

# DIGITAL DEVELOPMENT DEBATES

Reintroducing ethics to economics and development theories

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**Frank Jan de Graaf argues that the domination of neoclassical economic thinking in academia has contributed to the economic crisis and hindered thinking about sustainable development. Currently, ethics is re-entering the debate about how to develop prosperous open societies. A group of NGOs recently came up with an interesting alternative perspective on economics and social development. Their thinking could enrich mainstream economics.**

Eight years ago, when the newly elected Dutch Prime Minister Balkenende pled for discussion about norms and values in society, he received fierce comments and laughter. With the appearance of the financial crisis, times have changed. Ethics is re-appearing in the debate inside economics with development organizations sometimes taking the lead.

Balkenende made his plea in at a time when a limited view of economics was dominant. For the past two decades, economics has developed into a science in which just one methodology and one theory have gained exclusive rights. This narrow focus was an important contributing factor to the current crisis. Economists should have immersed themselves in historical knowledge and academic modesty. Now, though, the downside of neoclassical theory has been revealed and failing financial markets have plunged the global economy into crisis.

It is, therefore, high time for a debate on economic concepts as taught in universities and business schools. Are students really trained to think critically about economic theory and the consequences when economic theories are put into practice? Such a debate must focus on the sustainability of the four assumptions behind current economic science. This should also be followed by policy makers since, as Stiglitz describes, international policies on sustainable development are also trapped in a neoclassical perspective on economies. Here Stiglitz speaks about market fundamentalism.

What is meant by market fundamentalism? In recent years, students have learned that the economy is made up of (1) rational individuals seeking (2) maximum satisfaction who are (3) fully informed in a (4) market that strives for equilibrium.

This has led to a generation of economists who believe in market forces, but who can only develop models and generally just add nuances to the existing economic theory. In the last ten years, Nobel Prizes have been given to economists who have modified assumptions on market equilibrium, rational action, optimal satisfaction of needs and comprehensive information. The one-sidedness of academia has major implications for the real world. The neoclassical theory has been copied by policy makers, investors, bankers, risk managers and regulators such as Mr Greenspan without any differentiation. Many investors really believe that market-driven selfishness is a good thing and that performance can be measured objectively. The exaggeration of scientific models was directly introduced into the real world. This led to a crooked view of reality among banks, insurers, pension funds and advisors.

## 1 History and financial data

The nearly exclusive focus on financial data is one unhealthy attitude. We have seen that ratings or approved financial statements actually say very little about reality. To have clear insight into risks, we have to look at all aspects of an organisation.

In their classes academics have not warned students sufficiently about the weaknesses of their knowledge and methods. Building models is both an economist's strength and weakness. By definition

models are based on limited assumptions including psychology, historical developments, human failure and group ideology.

Current economists' methodological blindness is inconsistent with academic tradition, which states that any theory is only as good as its underlying assumptions. A good economist knows the weaknesses of his theory and methodology and is prepared to debate them.

Frits Bolkestein, former European Union Commissioner of Competition, states in his book *The Two Lights of the Statesman* that policymakers and politicians decide best when their decisions are based on logic and historical insight. The tragedy of current economic science is that it only allows itself to be enlightened by logic.

Economic models have great logical elegance but lack the other historical perspective. Historical knowledge and methods are almost extinct. The best fruit of historical knowledge is humility. Historians are more aware than anyone else of the difficulty of truly understanding and determining facts even when events have already taken place.

Widening their orderly world of clear assumptions and models to include different disciplines, however, makes economists uneasy. Still, it is incorrect to assume that economic knowledge is applied correctly when academic economists simply stick to strict methodological rules. Even more striking: because economic models are independent of reality, there is room for the abuse of scientific knowledge and methods.

### **A linguistic perspective presented by NGOs**

A new perspective on social and economic development has recently been published by a number of NGOs, under which WWF, Oxfam and Friends of the Earth. The "Common Cause: the case for working with our cultural values" report describes the relationship between ethics, values, economic development and aid. It discusses how campaigners should use the work of linguistics like Lakoff. People are always guided by implicit value structures. If they are to be motivated, these value structures have to be made clear.

The current financial crisis unveils some problematic value structures or, in the words of the report, some deep frames. The addiction to debt in order to finance consumption is one critical issue. Overloaded bonus systems can also be seen as a sign that the value structure of the financial market does not serve the common good. And when Stiglitz describes mainstream economic IMF policies concerning developing countries as fundamental, it appears he is describing a deep frame as well.

Currently there is a big gap between these thoughts and mainstream economic thinking. Linguists and NGOs are living in separate world from policy makers and economists. Here is a critical problem and a challenge for academia. How can these worlds be brought together again to serve society and help individuals grow? The strength of the NGO report is that it develops a strategy for change, expressing the relevance of words and how words can change people's perception of the world. This is a key strength.

To enable these worlds to come together – economics and linguistics, mainstream policy makers and NGOs – everyone needs to take that critical first step, Both mainstream economic thinking and the report from the NGOs try to suggest presenting 'objective scientific knowledge'. This leads to a debate between conflicting scientific views of reality. Philosophers like Feyerabend and Habermas have demonstrated that science is not 'value free', but a deep frame in itself, as is religion.

For a real debate in society and academia about the future of economies, sustainable development and aid, we need policy makers and scientists who are open about the weaknesses of their trade and transparent about their ethical assumptions. Science itself does not give clear straightforward solutions for solving economic problems. Every solution is built on a deep frame, on ethical assumptions.

I think that when we strive for change, we should help people understand that there is not one best

practice, proven scientifically. As humans we have several practices that try to help us through today's complexity and that these practices all have their weaknesses. What practises are most suitable in any given situation is a moral judgment call. With this perspective, the attention on linguistics by campaigners could enrich mainstream economics, enabling policy makers to develop new avenues for sustainable development

This article is partly based on an article of the same author, titled: Economics, scientific doubt and history, EFMD Global Focus: 4(1), p49-52.

The report "Common Cause: the case for working with our cultural values" can be found at [http://assets.wwf.org.uk/downloads/common\\_cause\\_report.pdf](http://assets.wwf.org.uk/downloads/common_cause_report.pdf)