

# **PERSPECTIVES**



## IS ECONOMICS INDEPENDENT OF MORALITY?

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### PERSPECTIVES

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On questions of morality, ‘Contemporary Economics’ stands mute. Economists prefer sidestep moral issues. They like to say that they study trade-offs, and incentives and interactions, leaving value judgments to the political process and society. Today, Economics is commonly regarded as separate from and independent of ‘Ethics.’ It is not that the two are different subjects, like Mathematics and History, but that they are disciplines unrelated in any fundamental way; because they are seen to be so different from one another. Keeping economics and ethics separate, is viewed as a highly desirable state of affairs. On the one hand, their argument is that Economics is a science, and as such is concerned with facts. Ethics, on the other hand, is concerned with values, which are not amenable to the same rigorous treatment as facts. With this view of facts and values, economists quite naturally want to put as much distance as possible between ‘Ethics’ and Economics.

Economics did not begin as a science independent of Ethics. Adam Smith, who is generally regarded as to be the founder of “Free Market Economics,” was both a moral philosopher and an economist. Smith came to his philosophy of economic behaviour, described in *The*

*Wealth of Nations* through his view of moral behaviour espoused in his first book, *The Theory of Moral Sentiments*. He made no attempt to draw a sharp line between ‘Ethics’ and Economics, or to keep the two separate, Indeed, *The Wealth of Nations* is Smith’s attempt to explain and defend a system of natural liberty (Smith, 1976a and 1976b).

Smith suggested that rational self-interest informed by moral judgments based on fairness and justice, would lead to promote the best interests of society, guided by the invisible hand of the market place. He approached Economics with a deep sense of right and wrong and talked about the need to maintain the ‘Laws of Justice’ in all things. Efficiency was important so was sustainability. With freedom came responsibility. Freedom did not mean that we could ravage the planet for short term gain. It did not mean that mortgage salesmen could sell loans which would force borrower into destitution. ‘Freedom’ in the enlightenment sense, always carried a responsibility to others and to society. Smith also believed that wealth should not just benefit the individuals who created it, but wider society too. So he thought that the rich should be taxed more than the poor. He also said that profit should not be too high. If it were, he said, ruin would soon follow.

In Smith’s Sort of Economics, profit was defined as “returns sufficient to maintain a business long term.” If they got too high, he believed that the invisible hand would ensure a stiff dose of competition brought them back into line. This was everyone’s interest because excessive profits, act against social harmony. They increase income inequality.

Today, we have abandoned Smith's Sort of Economics. In the decision making process, there is no place for 'ethical decision making' in the current context of Economics. Milton Friedman postulated that "**the social responsibility of business is to increase its profits.**" "Maximizing shareholder value" is how it would be described today. Milton Friedman argued that competition between big businesses suffices to safeguard the public interest, but in practice, it is almost always insufficient, especially where there is collusion among the players to safeguard their market dominance, and their political influence (Friedman, 1962 and 1980).

We can observe that in the technology and many other sectors, companies generate huge profits. Moreover, many of the financial institutions that have made the modern market economies so unstable in the recent years, make their profits from speculating. They just do not make excessive profits, they hardly add any economic value either. The same is true of the trading houses, commodities brokers, property developers. Some of the big investment banks regularly make more than \$ 100 million a day, simply betting on the market. They gamble but fiddle the outcome in their favour. Is it acceptable that many of the largest companies in the world make their profits from gambling, rather than supporting economic growth or financing business development?

It should be evident however, that this is not a reliable route to a good society. Five major problems emerge around this strategy of profit maximizing behaviour: instability, insecurity, inequality, monopoly

power and unsustainability. The problem of economic instability was all too obvious in the wake of the global financial crisis. Economic institutions pursuing profit without social responsibility resulted the most sharply pronounced financial crash, since the Great Depression in 1929.

Economics has made its own attempt to solve some of the problems involved in the moral judgment, in what we know as *Welfare Economics*. I believe this attempt has been a failure. ‘Welfare Economics’ attempts to ask the question “*What do we mean when we say that one state of a social system is better than another in strictly economic terms?*” The Pareto-criterion compares two social states, A and B, and makes a claim about whether the policy change that brings us from A to B is desirable or not. The most celebrated answer given is *the Paretian optimum*, which states that if in B all individuals have the same welfare as in A, and at least one of them has a higher level, then moving from **A** to **B** is a Pareto –improvement, and the Pareto criterion recommends the move from A to B on grounds of efficiency.

Many, if not most, economists accept the Paretian optimum as almost self-evident. Nevertheless, it rests on an extremely shaky foundation of ethical propositions. As many have argued, the Pareto-criterion remains undecided about the fairness or legitimacy of **A** as the starting point. *The Pareto-criterion also doesn’t attach any importance to distributive issues in either A or B*. If those who are living in misery stay equally miserable, but due to some policy or social change the ultra-rich become even richer, then can we all agree that this social

change is a social improvement? I am using this example of the Pareto criterion merely to support the claim that economists need to think more about the values embedded in their theories.

There is good reason to think that economic theory is itself in crisis and that arriving at a better understanding of Economics, is a necessary goal of long-term prosperity. Human societies neither move like planets, nor like molecules or DNA, of which the movements can be mapped with mathematical precision. The people in societies move under the laws of motion determined by themselves. The ambition of modern economic theory to resemble the Natural Sciences, has excluded the aspects of economic life that have no reliable parallel in nature, and therefore, cannot be understood with the aid of methodologies designed for the Natural Sciences. The exclusion of the moral quality of economic phenomena in the name of scientific objectivity has produced a 'reductionist' and 'determinist' discipline.

A further cause of disquiet is the Mathematization of human behaviour and desire for predictive models. Heavy emphasis on Mathematics has caused Neo-classical Economics to rely upon increasingly questionable presuppositions about individual autonomy and full information in decision making. The over-reliance upon mathematical formulae is at the root of why economists have become detached from ethical aspects in their professional studies. The use of Mathematics in Economics is undoubtedly very impressive, but there would appear to be a paradox here. Mathematics being synonymous with rigour and

precision, how is it that, it plays such a role in a discipline where vagueness reigns. As the economic and social world is so difficult to grasp schematically, to reduce to simple laws, the temptation is to take refuge in fictitious worlds, in models which have little to do with what can actually be observed but which lend themselves to endless mathematical refinement. The most important of life's criteria and its purpose are ignored. Behind the shield of Mathematical Formalism, Economics has given remarkably little attention to its hidden moral assumptions.

Further, we have created a society in which Materialism overwhelms moral commitment, in which the rapid growth that we have achieved is not sustainable environmentally or socially, if we do not act together to address our common needs. Market Fundamentalism has eroded any sense of community and has led to rampant exploitation of innocent and unprotected individuals.

I believe that much of Economics, as it is now taught, is morally bankrupt. The renowned economist John Maynard Keynes said, "Practical men who believe themselves exempt from any intellectual influences are usually the slaves of some defunct economist". The Neo-classical Approach has become increasingly irrelevant in understanding of the modern capitalist system.

There are three pervasive economic myths that have been around for a long time. The first is that markets are fair. Markets do *not* provide the right outcomes for the benefit of most of the people. Sometimes, this

myth is linked to the idea of 'invisible hand' of Adam Smith. But the situation on which he predicted, it was that there were a large number of buyers and sellers, none of whom could influence the price and that those actors were behaving in a moral way. Now neither of these assumptions applies. We see huge concentration of power in many markets. Look at the purchasing side. Do people have equal purchasing rights? The second of the three myths is that prices tell the truth. But, prices do not tell the social or the environmental truths. Third myth is that more income equals more happiness. For many people in the world it does not. It probably holds true if you are poor.

Much of Economics is morally insolvent, because so many people cling to these old myths. Clearly it suits the most powerful people to keep perpetuating these myths. The time has come for Economics to change direction and to find a path which does not deviate from true human values. The obvious unrealistic nature of Neo-classical Economics has begun to attract many calls for change. Many Presidential addresses of the American Economic Association, in recent times have paid attention on this issue. One of the strongest agitations regarding this issue has come from university students.

In France, in June 2000, a group of Economics students from some of the most prestigious universities including Sorbonne published a petition on the web protesting the lack of realism in Economics teaching, uncontrolled use and treatment of Mathematics as 'an end in itself,' the repressive domination of Neoclassical Theory and

Approaches in university Economics curriculum. They further argued that the drive to make Economics more like Physics, was flawed and, that it should be pulled back in line with its more social aspects. They called Economics they were being taught an *'autistic science'*, lost in imaginary worlds.

In June 2001, a group of Ph.D. students at Cambridge University published their petition "Opening up Economics". By "Opening up Economics" they meant becoming mindful of the limitations of the mainstream approach – that is Neo-classical Approach to Economics. To understand the real world economic issues, they argued that the validity of the Neo-classical Approach is disputable.

More recently, in November 2011, about 70 undergraduates walked out from Professor Mankiw's EC 10 Economics lecture at Harvard, claiming that his teachings have driven the inequalities in today's society. They were deeply concerned about the overly conservative bias in this Introductory Economics course.

Economics has not experienced such a pressure to change since the 1930s. Then the complaint was its inability to explain the "Great Depression" and to effect a recovery. It responded by inventing macroeconomics. Today, indictment is both more general and more serious: Economics, as taught in universities neither explains contemporary reality nor provides a framework for the critical debate of the issues in democratic societies.

Does Economics merely study society or does it play a decisive role in *creating* it? If we actually construct reality with our thoughts and actions, then we all have a quite different moral responsibility for what we say and do. The increased knowledge of ethics should improve the policy prescriptions of economists. Economic policies, like any other actions, can be judged by ethical standards. If economists recommend a policy on economic grounds, but ignore the ethical side of those policies, they can endorse policies that promote harmful moral principles, principles that the economist himself might disagree with, if he reflects on them.

For example, economists often recommend policies on the grounds of economic efficiency. As long as the efficient use of resources takes place within a social system, that respects rights, this is a desirable aspect of economic activity. But what about advocating the poor rural women to go to Middle East for jobs. This policy may be efficient in terms of reducing the rate of unemployment and increasing the inward foreign remittances. Even if these policies are efficient, are they desirable?

Another advantage of exploring the relationships between Economics and Ethics is that it would give Economics a broader and more humane focus. It would help economists focus on the rich contexts within which economic choice is made. It would emphasize that Economics is more than the study of maximizing, it is also the study of social order, which requires acceptance of moral principles. In sum, incorporating Ethics into Economics will make us more cognizant of the effects of

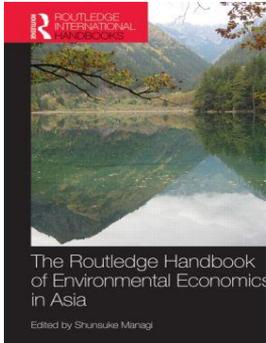
our policy, will improve our theory, and will give Economics a broader and more humane focus.

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# **BOOK REVIEW**





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## **INTRODUCTION**

Environmental economics is rapidly gaining its recognition as a paramount field of study with the current phase of competitive development process. The dynamics of such a development phase will naturally lead to create environmental problems globally, across countries and regionally or even across provincially within a same country. The priorities of societies are made more on income, production and employment than natural resource management and environmental impacts of such procedures. In their present forms, for example, almost all the countries national income accounts measure growth rather than measuring sustainable development. However, as countries reach their development goals they gradually draw more

attention to maintain the quality of environment. This phenomenon has been correctly observed by the environment Kuznets Curve (EKC) seems to be a proven fact regarding rich countries as well as middle income and developing countries. The first comers and later comers to the industrialization put more emphasis on the importance on keeping up the developing process with environmental sustainability. Being one of the fast growing regions countries in Asia except for a few newly industrialized countries are currently in the process of gaining their development momentum under the rapid development currently in progress. Thus it is important to keep on tract with possible adverse impact and vulnerable effects on environment and consequences in these countries. Nevertheless the dearth of research, study materials and textbooks has made some limitations to have a broader and updated understanding about the subject as a discipline for the students as well as for the other actors in the field. Hence, the “Routledge Handbook of Environmental Economics in Asia” is undoubtedly a valuable and commendable product collection of chapters that covers many of the vulnerable areas that directly or indirectly link to environment quality and resource economics under the current phase of development in Asia-Pacific region. Therefore, it is worth writing a book review on this publication to provide a better understanding and comments about the book to the readership and to make the readership even wider. Thus the main intention of this book review is to uncover some of the important aspects of using it as a handbook on environmental economics for teaching, learning and awareness of the subject for conducting research and policy making.

**Some attributes of the collection of the chapters and intentions of the authors**

The chapters of the handbook organized in such way as to understand the evolution/development of the discipline from more traditional topics of economic growth and environment to tax, emissions trading and energy utilization to more growing topics including biodiversity, coastal management and representative country applications. Hence the sequence of chapters is appropriately arranged and thereby the reader or the user of the book can either start with the basic concepts of environmental economics and gradually moving on to contemporary issues or any specific chapter that reader may think is relevant or important for a purpose.

The authors are the most recognized well known academics, researchers and institutional position holders from various parts of the world are the renowned scholars in this field of study. Collecting book chapters from such an internationally outstanding scholars in this field and coordinating them towards getting this final result itself is a great success and a challenging work. The main intention of writing this handbook is to provide a prestige reference work to current scholarship in the expanding discipline of environmental economics particularly applied in Asia-Pacific region. Achievement of this attribute is evident with focusing all chapters directly or indirectly to the contemporary or emerging environmental problems such as coastal development,

biodiversity offsets and issues relating to environmental and resource policy in Asia pacific countries.

As mentioned by the editor of the book this is an *intradisciplinary* collection of papers where environmental economics focuses with wider view to incorporate diverse aspects economy and environmental problems. This intention of authors reflects from the contents of each and every chapter as they all have used economic theory, empirical observations or data collection and analysis to consider the possibility for actual practice in policy. Furthermore, the lack of literature and attention to the economic and environment importance with particularly focus on Asia pacific region identified. Therefore, out of the 31 chapter more than half is dealt particularly on the countries in Asia pacific region. The intention of the authors in this aspect seems to be successful as almost all the chapters have made effort to use innovative/improved techniques to make those assessments to have consistency and show directions of the current practices.

### **Accomplishment of the Purpose of Writing the Book**

As shown in the Table of Contents, the volume of 31 chapters is organized in the order of more traditional topics that provides general understanding about the subject to diverse and specific areas and debates with applied techniques for Asia-Pacific. This collection is therefore appropriately arranged even the beginners to the discipline will find interesting to follow a course of study in environmental

economics since these chapters reflect starting with more general topics to the progress of increasing diversity in the contemporary research based on improved techniques. Also each chapter provides a balanced overview of current knowledge, identifying issues and discussing relevant debates.

The first five chapters in this handbook clearly shows a general overview on the relationship between environment and growth which is relevant not only to Asia pacific but also to any country that making its effort to achieve development goals. This part starts with exploring the possible outcomes of climate change and global economy under three CO<sub>2</sub> mitigation scenarios using two analytical methods. It makes highly relevant for developing countries to draw attention to environmental quality while development process continuing. Although there is missing values to the data the third chapter proves the presence of inverted U shape for Asian countries. This is important for this region since rapid population growth in china, India and south Asian countries will become major emitters of CO<sub>2</sub> and SO<sub>2</sub> in Asia. Therefore environmental friendly technology is required to mitigate the impact. It emphasizes in the 4<sup>th</sup> chapter proving the need for formulating public policy for making the development process efficiency in energy intensity and energy efficiency. It poses a question on to reconsider GHG emission in consumption and production in chapter 5. This part of the book provides the essentially necessary background for the students, academics and researchers to prepare and

move forward into more specific characteristics and problematic areas in the discipline.

The second part of the theme identified from this book review goes from chapter 6 to 20 which spans environmental policy issues and mitigation measures. For instance the chapter 8 raises the point correctly with the theory of emissions trading and taxations which shows commendable effort to formulate good mechanism to policy making for any country but for the Asian countries market power is problematic due to monopoly, welfare and distortions. Thus applicability is problematic due to market inefficiency and uncertainty with ownership and payment problems. Furthermore, the emerging situation becomes more challenging since supply and demand trends of nonrenewable energy in Asian countries with their industrialization, consumption patterns, urbanization, and wealth and income levels living standards improving while population keeps expanding. However, the book chapters 15 and 16 carefully examine the possibility for addressing these dimensions. The necessary technical knowledge and methods are presented in terms of valuation of environmental benefits in Asia using different valuation techniques that are important for research. Revealed preference method, travel cost method, hedonic pricing method, averting behavior method, benefit transfer method, contingent valuation method. In fact these methods are useful for conducting academic research.

This part of the subject could raise some conflicting debates due to the diversity in terms of socioeconomic, cultural and political concerns

especially in Asian region. The book has drawn attention exploring the nature of intractable issues in agriculture and tourism industry where natural resource use and production intensity pose questions on possibility to apply the valuation techniques and priorities for the conservation of natural and bio diversity. The problematic situation and the mitigation measures in this regard is appropriately given in chapter 19 and 20 referring to faster rate of development in coastal areas so that damage done to coral reefs, and wildlife. A large proportion of population is living closer to coastal areas due to many reasons. Therefore coastal development and protecting ecosystem is important. Thus authors suggest that tourism can be used as a conservation tool which is a commendable strategy to mitigate the adverse impacts. The recommendations and the direct actions implies by these chapters may not be feasible and politically desirable in the short run. Nevertheless educating the people improve awareness and introducing new technological methods of production can help to mitigate adverse impacts in the long run.

The rest of the chapters are dealing with specific policy issues and contextual environmental problems plus mitigation measures. The contents of the chapters explore agreeably the diversity and the rigor of the environmental problems that depending on the status of the development in each country and socioeconomic and cultural factors. In chapter 24 refers inequality and the environment where mostly the developing countries in Asian experience economic growth with growing inequality that leading to resulted in greater environmental

degradation. Whereas Japan, Korea and China the situation somewhat different regarding the determination of standards of domestic environmental policy. These examples and cases provide a broader understanding about the nature of this discipline to the reader which is a highly appreciable aspect of this handbook.

### **Some Comments on the Features of the Book**

The first part of the book deals with environmental and resource economics in general applicable not only in Asia-Pacific regions but also in other countries regardless of their development status. The book itself shows that most of environmental damages are created not by developing countries but by the industrialized countries. This includes CO<sub>2</sub> and SO<sub>2</sub> emissions, GHG, E-waste which are tremendously high in extend compare with the countries in Asian region. However, these aspects are lightly referred in this book and less attention is paid to formulate feasible solutions and to explore potentials for some compromise solution among countries such as Japan, China or any other industrialized country. However the geopolitical perspectives relating to environmental problems are not adequately focused in this book. But such moves may play a crucial role to keep up with environmental protocols among the countries in Asia and globally for negotiations.

Also some various methods used in countries to estimate carbon tax, fuel tax and so on but a little or no attention is drawn on how this tax

revenue should be spent on improving the quality of environment. Therefore, inclusion of some comments and chapters in relation to implementation of suggested policies would have contributed immensely to achieve the purpose of this handbook. In most of the cases the biggest problem for protecting and conserving the environment is relating the absence of good institutions and lack of political will. Another practical problem to look at is the economic hardships in particular resulted when addressing the environment problems in developing countries. Thus many limitations to these recommendations arise unless developing countries are adequately compensated otherwise their growth potential would be hindered and will further accentuate the growing divergence between developed and developing world. These practical aspects are lightly touched in this book and probably the reader will have to read alternative sources to understand these complicated nature of the subject. Regarding the technical aspects, the beginners of the subject may find challenging understanding the book if the reader does not equip with quantitative methods adequately. Therefore, laymen and beginners need to undergo some prerequisites to follow a course using this as a handbook.

## **CONCLUSION**

This handbook provides a good collection of papers which provides current state of knowledge, debates and relevant literature. Also this collection will undoubtedly add and enrich the literature available

particularly regarding the environmental economics and its concerns in Asia-Pacific region and filling the gap of inadequate material for students and researchers. Most of the education institutions will find this book as a textbook for expanding the courses not only on this branch in social sciences but also agriculture, engineering and other pure sciences regarding the relationship between development and environment. The stakeholders in this field will find the usefulness of the valuation and analytical techniques to have a better understanding of the subject. The readership will mostly consist of not only graduate and postgraduate students, academics and researchers but also the practitioners in the ground will also find this to be of a valuable handbook for various purposes such as studying, conducting research and policy making.