the 19th and 20th centuries, was all ready to do business, with no ethics to keep it tied to «morals and moralizing».

Perhaps the most widely quoted aphorism in economics is the famous comment of Adam Smith about the butcher, the brewer and the baker. This occurs in his classic treatise on economics principles, *The Wealth of Nations*:

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love...²

The butcher, the brewer and the baker want to earn money from us, and we –the consumers– want the meat, the beer and the bread they have to sell. The exchange benefits us all. There would seem to be no need for any moral codes in bringing about the betterment of all the parties involved. What is needed is simply some «self-love» on our parts, and the market can be relied upon to do the rest in bringing about the mutually gainful exchanges.

The nature and limits of this claim deserves close scrutiny. It is a matter of some practical interest in assessing the determinants of economic performance in different parts of the world:

- (1) economic development in the third world (particularly in Asia and Africa);
- (2) economic reform in what used to be called the second world (particularly in the former Soviet Union and eastern Europe);
- (3) the performance of different economies in the first world (including the traditional capitalism of West Europe and North America, but also the new Asian model led by Japan).

2. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776; republished, London: Dent, 1909), vol. I, p. 13.



An Analysis of Adam Smith's Writings

There is, in fact, a real problem in seeing Adam Smith as the great champion of «self-love», and in viewing that tireless Professor of Moral Philosophy as a sceptic on the importance of moral codes. As a matter of fact, Smith spent much of his life arguing for the need for «sympathy» in other-regarding conduct and exploring the role of «moral sentiments» in making the world a better place.³

In his other great book, *The Theory of Moral Sentiments*, Smith went extensively into the role of moral codes of behaviour. He also distinguished between distinct reasons for going against the dictates of self-love. He identified, in particular, the following separate actions:

sympathy («the most humane actions require no self-denial, no self-command, no great exertion of the sense of propriety», and «consist only in doing what this exquisite sympathy would of its own accord prompt us to do»);

generosity («it is otherwise with generosity», when «we sacrifice some great and important interest of our own to an equal interest of a friend or of a superior»);

public spirit («when he compares those two objects with one another, he does not view them in the light in which they naturally appear to himself, but in that in which they appear to the nation he fights for»);⁴

Each of these distinct roots of non-selfish behaviour was separately investigated by Smith, but they all work towards undermining the view of selfish individuals that tends to be standardly attributed to Smith these days.

In some of these choices the person's sympathetic psychology does the work spontaneously, while in others he or she has to make «the impartial spectator enter into the principles of his conduct».⁵ The idea of an impartial spectator—a great Smithian innovation—forcefully distances Smith's understanding of human conduct from the naive view attributed to him by many modern authors (such as George Stigler who interprets Smith as saying: «self-interest dominates the majority of men»)⁶ Smith's admiration of Stoic philosophy was much at peace with the views about right conduct that he came to propound. He discussed extensively the need for non-self interested behaviour. While «prudence» was «of all virtues that which is most helpful to the individual», Smith argued that «humanity, justice, generosity, and public spirit, are the qualities most useful to others».⁷

3. For an analysis of Smith's views on the relation between ethics and economics, see my *On Ethics and Economics* (Oxford: Blackwell, 1987). See also Patricia H. Werhane, *Adam Smith and His Legacy for Modern Capitalism* (New York: Oxford University Press, 1991); and Emma Rothschild, «Adam Smith and Conservative Economics», *Economic History Review*, 45 (February 1992).

4. Adam Smith, *The Theory of Moral Sentiments*, revised edition, 1790 (reprinted, eds. D. D. Raphael and A. L. Macfie, Oxford: Clarendon Press, 1975), p. 191.

5. *The Theory of Moral Sentiments*, pp. 190-2.

6. George Stigler, «Smith's Travel on the Ship of the State», in A. S. Skinner and T. Wilson, eds., *Essays on Adam Smith* (Oxford: Clarendon Press, 1975), p. 237.

7. *The Theory of Moral Sentiments*, p. 189.



How can we reconcile Smith's views on human conduct and the importance of morals in social behaviour –elaborated by him in such detail– with his remark on the butcher, the brewer and the baker? What was Smith really saying in that enormously quoted passage? Clearly, Smith was arguing there that the pursuit of self-interest would be fine to *motivate* the *exchange* of commodities, and we do not need to invoke much morality in explaining why the baker wants to sell bread and we want to buy it, and how that exchange benefits us both. There is really no difficulty in seeing that this limited claim does not, in any way, contradict Smith's general view of responsible human behaviour and the function of morality in making our social lives better.

But is there something special about economics –as opposed to other social interactions– which could have made Smith regard self-interest to be the right motive for economic activities in particular? That suggestion is implicit in many of the standard interpretations of Smith in the economic literature, and it turns on reading a great deal into that butcher-brewer-baker remark. To assess the «reach» in economics of the subject matter of that comment, we have to ask two separate questions:

- (1) Do economic operations and activities consist only of exchanges of this kind?
- (2) Is the basic motivation of desiring exchange all that is needed to have successful exchanges?

The answers to these questions are not hard to find. First, economic operations encompass many activities other than exchange, and the motivational problems underlying production can be very different from those in exchange. They involve the difficult task of generating effective cooperation at the work place despite considerable conflict of interests (combined with partial congruence). The importance of dutiful activity, unsupervised reliability and a concern for efficiency can hardly be overstated in discussing the determinants of economic productivity.

Second, even *within* the field of exchange (ignoring production for the moment), its efficiency can be much influenced by trust between the different parties. If self-interest were the only concern (and the only determinant of behaviour), there would be many occasions in which letting the other side down (for example, by renegeing on earlier arrangements) would be sensible enough. To rely just on legal recourse would make business activities expensive and slow.

In making exchange an efficient activity, something more than *noticing* that there is gain from trade is involved. The sense of trust and the use of behavioural codes in this context may well be analyzed in primarily ethical terms –invoking, say, Kant's principles of «universalizability», or Smith's own «impartial spectator». Alternatively, it is possible to bring in some game-theoretic reasoning to explain the emergence and survival of moral codes. But no matter which route we take, the need for such codes of behaviour for efficient transactions would be hard to overlook.⁸

⁸ I have discussed these issues more fully in my address to the British Association for Advancement of Science at their annual meeting last year; the text of that speech will be published by them in a volume to be edited by Alan Hamlin.

⁹ In this sense, the codes of business and professional behaviour are parts of the productive capital of a society. On this question, see Armando Massarenti and Antonio Da Re, *L'Etica de Applicare*, with an introduction by Angelo Ferro, and comments of Giovanni Agnelli and Salvatore Veca (Milano: Il Sole 24 Ore Libri, 1991).



Trust, Institution and Economic Activities

The attempt to read much into the butcher-brewer-baker example not only ignores the role of moral codes, it downplays the function of *institutions* that sustain and promote economic activities. The concern of the different parties with their own interests certainly can motivate people to take part in exchange from which each benefits. But whether the exchange would operate well will depend also on organizational conditions. There is need for institutional development which can take quite some time to emerge – a lesson that is currently being learned rather painfully in East Europe and the former Soviet Union.

The need of institutional developments has some clear connection with the role of codes of behaviour, since institutions based on interpersonal arrangements and shared understandings operate on the basis of common behaviour patterns, mutual trust, and confidence in the behavioural ethics of each other. The reliance on rules of behaviour may typically be implicit rather than explicit – indeed so implicit that its importance can be easily overlooked in situations in which such confidence is unproblematic. But whenever it is not unproblematic, the overlooking of its need can be quite disastrous. This is a particularly important issue in many specific contexts, such as (1) the promotion of economic development in the «third world», (2) successes of economic reform in the former «second world», and (3) enhancing productivity and avoidance of corruption even in the «first world» of West Europe and North America.

I am personally no great admirer of unrestrained capitalism. For example, I think it is no tribute to the system that in the USA, the blacks have lower chances of survival to an advanced age than do the citizens of China or the Indian state of Kerala – despite their poverty – mainly because they have reasonable systems of public health care in a way that many people in America do not. The lack of health care and social security even with high average income can be terribly debilitating for a society. Also, the omnipresence of aggression and fear in modern urban life in great centres of capitalism is nothing short of revolting. There is much greater risk of death from social turmoil, particularly in the inner cities, for American black men than for extremely impoverished people in most parts of the underdeveloped third world. Capitalism has been much less successful in shaping the political economy of a just society than in dramatically raising the average level of opulence.

But I would still argue that as far as the *successes* of capitalism are concerned (such as opening up the possibility of standards of living that people could not have dreamt of even a few generations ago), to see them all as the unintended result of pure greed is to belittle the system altogether. Capitalism has made it possible to raise productivity by team work, by coordination and cooperation, and ultimately by trust in each other's behaviour in economic and business relationships. Codes of behaviour have been central to this achievement. While some have criticized this pervasive cooperation because of the unequal outcomes (Marx's treatment of «false consciousness» of the working class related to the ideological neglect of this contrast), and others have seen in it one of the untarnished glories of modern industrial capitalism (the rhetoric of President Reagan's economics derived much from it), it is impossible to overlook the far-reaching role of this phenomenon in generating the successes that capitalism has achieved.



On Learning from Japan

It is also interesting to examine the economic experience of Japan, which is often seen as the greatest example of successful capitalism. However, the motivation pattern that dominates Japanese business has much more content than would be provided by pure profit maximization. Different commentators have emphasized distinct aspects of Japanese motivational features. The economist Michio Morishima has outlined the special characteristics of the «Japanese ethos» as emerging from its particular history of rule-based behaviour patterns. The sociologist Ronald Dore has seen the influence of «Confucian ethics». The game theorist Masahiko Aoki has seen cooperation and behavioural codes in terms that are more responsible to game-theoretic reasoning.¹⁰

There are other behaviour-based accounts related to Japanese economic performance. There is, in fact, some truth even in the apparently puzzlingly claim made in *The Wall Street Journal* that Japan is «the only communist nation that works» (30 January 1989, p. 1). It points to the non-profit motivations underlying many economic and business activities in Japan. We have to understand and interpret the peculiar fact that what is arguably the most successful capitalist nation in the world flourishes economically with a motivation structure that departs firmly from the pursuit of self-interest, which –we have been told– is the bedrock of capitalism.

Japan does not, by any means, provide the only example of a powerful role of business ethics in promoting capitalist success. The merits of selfless work and devotion to enterprise in raising productivity have been seen as important for economic achievements in many countries in the world. Indeed, capitalism's need for motivational structures more complex than pure profit maximization has been acknowledged in various forms, over a long time, by many leading social scientists, including among other Marx, Weber, Veblen, and Tawney. The role of non-profit motives in the success of capitalism is not a new point, even though the wealth of historical evidence and conceptual arguments in that direction is often thoroughly ignored in contemporary professional economics.

Can We Deliberately Cultivate Behavioural Codes?

Can anything be done to encourage the development of good business ethics and cooperative economic practice? The question of promoting «deontological codes» have been raised a great deal recently in Italy, in considering ways of combating the pervasive influence of corruption in business and politics in that economy, and the linkage of corrupt practices with the influence of organized crime (including the hold of the Mafia). Can such a things be really done through deliberate promotion?

10. Michio Morishima, *Why Has Japan Succeeded? Western Technology and Japanese Ethos* (Cambridge: Cambridge University Press, 1982); Ronald Dore, *Taking Japan Seriously: A Confucian Perspective on Leading Economic Issues* (Stanford: Stanford University Press, 1987); Masahiko Aoki, *Information, Incentive and Bargaining in the Japanese Economy* (Cambridge, Cambridge University Press, 1989).



It is not hard to find grounds for scepticism regarding this proposal. Indeed, this is an ancient subject. In *The Laws*, Plato has discussed the benefits of a strong sense of duty as part of public servants, but had also noted that to develop that sense of duty is «no easy task». In the *Arthashastra*, Kautilya, the Indian political analyst of 4th century B. C., expressed great scepticism about the possibility of preventing corruption through deontology, and opted for a system of stochastically organized spot-checks followed by penalties and rewards (much as modern economics would suggest). Many of the contemporary commentators in Italy are no less skeptical of the possibility of making any significant change in behavioural modes –changes that could make a real difference in reducing corruption and organized crime. It is easy to understand the grounds for that scepticism. Reform of behaviour modes is hard to bring about through a policy decision. «Thou shalt behave better» sounds like a hopeless solution to the problem of crime and graft.

All this seems clear enough. What is less easy to understand is the empirical basis of the cynical belief that human behaviour is basically so self-centred, so invariably oriented towards personal gain, that no real prospect of behavioural reform actually exists. To talk of any code of ethics is, in this view, a waste of time. Or worse.

Is this cynicism justified? It is hard to see this view as empirically established given the enormous variety of behavioural modes across the world. Some avenues of corruption are thoroughly utilized in one country, occasionally tried in others, and practically never in still others. Since it is hard to find any genetic explanation of these differences (why, for example, a practice shunned in Switzerland may be much used in Italy), we have to look at the pervasive cultural influences on behaviour patterns.

It is also clear that while rules of acceptable behaviour vary, a group that may be quite unmoved by one set of rules may still follow another. Even criminals bent on making money typically follow rules of «good» gang behaviour, and «honour among thieves» is not just an empty rhetoric. There is very little empirical ground for thoroughgoing scepticism regarding the use of norms.¹¹ Indeed, the cynical belief that nothing can be changed only replaces *high-minded sentimentalism* by *low-minded sentimentalism* –a good example of mushy prejudice masquerading as hard-headed realism.

Perhaps the sceptics in Italy are partly worried by the possibility that the talk of deontological codes may weaken the vigour and speed with which needed institutional reforms are carried out. Certainly, establishing workable but strict rules governing the connection between business and politics demand legal and institutional attention, and attempts at working from that end must not be slackened in the hope of «behavioural reform». Indeed, the institutional reforms and behavioural codes have to be seen as complementary to each other, and each can reinforce the other very substantially.

11. On this see my *Resources, Values and Development* (Oxford: Blackwell, 1984), and the references cited there.

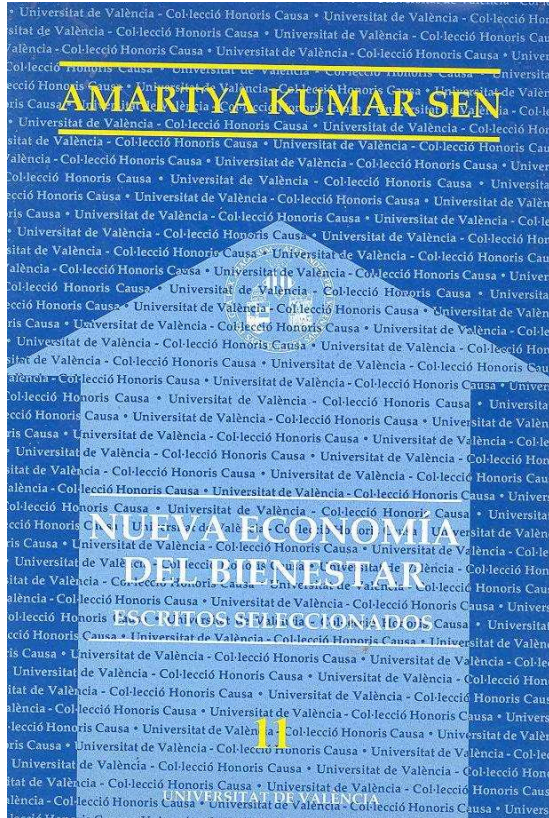


Final Remark

I shall not try to summarize this lecture, but will make a few general remarks to end the discussion. First, I have argued that behavioural codes can be quite important for economic organization in general. The importance of moral codes is not contradicted in any way by Adam Smith's pointer to the fact that our «regard to our own interest» provides adequate motivation for exchange. Smith's butcher-brewer-baker argument is concerned (1) directly with *exchange* only (not production or distribution), and (2) only with the *motivational aspect* of exchange (not its organizational and behavioural aspects).

Second, successful operation of an exchange economy depends on mutual trust and implicit norms. When these behavioural modes are plentifully there, it is easy to overlook their role. But when they have to be cultivated, that lacuna can be a major barrier to economic success. This can be illustrated by (1) development problems of economically underdeveloped countries, (2) problems of economic reform in the former Soviet Union and East Europe, and (3) variations in productivity and corruptibility in the more advanced capitalist economies (including Japan as well as West Europe and North America). A basic code of good business behaviour is a bit like oxygen - we take an interest in its presence only when it is absent.

To conclude, moral codes are an integral part of economic performance, and they belong importantly to the «social resources» of a community. Modern economics has tended to be deeply neglectful of this aspect of economic systems. There is good reason to try to change that neglect, and to bring into mainstream economics this crucial component of the operation of an economy. There is indeed much to be done.



Dr. Sen's Lectio has been published in "Nueva Economía del Bienestar. Escritos seleccionados", Universitat de València.