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Economy and Morality : A Conceptual Framework

Youichi Shionoya

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1. Introduction

Throughout the seventeenth and eighteenth centuries economics was part of moral science or moral philosophy, in which the recognition of an economic process was inseparable from societal ethics and norms. So that the knowledge of a society may be established, the society should be recognized as having some order and regularity. Philosophers had long offered visions of an orderly world based on divine providence. Ethics was indispensable to the construction of a normative picture of the world, and economic activity was oriented to and understood within this framework.

With the rise of economics as a science at the end of the eighteenth century came the recognition that the economic mechanism had gained independence from society's ethical norms. Through experience and observation it was realized that an economy had its own order outside the social context. *Is* was separated and considered apart from *ought*. Until now, this has remained the view of mainstream economics. Occasionally, when a person like John Maynard Keynes remarked that economics was a moral science, it attracted a good bit of attention.

Indeed, it is permissible for science to analyze a complex object and to construct a hypothetical model for an artificially isolated world. Theoretically, then, economics and ethics occupy separated virtual worlds. In real life, however, it is clear that an economic system and ethical norms must be combined in one way or another if there is to be a society. An important challenge today is how to integrate economics and ethics, which have been separated in academia, and how to determine and reconstruct a balance between the two.

In considering the relationship between the economy and morality, the dominant tendency has long been to inquire into the ethical nature (or, to be exact, unethical nature)

of economic activities in the market. The New Testament says: "It is easier for a camel to go through the eye of a needle, than for a rich man to enter into the kingdom of God." It might be argued that the history of economic activity has been the confrontation with such universal anti-economism through ideological and material attack and defense. Bernard Mandeville's satire of "private vices, public benefits" and Adam Smith's claim of the "invisible hand" expelled the old morality from the economic sphere and contributed to the formation of a new morality that would support the growth of capitalism. The pursuit of private interests and luxuries traditionally regarded as vices, far from producing confusion and corruption, brought vitality, prosperity, and order to the society.

Mankind, however, has not released economic activity entirely from moral reproach, because the process of rapid industrialization drew all the more criticism owing to rising inequality, poverty, unemployment, exploitation, alienation, and mammonism. Moreover, as the alliance between the state and industry has become increasingly complex, a cozy relationship has developed between the seat of power and business, escalating social denunciation of bribery and scandal. Contrary to the means by which economics has rid itself of moral philosophy, criticism of the economic sphere has never ceased.

Nevertheless, the conventional viewpoint is likely to overlook the real problems of today's advanced countries. Traditional moral criticism of the economy has caused such excessive governmental intervention in the market that the welfare state, social policy and democracy are now on the verge of crisis for economic as well as moral reasons. This, in turn, has given rise to an inverse critique of morality from an economic perspective. Ethical criticism of the combination of power and interest stemmed originally from state regulation of the economy. The collapse of communism was due as much to its rejection of economic logic as to its inherent moral failure.

The modern capitalist system is no longer a pure market economy based on self-interest. As Karl Polanyi maintained, the self-regulating economic system controlled and oriented by the market alone had been destroyed by the self-defense of society by the early twentieth century.¹ Moreover, social intervention in the form of the welfare state has

restricted free play of the market to the extent that economic growth is liable to be blocked by the burden of welfare costs and the loss of labor incentives.

Already in the 1930s Joseph Schumpeter warned against the waning vitality of the capitalist economy due to the introduction of various social policies that he labeled “fettered capitalism” or “capitalism in the oxygen tent.” He anticipated the danger of so-called British diseases caused by welfare policies that would erode the economy.²

Thus, we must take into account the bilateral interactions, both positive and negative, of the economy and morality. On the one hand, morality has imposed prohibitions and restrictions on the economy of the modern welfare state as well as of the preindustrial world. In contrast to these negative influences, the morality of liberty and justice has contributed to the dynamics and stability of the industrial society. On the other hand, modern economic performance has replaced the old morality by providing society with a spontaneous order. At the same time, an economy that relates to both the market and the government sometimes supports ideologies of regulation and sometimes those of deregulation. The historical process involving the interactions between the economy and morality suggests that these relationships have been changing and balancing like a seesaw.

In fact, the relationship between the economy and morality is, to use Marx’s terminology, essentially the relationship between the superstructure and the substructure of society and brings about the evolution of society as a whole through a historical process of change in both the economy and morality. Those thinkers who were not bound by the specialization of science and looked at society from a global perspective developed various ideas, depending on historical circumstances, about the relationship between the economy and ethics: e.g., Aristotle’s justice for the polis, Adam Smith’s moral sentiment for the market, Bentham’s utilitarianism for legislative bodies, Marx’s historical materialism, and Rawls’s justice for democracy.

This article, abstracting from historical circumstances, proposes a pure theory that will serve as a general conceptual framework for examining various relationships between the economy and morality. This is an introductory work on the moral foundation of an

economic system and is confined to the identification of related concepts in economics and ethics.

2. The Concept of Morality

Ethics or morality (I use these terms interchangeably) is a social norm that regulates the behavior of individuals. Laws and customs are also social norms. We call laws, morality, and customs “institutions” that constitute social norms in the broad sense. This conception is consistent with that of Gustav von Schmoller, the leader of the German Historical School. It also conforms to modern institutional economics; according to Douglas C. North, “Institutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights).”³ In this context, formal rules relate to “laws” and informal rules relate to “customs” and “morality.”

In terms of the compulsory power of institutions, there is a difference of degree in the decreasing order of laws, morality, and customs. In terms of the contents of institutions, the order is reversed: laws have narrower contents and customs broader contents. As a result of their compulsory power, institutions impose sanctions upon violation of or deviation from social norms, and in this respect, too, there is a difference of degree between the three. Since the violation of customs is a deviation from the ordinary pattern of life, those who violate a custom merely suffer from inconvenience or disadvantage; a violation of morality leads to social censure and feelings of guilt or shame on the part of the violator; an infringement of the law results in a specific punishment of the offender by the state.

Seen from the genetic viewpoint, both *ηθος*, the Greek word for ethics, and *mos*, the Latin word for morality, mean manners and customs; ethics or morality was spontaneously established as customs in human communities. As a result of the diversification and transformation of social relationships, which have entailed a decline of conventional

communities and a divergence in values, social norms have relied more and more on laws rather than on customs and morality as the effective rules of conduct. This explains why legal norms have a stronger universal authority.

In terms of the binding power and sanctions of norms, morality is located at a midpoint between laws and customs and differs from them only in degree. In terms of the principles underlying norms, however, morality is intrinsically different from laws and customs. We pay special attention to morality, or ethics, because of its principleness. When we speak of a morality that is distinct from customs, we are referring to moral principles that are unlike the commonsense morality embedded in customs. When we talk about morality as distinct from laws, we mean moral principles or natural laws that are different from the specific rules governing behavior established by the state.

Among the three components of institutions addressed here, I will emphasize the principles inherent in ethics to clarify what the institutions should be like. Rather than present a detailed account of institutions represented by laws, morality, and customs, I will focus on the principles of institutional setup in normative terms.

3. Three Approaches of Ethics

Today the science of morality is called *moral philosophy*. It distinguishes between three objects of moral judgment: (1) the character of people, (2) the behavior of people, and (3) social institutions and rules. Corresponding to these three objects, there are three approaches to moral philosophy.

The first approach demands benevolence and fairness as virtues of human character, the second prescribes compliance with duty and the pursuit of happiness with respect to human behavior, and the third asserts liberty and justice with regard to social institutions. Although the first and second approaches are both concerned with the morality of individuals, the first deals with the desirability of the human entity as “stock” and the second with that of human behavior as “flow” derived from the stock, if we analogously

apply the stock and flow concepts in economics to moral philosophy. In other words, whereas the concept of virtue in the first approach applies to the human entity or character, the concepts of duty and happiness in the second approach relate to the causes of human behavior. As there is a conflict between deontology and teleology in the philosophy of human actions, duty and happiness are mentioned here as the key words of each discipline. Although the first and second approaches specify desirability with regard to individuals, moral principles are not confined to private morality because morality, or ethics, always prescribes the norms of human relations within communities. The third approach to moral philosophy offers the normative standards of social institutions in terms of liberty and justice.

Key words in ethics include several contrasting value concepts such as good versus bad, right versus wrong, and virtue versus vice. *Virtue*, *good*, and *right* are the three basic concepts in moral philosophy that offer the standards of value judgment on what is and is not morally desirable. Any moral theory must define explicitly the relationship between the three paired concepts. Of course, moral philosophers may make free use of these concepts and the language of values cannot be enforced, but the unity of conceptual usage seems desirable for a science.

The concepts of virtue and vice, which are concerned with the state of the soul, are primarily the province of the first approach—addressed to the human entity or character. The concept of excellence, the central notion of Greek philosophy, is covered by this approach, although it is also used derivatively to evaluate individual performance in the second approach.

In moral philosophy, the use of the concepts of good and bad is rather problematical. The good is distinguished by instrumental good and intrinsic good. Instrumental good is the value judgment of an object in terms of its functions and depends on its technical evaluation as a means to certain ends. Intrinsic good is the value judgment of an object in itself or as an end to be pursued. Pleasure, happiness, welfare, health, wealth, truth, honor, power, beauty, friendship, etc., are the intrinsic good. Generally speaking, the concept of

well-being represents the all-embracing notion of the intrinsic good. However, all of these intrinsic goods cannot be seen as right at once.

The concepts of right and wrong are used in all three approaches, because the right is equivalent to moral judgments in general. But the right is better used in the third approach concerning the evaluation of social institutions and rules. It can be used derivatively in the first and second approaches.

In the history of moral philosophy, scholars have placed emphasis on one of the three approaches. The Greeks, especially Aristotle, focused on the first approach and established the ethics of excellence with regard to the human entity. Kant's deontological ethics centered on the morality of human behavior and thus represented the second approach to moral philosophy. In extreme contrast to Kant, utilitarianism, a representative of teleological or consequential ethics, is also concerned with the morality of human behavior. The ethics of John Rawls prescribes principles for the basic structure of society and is typically classified within the third approach, but insofar as it intends an overall critique of utilitarianism, we can also assign utilitarianism to the third approach. In fact, as the doctrine of utilitarianism is divided into act-utilitarianism and rule-utilitarianism, it no doubt includes the second and third approaches.

The three approaches do not clearly demarcate either the language of values or the schools of moral philosophy. But as they do identify the basic categories of moral theory in terms of the objects of evaluation, the value concepts should be used cautiously.

In Table 1, my value language can be compared to that of Henry Sidgwick, who also used three categories of moral language: virtue, good, and right. According to him, these categories apply to the basic distinction between three aspects of human existence: entity or character, desire or feeling, and action. And to each aspect of human existence Sidgwick gave what he called the ultimate reasons for human acts: excellence ("the ideal goal of the development of a human being, considered as a permanent entity"), happiness ("an ultimately desired or desirable Feeling"), and duty ("the kind of Action that we think ought to be done").⁴

Table 1

Shionoya			Sidgwick	
Ultimate end	Object of evaluation	Language of value	Object of Evaluation	Ultimate end
Excellence	Being	Virtue	Being	Excellence
Happiness Duty	Conduct	Good	Desire	Happiness
Justice Liberty	Institution	Right	Conduct	Duty

Sidgwick's ethics excluded social institutions as the objects of moral value judgments because he treated them as the subject matter of political philosophy. His concept of hedonistic utilitarianism, which emphasized the priority of good and happiness, was strategically based on the definition of desire or feeling as a separate aspect of human existence.

4. The Nature of Moral Values

So far I have defined morality or ethics as the social norms relating to individual character, individual behavior, and social institutions. On the basis of these norms, we can prescribe the desirability of objects and evaluate them. Moral prescription and evaluation depend on certain value criteria called *moral values*. The concepts of virtue versus vice, good versus bad, and right versus wrong represent major moral values.

Since a moral value is one of many values, the nature of moral values should be distinguished from values in general. A value has something to do with ethics, but they are

not the same. First, there are various kinds of values besides moral values: aesthetic values, economic values, religious values, and so on. These values are amoral in that they are not ethical in nature; in other words, they are neither moral nor immoral. A moral value must be valid for everyone and in every instance if it is valid for a certain individual and in a certain instance. In this sense, a moral value must be universalizable to an entire society. By contrast, other values reflect individual preferences and must not be forced on other persons. They remain subjective values. Second, a moral value provides the ultimate value judgment, and there is no higher social norm than this. It plays the role of a supreme court of appeal that establishes priorities among competing demands.

A scientific value that accrues to scientific activities in pursuit of truth has some affinity to a moral value for the two reasons just mentioned. First, truth as the criterion of a scientific value should be recognized and shared by all, and second, it is the ultimate criterion by which to judge and evaluate a theory. Both science and ethics occupy an analogous status in the areas of knowledge and life, respectively. John Rawls aptly comments, "Justice is the first virtue of social institutions, as truth is of systems of thought."⁵

Taking this a step further, we can say that knowledge and life are not separate. To learn how to live, one must learn what is moral. On the one hand, the pursuit of morality, unless accompanied by the pursuit of truth, is likely to degenerate into dogmatism and partisanship. On the other hand, a scientific activity based on a love of knowledge is a step toward the well-being of human communities, and morality is the highest thesis for man to learn. A close relationship between a moral value and a scientific value is noteworthy, although a shortsighted correspondence is to be avoided. Plato in the *Phaedo* quoted the words of Socrates: "Hence if one wanted to discover the cause for anything coming into being or perishing or existing, the question to ask was how it was best for that thing to exist or to act or be acted upon. On this principle then the only thing that a man had to think about, whether in regard to himself or anything else, was what is best, what is the highest good."⁶ The correspondence of moral and intellectual excellence was the essence of the

Greek ethic of virtue.

From the conception of the universalizability and ultimacy of ethics, it follows that ethical values involve a potential of conflict. In contrast, tastes and preferences, however diverse they may be, are an individual's business and entail no conflict. Also, the question of instrumental values for a certain end can be settled easily if there is enough knowledge of end-and-means relationships. But because morality must apply universally as the ultimate criterion, it must be judged by itself and therefore moral principles are constantly in conflict. It is ironic that there are also continual controversies and conflicts in science, which ultimately aims at universal acceptance.

Nevertheless, it is one-sided to regard ethics, or morality, as "a battle of the Gods." Morality is rooted in the nature of ordinary human beings. They are endowed with moral sentiments and moral faculties, which entail moral judgments commonly entertained by individuals in a universalizable form. The basis of social formation and maintenance is immanent in the moral sense shared by individuals.

To summarize, a moral value differs from other values in that it is the universalizable and ultimate criterion of judgments. This is the formal requirement of morality and is called the *universalizability* and *ultimate normativity* of morality. It can be compared to what Richard Hare called the universalizability and prescriptivity of moral judgments.⁷ Since the concept of prescriptivity includes, in Kantian terms, both hypothetical and categorical imperatives, or both technical and moral judgments, it seems desirable to substitute the ultimate normativity or ultimate prescriptivity for mere prescriptivity in order to exclude hypothetical judgments from morality.

5. The Interest of Social Coexistence

Our next problem is to ask why ethical values have a distinct nature compared with other values. Ralph Perry stated, "Any object, whatever it be, acquires value when any interest, whatever it be, is taken in it."⁸ Although this definition needs to be qualified, I

will accept this formulation of a value as an object of interest for the time being.

A value is a rationalized idea about the standard of desirability of objects, visible or invisible, tangible or intangible, in which human beings are interested. Desirability is assessed by the extent to which a specific interest is satisfied by a specific object. In terms of this idea one is able to judge and evaluate objects. Consequently, value ideas function as a guide to human choice of actions and rules. If a value depends on human interest, there are various values according to various interests. Based on various aspects of social life—economic, political, legal, technological, scientific, artistic, religious, moral, etc.—in which people are interested, there emerge various kinds of values such as economic, artistic, religious, and moral values. Neo-Kantian philosophers including Heinrich Rickert and Max Weber called all of these together *cultural values*. Total human activities are devoted to the realization of human interests and therefore of cultural values.

Take, for example, a scientific activity. Science is said to artificially reconstruct a patterned reality in light of some values in order to make something intellectually meaningful out of the infinite complexity of reality, and this is what Rickert and Weber in the tradition of neo-Kantianism meant by value-relevance (*Wertbeziehung*). Their writings suggest that scientific objects are established according to preexisting values. But in my view, human pursuit of knowledge of some objects must precede the values to which knowledge is epistemologically related.

Although in economics want or preference is used to explain an economic value, these concepts express subjective attitudes similar to the concept of interest. It is a mistake to assume that want is the only cause of an economic value, for the scarcity of resources is another cause. The stronger the demand for an object and the harder it is to produce, the higher the economic value it commands. On the other hand, however strongly an object is wanted, it has no economic value if it is available in an infinite amount. Similarly, from an ethical perspective, subjective interest in any object is merely one of the causes of its value. It is my contention that any value, once located in the moral world, has an important source besides human interest: that is the *right*. Perry's definition is that a value rests on interest,

but I will argue that a value emerges when it is also subject to the condition of the right.

Whenever a value accrues from those objects in which people are interested, we can evaluate, by means of value standards, to what extent they are satisfying human interests. The abstract term predicating the fulfillment of interest is the *good*, and the language of good or bad is ordinarily used for the evaluation, but concrete standards are different according to objects; for example, the standard of a good university is different from that of a good car.

Then, on what kind of interest does a moral value rest? It is inferred that the origin of the different nature of ethical value lies in the interest in which ethical value originates. Morality embodies the social norms that enable individuals to survive and coexist. We want not only to refrain from deliberately harming others but also to show a due concern or respect for others in the hope that others will treat us similarly. I will argue that a moral value rests on the most basic interests of human beings: social survival and coexistence. Moral sentiments or the moral sense of individuals are a reflection of such interests and are not so much emotional as rational in that they reveal the volition of individuals to act cooperatively according to moral rules.

Thus a moral value is the standard primarily prescribing a desirable society based on the human interest in social coexistence. Furthermore, a moral value prescribes the desirable character and behavior of individuals that are consistent with desirable social institutions. In this way, morality is developed in keeping with the three dimensions of individual character, individual behavior, and social institutions to meet the human interest in social coexistence. At this stage of exposition, it may be allowable to call a desirable society a good society in the way that we refer to a good university or a good car.

When we look at morality in the light of human interest, we can redefine the term in terms of its universalizability and ultimate normativity: first, a moral value is universally acceptable to all persons in a society who have an interest in social coexistence, and second, it is superior to any other value in that it ensures the basic framework of social coexistence, whatever activities are involved in a social life. It is the nature of a moral value that

whatever activities are desirable according to, for instance, an economic or a religious standard, should be rejected or controlled by morality if they endanger human existence. Morality plays the strongest role in constraining various kinds of interests pursued by people so that they may be compatible with others in the society.

The relationship between moral and scientific values emerges at the interface between the areas of life and knowledge. A scientific value has ultimate normativity in the area of knowledge. But science is a kind of activity in social life and, like all other activities, is subject to the constraints of a moral value. This is the problem concerning the moral responsibility of scientists.

This view differs from the value philosophy of the early twentieth century Southwestern School in Germany, which founded the tradition of axiology. In the hierarchy of values Wilhelm Windelband gave a higher status to values such as the holy, the truth, the good, and the beauty because of their abstract nature.⁹ In contrast, we give the supreme status to a moral value for the reason that it is derived from the most basic interest: social coexistence. Our reason is not based on the metaphysical view that a moral value is noble or concerned with an absolute end, like Plato's theory of ideas.

If it is necessary to put interest in human coexistence on a firmer basis, the superior status of morality can be grounded in the elementary truths concerning human beings and their environment, which H. L. A. Hart called "the minimum content of natural law."¹⁰ He set forth five truisms—(1) human vulnerability, (2) approximate equality, (3) limited altruism, (4) limited resources, and (5) limited understanding and strength of will—and from them argued that for the minimum purpose of survival a society must have certain rules of conduct.

To articulate clearly the nature of morality, that moral values are shared by people and take precedence over other kinds of values, it is desirable to use the term *right* for a moral value as distinct from the term *good*, which is used for other values. In other words, the morally good should be called the *right*. A moral value is the principal criterion that prescribes a right society.

As a result of judgments of a right society, right institutions, and right rules, it is possible to adapt moral judgments of rightness to individual behavior and individual character to ensure their compatibility with the right social rules. In fact, usage such as the right conduct or a right person is found in ordinary language. However, we never refer to a right university or a right car. The value of a car is judged instrumentally according to its proper functions and is measured by the terms *good* or *bad*. Evaluation of a good university or a good car depends largely on personal preference and taste and is not universalizable, although to a certain extent there is general agreement on what constitutes a good university or a good car. In any case, these assessments concern the instrumental good, not a moral value.

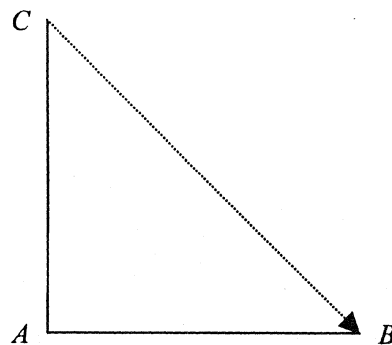
Compared with the instrumental good is the intrinsic good, that is, the good in itself or the good as an end to be pursued. Referring to interest, want, and preference, we can say that a person strives for the good as an end or the intrinsic good. Intrinsic good is not a moral value as such. A moral value is the highest norm that enables the pursuit of different intrinsic goods by different persons to be consistent and compatible in a society. The intrinsic good is defined as the good in itself but not as the right in itself. When the intrinsic good becomes an object of moral evaluation, it is judged as right or wrong in light of its universalizability and ultimate prescriptivity.

I have said that various kinds of values are regulated by the concept of right. Now clearly, various values based on various interests and goods must satisfy the standard of a moral value, i.e., the *right*.

Interestingly enough, besides moral judgments, the term *right* is used in scientific evaluation—for example, as a right theory, a right proof, or a right sentence. Scientific value is judged by whether a scientific work is universally valid and ultimately justified according to certain methodological rules. Although the morally right and the scientifically right are quite different in substance, the value standards in ethics and science share two characteristics—universalizability and ultimate normativity—so that the same evaluative concept of the *right* is applied to both characteristics.

Now by way of digression, Perry's philosophical argument on the relation between value and interest is examined in the context of social science. Pareto's sociological investigation is relevant here. He depicts the following triangle ABC .¹¹

Figure 1



On the one hand, Pareto called nonlogical elements (A) such as human instincts and sentiments “residues” and regarded them as the driving force of human actions (B). On the other hand, he regarded theory, doctrine, and ideology as a reflection of nonlogical elements (A) and identified them as logical or pseudological deductions from “residues.” He called them “derivations” (C). Theory and ideology are merely the rationalized embellishments of instincts and sentiments. Although these artifacts are not necessarily justified empirically and are sometimes rhetoric in essence, they have social utility, apart from truth, to explain and induce human actions. In practice, however, it is not really C but A that produces B .

If this idea is applied to our discussion, it will be revealed that a value is a rationalization of instincts. Ethics and ethical values are rational reconstructions of interest in social coexistence. Perry's founding of values by interests means ideal rationalization of interests that are a manifestation of human instincts. The basic motive of a person as an ethical entity or an ethical agency is to be found in “residues,” not in ethics or ethical values. Pareto found fifty-two residues in all and divided them into six classes. The residues

responsible for ethical actions are those of persistence of aggregates and of sociability.

6. The Nature of Economic Values

Let us turn from the moral world to the economic one. Economy is the activity of resource allocation, in which people with various interests in various areas of social life try to acquire concrete objects that they need. The purpose of the economy is to satisfy the various interests of people through the immediate or future consumption of specific goods and services.

Although economy is only one aspect of social life, it is closely related to other aspects. Corresponding to the interests of people, we conventionally distinguish between aspects or areas of life: the economy, politics, science, technology, art, religion, etc. Whatever the interest in various areas may be, economic resources are always required to satisfy them. Money is necessary to achieve anything through the market so far as its achievement depends on material conditions. In an exchange economy money is an all-inclusive expression for economic resources. Basically, the satisfaction of people's interests requires specific goods and services in real terms, not in monetary terms. To get these goods and services, it is necessary to have income, which in turn is obtained by the services of factors of production. In this fashion, the economic world is pervasively developed to generate resources to support activities in all branches of social life.

As noted, when people evaluate objects in light of their own interests, they use the terms *good* or *bad* according to whether or not the objects satisfy those interests. Corresponding to the adjective *good* there are two related nouns: the abstract noun "the good or goodness" and the common noun "a good or goods," meaning concrete objects or commodities that produce the goodness. The latter is the key concept of economics expressed as "goods and services" and corresponds to instrumental goods. The relationship between the good and goods in English is comparable to that between *gut* and *Güter* in German and between *bien* and *biens* in French. In economics, concepts such as welfare or

utility are commonly used instead of the good to indicate the ultimate ends to be pursued by economic agents and conceal the process in which goods are related to the moral world through the concept of goodness. Good, welfare, and utility all mean the same thing.

If the source of a value is an interest in general, an interest in the acquisition and disposal of goods and services is the source of demand for goods and services in the economic world. Whatever interest may exist behind the need for specific goods and services, economists, without undertaking an inquiry of interests, claim that the purpose of economic activity is to satisfy given wants. Then, subjective utility is created by the satisfaction of individual wants, on the one hand, and economic values are attributed to the objects (goods, services, and factors of production) that contribute to the satisfaction of wants, on the other hand. In a money economy these objects are given prices that are indexes of an economic value, and the sum total of monetary values in a society is the national income. Since the price of a commodity measures the sacrifice that people are willing to make to satisfy their interest and get satisfaction from it rather than without it, the total national income is considered to be the sum of the strength of desires for goods and services (not the strength of satisfactions derived from them).

Thus, Pigouvian “coordinates” are established between subjective welfare, on the one hand, and objective national income, on the other. By this rationale A. C. Pigou was engaged in the analysis of national income under the name of welfare economics without entering into the welfare that is the state of subjective consciousness.^{1 2}

Two important points should be mentioned. First, an economic value does not mean an evaluation of the kind and quality of interests from a noneconomic viewpoint. Diverse human interests derived from various sources of social life are drawn to the economic area and become the basis of an economic interest in goods and services. However, an economic value abstracts from the differences in the kind and quality of interests and evaluates the objects by a unitary money measure. Here is *the transformation of economic values from quality to quantity*. Plural values first emerging along the dimension of specific interests and goodness are aggregated into a unitary economic value along the dimension of

economic instruments to achieve them.

Second, what does an economic valuation consist of? Goods and services are made from resources and then satisfy wants. Goods and services mediate between resources and wants. The tension that exists between resources and wants is called *scarcity*. Goods and services located between resources and wants naturally have scarcity, and an economic value of goods and services indicates the degree of that scarcity. Money and income, by which one can purchase goods and services, and economic resources, from which one can produce goods and services, also receive economic values imputed from the scarcity of goods and services. This is the principle of imputation asserted by the Austrian School of economics, the forerunner of Austrian axiology. Whereas interests and wants are subjective, resources have alternative uses to satisfy various interests and wants, so that the scarcity of various goods depends on the objective evaluation reached through the interrelationship of markets constrained by economic resources. The interrelationship between scarce goods is actually represented by the network of relative prices. Here we have *the transformation of economic values from subjectivity to objectivity*.

An economic value, which can transform all kinds of values both from quality to quantity and from subjectivity to objectivity, has a remarkable capacity for universalization. With such a unique feature, an economic society is an evaluative society. It is not only due to the speed of industrialization that the economy has swallowed all other areas of society, rather than remaining a single area among many. The fact that an economic society consists of an evaluative society with a definite means of economic valuation is the foundation for the universal dominance of the economy over society. Industrial development based on technological innovation was made possible only on this foundation. The essence of technological innovation is to relieve the tension between economic resources and the good. Statistical studies of economic growth leave no doubt that the economic world has contributed to an increase in the good overwhelmingly through technological and organizational innovation, which means a challenge to economic scarcity, rather than a rise in economic efficiency or resource input.

7. Two Schemes of Social Integration

We have seen that both moral values and economic values have a high capacity for universalization. The social function of the economy is to acquire *goods and services* that will make all human activities feasible through the provision of their material conditions. The economy is related to all areas of human activity because it contributes to the realization of all kinds of the *good*. Moreover, an economic value abstracts from every circumstance in which people need specific goods and services and expresses a monetary aggregate of desires that is measured objectively by market prices.

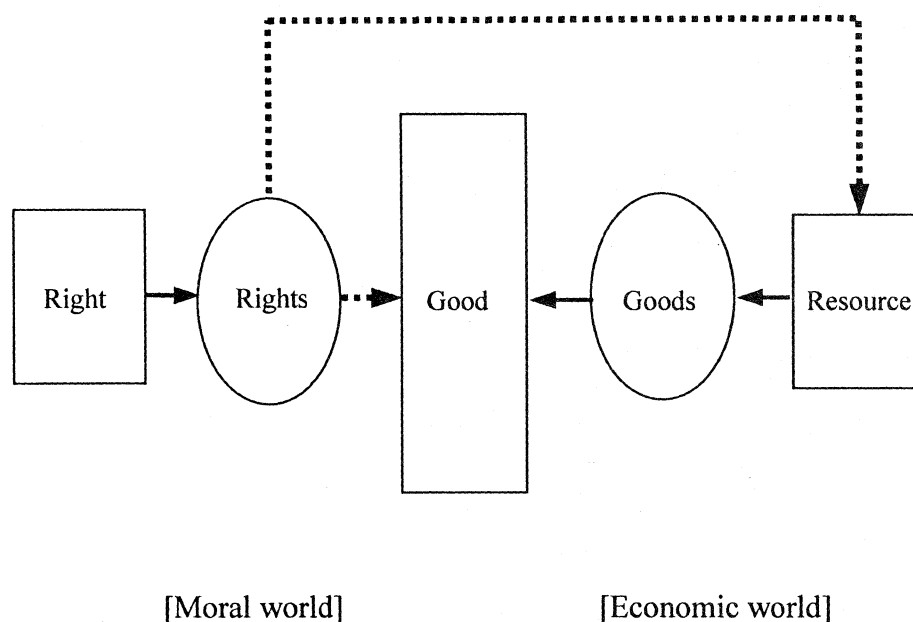
So that an economic value may dominate society by means of a monetary unit, a market economic system comprising goods and services, land, labor, and capital should be established on the basis of a monetary economy. The universal dominance of an economic value that is potentially available in any economic society comes into effect visibly in the market economy in the form of monetary valuation of all social areas.

On the other hand, a moral value is universally valid as the standard that enables the survival and coexistence of human beings, permitting the pursuit of their own plural goods. In view of the supremacy of ethics, ethical norms evaluate and regulate in terms of the notion of the *right* all areas of social life, including the economy.

There is a remarkable parallelism of the economic and moral world. In various areas of social life there are plural goods that are based on various interests. In the economic world, so far as human interests and human goods are constrained by scarcity, various kinds of the *good* are ultimately controlled by the unitary regulative factor of resources. *Resources* permit alternative uses for realizing various goods and make the social coexistence of goods economically feasible. Concrete physical means for realizing the good is called *goods* along with services. In contrast, the moral world uses the regulative idea of the *right* to ensure that plural goods coexist in society. Concrete institutional measures for realizing the right is called *rights*, which directly or indirectly regulate the goods.

The economic world and the moral world are thus two grand schemes that regulate plural human goods by their own distinct universalizing capacities. The *resource* in economics and the *right* in ethics are the two ultimate regulators of the social coexistence of multiple human goods. *Goods* as physical objects are produced from resources and *rights* are derived from the right; goods and rights constitute a pair that contribute materially to the realization of the good in the two worlds. The image of the two worlds is depicted in Figure 2.

Figure 2



An economic value is created not by interests and goods alone but also by a tension between the limitation of available resources and the desire for infinite goods. Similarly, an ethical value is established on the basis of a tension between the imperative of the social coexistence of the goods and the desire for infinite goods. An economic value is defined in

terms of resources and the good, and an ethical value in terms of the right and the good. The question concerning the relationship between the economy and morality amounts to how to integrate the two grand schemes.

It is important that the interface between the two worlds is located along the dimension of the good. Morality is not an order in a vacuum but is addressed to egoistic persons with their own goods. Nor is an economy an amoral world where the creature of economic textbooks exists without the constraints of morality. So how can the two worlds be integrated?

It is well known that the imperative of efficiency in resource allocation is derived from the condition of scarcity in the economic world. From the same condition of scarcity the imperative of justice in distribution must also be derived, for scarce income and wealth produced under scarce conditions must be distributed justly. Economics, however, has avoided dealing with the problem of distribution and left it to deliberation in ethics. Whatever the division of labor in economics and ethics, any economic institution should define the methods of distributing scarce goods produced from scarce resources. In other words, just as economic institutions should be concerned with efficient resource allocation in the production of human goods, they should also be concerned with the just distribution of human goods among individuals from a moral point of view. The issue of the relationship between the two value concepts, *efficiency* and *justice*, is the first point for the integration of the economy and morality.

In this respect, the basic question is how to define the ownership of resources; this is the starting point of economic logic. As the long dotted line in Figure 2 shows, the moral world enters the economic world through the entitlement of resources by defining ownership rights. For example, under the economic institutions of capitalism exchange in the markets is based on the private ownership of resources.

The structure of the moral world to be linked with the economic world differs according to different moral theories. The ethics of utilitarianism holds that there is no moral value higher than the good and that it is the right to maximize the sum total of goods.

The good is prior to the right. Therefore, the ownership of resources must be determined to maximize the good through the implementation of the right. In contrast, in the ethics of contractarianism, the right is prior to the good, and this idea governs the distribution of resources accordingly.

As indicated by the short dotted line in Figure 2, the provision of social services in a welfare state is based on the claim of the right on specific needs or goods and represents an interference of morality in the economic world. Social policy should provide the goods and services to this end. The modern welfare state is characterized by the use of other machinery, in addition to the market mechanism, that is concerned with the social provision of specific needs operating not on the dimension of the stock of resources but on that of the flow of goods and services. This machinery is the social security system. Social security and the market system together constitute a mixed economic system.

Given the market economy, freedom is regarded as another value along with efficiency. As far as the economic behavior of individuals is concerned, freedom only means freedom of choice, of exchange, and of competition, i.e., freedom required for the realization of efficiency. Thus in economics individuals are assumed to choose rationally consumer goods, their occupation, and so on according to given utility functions. But individual freedom also works to revise the aims of individuals and to realize the better good, because the good is not necessarily fixed as an end. In this sense, freedom is the basic value of the moral world, and free persons rewrite the notion of the good that is given to the economic world. Freedom has to do with the excellence that is created by freedom. The notion of excellence is nothing but virtue in traditional ethics. The quality of the human entity as a stock is constantly being revised under the security of freedom. Virtue or excellence concerning the character or entity of individuals reflects what human beings have desired beyond the economic dimension when they are considered to be free and autonomous persons.

Freedom is the basic value underlying the economic and moral worlds; the true value of freedom in an economy does not consist of mere freedom of choice, of exchange, and of

competition under given conditions, but of freedom from economic constraints of the world through technological and organizational innovation. Economic freedom has created economic versions of excellence through dynamic competition in the market. The question of the relationship between the two value concepts, *freedom* and *excellence*, is the second point for the integration of the economy and morality.

In short, the concepts of *efficiency* and *freedom*, leading paired concepts in economics, are not self-contained but regulated by the moral paired concepts of *justice* and *excellence*. The integration of the economy and morality must be considered not only in light of the traditional dichotomy in economics, *efficiency* and *justice*, but also in light of the traditional dichotomy in ethics, *freedom* and *excellence*. In particular, the latter consideration from a wider perspective will give us a genuinely new frontier for a closer association between economics and ethics.

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