



IS THERE A TRADE-OFF BETWEEN ECONOMIC GROWTH AND ETHICS?

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ABSTRACT

The article tries to highlight the relationship between ethics and the economy. There is no need to trade ethics in favor of economic growth and vice versa. There is a coexistence between ethics and economy, a right balance, which guarantees the well-being of the community and the respect of moral principles that underlie our actions.

KEYWORDS : Ethics, economic growth, utilitarianism, freedom, morality.

1. Introduction

For a long time ethics and economics have been considered as two aspects of the same discipline; with enlightenment and with authors like Smith, ethics and economics have taken different paths. *Homo oeconomicus* was described as a utilitarian and self-interested man. Earlier, Mandeville (1714) helped separate economic and moral reflection. For Mandeville, selfishness, personal self-interest and personal vices can contribute to the realization of collective benefits. As a result, the economy does not need moral values. Moral redemption leads to economic collapse, which is why for Mandeville the "vice" is at the base of a rich and prosperous society. Through the Fable of the Bees, Mandeville tells us that following the moral rules does not arrive at the realization of the public good. On the contrary, if the action is based on a selfish aspect, the public good can be achieved. All this has led to legitimizing the clear separation between ethics and economics.

The first paragraph deals with the relationship between ethics and economics, the second between ethics and freedom, while the third deals with the relationship between economic development and ethics. The concluding considerations follow.

2. Ethics and Economics

Although in modern economic systems, for a long time, there has been a clear separation between ethics and economics, as highlighted by A. Sen in Ethics and Economics, the economic system can become more efficient and productive if we take into consideration also the moral aspect. The economy has not only a rational but also a moral legitimation, because we must look beyond the *Homo oeconomicus*; Durkheim writes: "the real man we all know and are is otherwise quite complex: he belongs to an era and a country, has a family, a city, a homeland, a religious and political faith, and all these elements and others yet they unite, combine in a thousand ways, cross and intersect their influence without it being possible to tell at first glance where one begins and where the other ends" (Durkheim, Social Science and Action).

Ethics is recognized as a fundamental role in the choices of an economic nature, both in terms of production and consumption. You live in a society in which man is driven by a sense of utilitarianism, aimed at maximizing his own well-being. "There is a relativism of values (...) a deterioration of ethical ethics that accepts bans and prices" (Romagnoli, 2017). But at the same time, we are also more aware that intrinsic motivations play a crucial role in the economy: every action must conform to a moral principle. The most important issue is not the action itself, but the intention of the subject who performs it. At the base of every choice is sentiment, beyond reason: in one's choices one must let oneself be guided by the heart, thus giving morality to one's actions. The ethics to which modern man refers guarantees his autonomy and his value in entirety. In any case, there must be a "constitution of subjectivity" that manifests itself equally in the economic sphere and in the moral sphere (Deleuze 1953, trad.it: Zanini 2005). Kant wrote: "no one can compel me to be happy in his own way (as he imagines the well-being of other men), but everyone can seek his happiness by the way that seems good to him, provided it does not prejudice the

freedom of others to strive for the same purpose, so that its freedom can coexist with the freedom of each other according to a possible universal law (that is, it does not harm this right of others)". We are facing a new Humanism that has also contributed to globalization and the financial crisis of 2007-2009, highlighting how the economic systems are weak and easy prey of corruption and moral decadence. There is a reconciliation between ethics and economics. And by borrowing the vision of François Perroux: the market can not be kept separate from society, it is fundamental to take into account man and his active participation in society. Go beyond the vision according to which the economy is exclusively the exchange on rational principles. In reality, everything is based on cohesion and reciprocity: giving and receiving.

3. Ethics and Freedom

Ethics also means freedom, wrote John Stuart Mill: "human nature is not a machine to be built according to a model and to be regulated because it performs exactly the work assigned to it, but a tree, which needs to grow and develop in every direction, according to the tendencies of the inner forces that make it a living creature" (Mill). This makes us understand that for every man the autonomy of thought and action is fundamental, without falling into a selfish individualism, nor must we think that the State is authoritarian, planner, justicialist and coercive, wrote Croce: "without the power of the individual nothing would happen and the world would not (...) weaken the individuality is drawing as a fool and to the extent that it succeeds (to the extent, because it radically never succeeds), it is pernicious thing (...) individuals are society, and society does not matter, as they say, oppression, nor even restraint and mortification imposed on individuality, but the necessity for it to fully fulfill itself by respecting and promoting the vital complex to which it belongs, the common interest, as it is called, and that, if it is common, it is also its own," (Croce, 1947). All this makes us understand how fundamental it is to respect every individual, since the core of our society is diversity there is no single model of social life, however, the same Croce tells us that we must be careful not to fall into the error of believing that there exists "a sort of pre-established harmony", which is able to create a cohesive group of individuals. In this context, we must not lose sight of the importance of the market economy: it guarantees economic growth, but it is essential not to fall into unbridled interventionism, which has characterized, for example, for years the Italian economy, to avoid, therefore, every form of distortion: by virtue of economic growth, the State is asked for all sorts of welfare, which leads to an exponential growth in mass consumption and the establishment of a spendthrift state, which loses control of public spending. It becomes fundamental to eliminate all forms of inequality, moral flattening and make room for solidarity, without losing sight of efficiency.

4. Economic and ethical development

It should not be forgotten that all economic problems are complex, since we must identify the causes, make decisions, the latter are affected by the context and by the particular situation in which the economic subject is at that moment. Each choice of the individual is based on the objective (purpose), in some ways it is methodological individualism: the behavior of each individual finds its justification

in two words, that is, theological-motivational, Schumpeter wrote: "Observing the human societies, it is not normally difficult to specify, at least on the basis of gross common sense, the different ends that the societies in question strive to achieve. These ends, we can say, provide the element of rationality or the meaning of corresponding individual activities. But it does not follow that the social meaning of a type of activity must necessarily provide the animating motive and therefore the explanation of the latter and, if it does not provide them, can not be accepted as an adequate explanation of the activities that serve an end or a need. a theory that limits itself to an analysis of the end or the need to serve".

((Schumpeter, *Capitalism, Socialism and Democracy* 1942, pp. 268-9 of the tr.

More than ten years earlier, he wrote: "(...) innovations in the economic system do not usually take place in such a way that new needs arise spontaneously in consumers and then, under their pressure, the productive apparatus receives a new orientation. We do not deny the occurrence of this connection. But it is the producer that as a rule begins the economic change and the consumers, if necessary, are educated by him; they are, as well as they were, considered as people who want new things, or things that differ in some respects or from the others that they are used to. Therefore, while it is admissible and also necessary to consider the needs of consumers as an autonomous and even fundamental force in the theory of circular flow, we must instead assume a different attitude as soon as we turn to analyze the change". (Schumpeter, *Theory of Economic Development*, 1934.) Still wrote: "(...) the reason for the existence of an economic activity is that men need to eat, to dress and so on. Providing the means to meet these needs is the social purpose or meaning of production. But we all agree that this proposition would be an unrealistic starting point for a theory of economic activity in mercantile societies, and that it will be more convenient to start from propositions concerning profit. Similarly, the meaning or social function of parliamentary activity is undoubtedly to produce laws and, in part, administrative measures. But to understand how democratic politics serves this social purpose we must start from the competition struggle for power and recognize that the social function is absolved, so to speak, incidentally: in the same sense in which production is incidental compared to the realization of a profit. (...) (Schumpeter, *Theory of Economic Development*, 1934).

Schumpeter considered the Walrasian theory of the general equilibrium unsuitable for representing economic growth, since it attributed a secondary role to consumer choices and technology. In particular, Schumpeter wrote: "The theory of the first chapter (The circular flow of the economy) describes the economic life from the point of view of the tendency of the economic system to a state of equilibrium, which tendency gives us the means to determine prices and the quantities of goods and comes in the form of an adaptation to the data from time to time. (...) The ideal equilibrium condition of the economic system, never reached and always "pursued" (unconsciously, of course), is modified because the data are modified. And the theory is not disarmed in the face of these data. It is constructed in such a way as to be prepared for the consequences of these changes, and it also has particular instruments for this purpose (...) But the "static" theory is not able to describe the consequences of discontinuous changes in the traditional way of doing things; here the static analysis can not explain either the occurrence of productive revolutions, nor the phenomena that occur on such occasions. (...) (Schumpeter, *Theory of Economic Development*, 1934).

Economic development, therefore, depends on the action of economic agents. The innovative entrepreneur is decisive for growth: "What seems to us to be received doctrine: Industrial expansion, automatically incident to, and moulded by, general social growth – of which the most important purely economic forces are growth of population and of savings – is the basic fact about economic change or evolution or "progress"; wants and possibilities

develop, industry expands in response, and this expansion, carrying automatically in its wake increasing specialisation and environmental facilities, accounts for the rest, changing continuously and organically its own data. (...) "inadequate or even misleading, when meant to be a description of that mechanism of economic life which it is the task of economic theory to explain", e questo poiché egli ritiene che "expansion is no basic fact, capable of serving in the role of a cause, but is itself the result of more fundamental 'economic force', which accounts both for expansion and the string of consequences emanating from it. (...) What we, unscientifically, call economic progress means essentially putting productive resources to uses hitherto untried in practice, and withdrawing them from the uses they have served so far. This is what we call "innovation". What matters for the subject of this study is merely the essential discontinuous character of this process, which does not lend itself to description in terms of a theory of equilibrium. (...) Successful innovation is, as said before, a task sui generis. It is a feat not of intellect, but of will. It is a special case of the social phenomenon of leadership. Its difficulty consisting in the resistances and uncertainties incident to doing what has not been done before, it is accessible for, and appeals to, only a distinct type which is rare. (...) To overcome these difficulties incident to change of practice is the function characteristic of the entrepreneur. (...) Its analysis yields the explanation of phenomena which cannot be accounted for without it. (...) There is, first, the "entrepreneurial" function as distinct from the mere "managerial" function – although they may, and mostly must, meet one another in the same individual – the nature of which only shows up within the process of innovation. There is, secondly, the explanation of entrepreneurs' gain, which emerges in this process and otherwise gets lost in the compound of "earning of management" (...) Furthermore, it is this entrepreneurs' profit which is the primary source of industrial fortunes, the history of every one of which consists of, or leads back to, successful acts of innovation." (Schumpeter, *Economic Journal* 1928, pp. 375-6-7-8-380). Credit also plays a role in economic growth: "This process of innovation in industry by the agency of entrepreneurs supplies the key to all the phenomena of capital and credit. (...) As, however, innovation, being discontinuous and involving considerable change and being, in competitive capitalism, typically embodied in new firms, requires large expenditure previous to the emergence of any revenue, credit becomes an essential element of the process. And we cannot turn to savings in order to account for existence of a fund from which these credits are to flow. (...) "Credit creation", therefore, becomes an essential part both of the mechanism of the process and of the theory explaining it. (...) "Credit creation" is the method by which the putting to new uses of existing means of production is brought about through a rise in price enforcing the "saving" of the necessary amount of them out of the uses they hitherto served." (Schumpeter, *Economic Journal* 1928 pp 381-383).

In conclusion we can say that for Schumpeter the innovative entrepreneur plays a crucial role in economic growth, it is the engine of change. Schumpeter breaks the patterns of static theoretical models. Although its position is clearly antithetical to that Keynesina, there is an element in the latter that brings it closer to Schumpeter and is the *animal spirits*. In this regard Keynes wrote: "Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can be taken as a result of animal spirits – of a spontaneous urge to action rather than inaction, and not as the outcome of a weighted average of quantitative benefits multiplied by quantitative probabilities." (Keynes, 1936).

Conclusions

Today in economic research there is a tendency to go beyond the "utilitarian subject" and individualism (*homo oeconomicus*), affirming rather the so-called "relational paradigm". It is very simplistic to start from the consideration that human behavior is based only on extrinsic motivations, for example the maximization of profit for the entrepreneur and the maximization of welfare for

the consumer. To the extrinsic motivations are added, in fact, the intrinsic ones. If things are in these terms, here is that political economy goes beyond the study of exchange and market relations, because we consider ethical, social and motivational aspects. Starting from this last assumption we get to the social use of wealth, contextualizing it in the market.

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