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## ECONOMICS AND ETHICS: A HISTORICAL APPROACH

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### PREMISE

Amartya Sen<sup>1</sup> (1933-) is one of the greatest scholars who studied the relationship between ethics and economics and was held the Nobel Economics Prize thanks to this. At the awarding of the Nobel prize, while talking about his studies, the motive was: "...has been highly instrumental in restoring an ethical dimension to economics and related disciplines". Precisely the theories of this binomial taken from the work of A. Sen "Economics and Ethics" are the basis of this work.

Thanks to A. Sen<sup>2</sup> there is proof that there has been a strong detachment of economics from ethics and this is to be considered as one of the greatest lack of the modern economic theory. The basis of the argument of the Nobel Prize winner is the idea that economy can be made more productive in paying more attention to ethical considerations which determine human beings' behaviour and judgement.

Sen, affirms that the predominant economic theory is the one based on individual interest aimed at the maximization of one's own benefits, yet there aren't proofs that this maximization is present in any choice of men. Moreover, it is not true that by only following one's own interest it is possible to reach excellent economic trends. Adam Smith's theory itself on self- interest, if careful interpretation is provided, do not represent a support for the defenders of human behavior which is only moved by self-interest. Obviously, there might be peculiar situations too where self-interest might lead to ethical approaches.

Ethical economics is based on the behavior that individuals exercise in doing business practices. It is then useful to understand what causes such behaviors, therefore it is important to retrieve

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<sup>1</sup> <http://biografieonline.it/biografia.htm?BioID=1838&biografia=Amartya+Sen>

<sup>2</sup> Letiche J. M; prefazione a "Etica ed Economia" di A. Sen; Traduzione di Maddaloni S., Ed. Laterza, Terza edizione 2001

an interdisciplinary economic study, as Robert Skidelsky claims in his work *“The return of the Master”*.<sup>3</sup>

In this script he tries to give a perspective on the reasons which push an individual towards justice and equity. This dissertation arises from the theories of a few great political philosophers who found their teachings not only on the intrinsic reasons of the human nature but also on the role a State must have to make possible for a civil society to exercise those principles previously said. All the authors considered assume that the individual is a social animal and so the latter is analyzed and studied as integrated in a social context .

#### ARISTOTLE AND POST-ARISTOTLE, THE ORIGINS OF THE RELATIONSHIP BETWEEN ETHICS AND ECONOMICS:.

In Aristotle, T. D’Aquino and J. Calvin we see how pursuing enrichment is not to be considered in itself as a disgraceful activity. It may come to that, when in trading, in order to gain the desired wealth, ethical and honest rules are not applied, and the necessities of other people or communities are not considered by only following selfishness and greediness.

The wrong interpretation of what has been said led to the estrangement of economy from ethics which developed together with the growth of modern economy.

With the increasing of exchanges, according to Aristotle, and above all the new presence of foreign states in trade, the need of moving away from barter and introduce money originates. This demand also originates from the consideration that in order to compensate for ethical problems, it’s necessary to pay the “fair price” in trade<sup>4</sup>.

Natural and unnatural chrematistics, according to Aristotle, are different: the first concerns the management of the house while the second concerns money exchanges. The latter, set up thanks to the use of money has no limitation, as there is no limitation on the wishes of an individual and thus on the means to fulfil them, too.

Therefore, we may conclude that in Aristotle’s works we may deduce that enrichment above needs of survival is unnatural, although this is incidental to human temperament.

Since individuals follow the unnatural chrematistics, this one must reflect ethical ideals such as paying fair price, for example.

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<sup>3</sup> Ciani Scarnicci M.; *The Return of Keynes*; <http://mpra.ub.uni-muenchen.de/35128/>

<sup>4</sup> Aristotele; *Ethica Nicomachea* libro 6°; ed Il Nuovo Melangolo; Collana Opuscola; 2002

Ethics for Aristotle isn't seen as a duty<sup>5</sup>, but rather is part of the human behaviour and fulfils the purpose of good living.

The study of Aristotle on ethics is "inductive", that is, the author claims that we have to consider what is known and thus, start from data observed thanks to experience.

Aristotle's ethics depends on habits and mores of the individual which are, by their nature, changeable. Hence, also ethical judgements have to be so, they can't be absolute truths but they only apply to most cases and they may change. According to the author, the definition of ethics is interrelated to good life<sup>7</sup>, on being able to form the self and the other for good living.

Complying with Aristotle's theories stated in "*Ethica Nicomachea*" we notice the idea of "good"; good for mankind is meant as the ultimate aim of human life. In this ethical domain the "good" is related to both the individual and the State. The latter concept underlines how ethics is subordinated to politics and how this one aims at providing happiness to people.

According to Aristotle, two are the main virtues: ethical virtues and rational ones. Ethical virtues concern the relationship between the intellect and the soul sensitivity which is characterized by passions and desires. They concern, therefore, the possibility of controlling impulses of the passionate part of the soul which are improved by exercising virtuous acts. An ethical virtue, as a case in point, is justice intended as the research of equilibrium and equity in relation to the self and the others.

Rational virtues, on the contrary, concern the rational part of the soul, such as erudition with which the causes of reality are understood and wisdom which directs and guides us in our actions. While the first concerns only philosophers, the second concerns practical reasoning which all men can nurture.

No virtue is inborn. Intellectual virtues are acquired through education, while moral ones through habit that is, only by doing fair actions we become fair people etc,

According to Aristotle we have to take the "golden mean" into account in our actions, meant as an interim solution between extremes such as for example the excess and the defect<sup>8</sup>

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<sup>5</sup> Ethics as duty is also present in the catholic religion.

<sup>6</sup> Aristotele; *Etica Nicomachea*; introduzione, traduzione e commento di Marcello Zanatta Milano : Biblioteca Universale Rizzoli, 1994

<sup>7</sup> With the term good life we consider morality in acting; and this depends on virtue and wisdom. *Etica Nicomachea*; introduzione, traduzione e commento di Marcello Zanatta Milano : Biblioteca Universale Rizzoli, 1994

<sup>8</sup> Even this concept might be revised in "*The Theory of moral sentiments*" by A. Smith

Obviously, as previously said, Aristotle is aware that when we refer to ethics and morality absolute rules aren't extant; for this reason, he claims that also the "golden mean" has to be meant in a flexible way and adapted to individuals and to circumstances.

What has been explained so far, underlines that according to Aristotle ethics is based on good life and not on oriented actions. Production isn't included in all that. According to the author production, work etc. are useful elements for life, yet useless for a good life. They are instrumental and functional elements for an easy life and thus subordinate to the ultimate aim of living comfortably; they are dependent on the guidelines of wisdom and politics. In conclusion, we can state that economics, technology etc. are subjected to ethics and politics, and there is no possibility of dissociating the study of economics from that of ethics and political philosophy<sup>9</sup>.

The notion of Aristotle's "fair price" can also be found in the theories of

In trade, the use of deception to make people pay a higher price than it deserves is to be considered as a sin, as in this way the others are defrauded<sup>10</sup>, according to Tommaso D'Aquino<sup>11</sup> (1225-1274) considered as one of the greatest follower of Aristotle's theories<sup>12</sup>. Buying and selling have to be characterized by mutual interest. This last issue will be described by Smith's theories, too.

Exchanges must be made according to the principle of equality<sup>13</sup>, that is, the price paid for an asset must be equal to its value. If the price exceeds the value of the asset, this is against the principle of equality before the law,<sup>14</sup> placing as an illegal action selling assets at a higher price than its value. Even in Tommaso d'Aquino the subdivision seen in Aristotle's natural and unnatural chrematistics<sup>15</sup> is found, even if the philosopher speaks in terms of trade.

T. D'Aquino states that there are two types of exchanges<sup>16</sup>, to which retailers commit themselves; one relates to what is needed for living while the other concerns profit. The first type of exchange, as we see in Aristotle, too, doesn't belong to retailers, but rather to patriarchs

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<sup>9</sup> Sen A.; *Etica ed Economia*, Traduzione di Maddaloni S., Ed. Laterza, Terza edizione 2001

<sup>10</sup> D'Aquino T.(San); *La Somma Teologica*; ed ESD Edizioni Studio Domenicano; Collana La Somma Teologica; 1996

<sup>11</sup> D'Aquino T.(San); *La Somma Teologica*; ed ESD Edizioni Studio Domenicano; Collana La Somma Teologica; 1996

<sup>12</sup> <http://www.ildiogene.it/EncyPages/Ency=DAquino.html>

<sup>13</sup> This principle may refer to Aristotle's theory of "fair price". Aristotle, *Ethica Nicomachea* libro 6°; ed Il Nuovo Melangolo; Collana Opuscola; 2002

<sup>14</sup> D'Aquino T.(San); *La Somma Teologica*; ed ESD Edizioni Studio Domenicano; Collana La Somma Teologica; 1996

<sup>15</sup> Aristotele; *Politica*; ed Laterza; collana economia Laterza; 2002

<sup>16</sup> D'Aquino T.(San); *La Somma Teologica*; ed ESD Edizioni Studio Domenicano; Collana La Somma Teologica; 1996

and government, and it is given by swap<sup>17</sup> or exchanges goods-money, to support the upkeep of the house and the State. The second type of trade belongs to traders themselves and it can be made through exchanges of goods-money and money-money<sup>18</sup>.

This author too, underlines how the first type of exchange is considered praiseworthy, while the second is considered objectionable, as its sole purpose is the accumulation of wealth. As a consequence it doesn't have limitations and may tend to a never ending, yet in spite of that it's not to be considered immoral or sinful.

This is always determined by the fact that it can follow necessary and honest aims, therefore if the latter characteristics are valid, the exchange is considered legitimate. In comparing T. D'Aquino with Aristotle, the first not only supports the idea of ethics in exchanges with the purpose of profit, but also underlines that in order to deserve this type of exchange we have to make profit as a means to give aid to poor men, to reward one's own work, for public service etc..

As for distributive justice in case of money trade<sup>19</sup> the principle of equivalence is not considered, but it is considered that one of proportionality. To each person we have to give assets on the basis of his importance within community, the more an individual is superior as regards the others, the greater will be the assets given to him. In this system geometric logics are observed and not arithmetic ones.

On the issue of ethical exchanges we can quote the work of John Calvin's (1509-1564) "Institutes of the Christian Religion" in 1536. J. Calvin was a French protestant reformer, considered second only to Martin Luther<sup>20</sup>.

According to J. Calvin exchanges<sup>21</sup> which do not follow certain rules are comparable to "stealing", so they cause sin. In order to comply the commandment "Thou shalt not steal", profit must be made only in a honest and legitimate way. What above-mentioned make us understand

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<sup>17</sup> With the term swap, we mean barter, where goods are exchanged with other merchandise. D'Aquino T.(San); *La Somma Teologica*; ed ESD Edizioni Studio Domenicano; Collana La Somma Teologica; 1996

<sup>18</sup> Laino A.; *Competitive Equilibrium and Efficiency: What Role for Policy Maker?*; [http://papers.ssrn.com/Sol3/papers.cfm?abstract\\_id=1986874](http://papers.ssrn.com/Sol3/papers.cfm?abstract_id=1986874)

<sup>19</sup> The permutation is a system which do not change the order of wealth among social classes. Whoever makes such exchanges will pay the asset received with another asset of equal value. This system, then follows equivalency and arithmetic logic. D'Aquino T.(San); *La Somma Teologica*; ed ESD Edizioni Studio Domenicano; Collana La Somma Teologica; 1996

<sup>20</sup> <http://www.tlogical.net/biocalvin.htm>

<sup>21</sup> Calvino G.; *Istituzione della religione cristiana*; ed UTET; collana Classici della Sociologia; 2009

how the act of enrichment, according to the theologian, is not considered as a sin when no wrong is brought to the neighbour and no wealth is obtained from someone else's blood or work.

Also in J. Calvin's theory not only ethical rules have to be followed in life for personal enrichment but it is also necessary to exert them by operating ethically. Attitudes showing extreme richness or greediness are to be punished; moreover, we must always turn our attention to one's own duties towards the others.

## ADAM SMITH'S ETICAL APPROACH

Adam Smith, considered by all as the founding father of modern economy, was a Professor of Modern Philosophy at the University of Glasgow. For a long time economics itself was considered a branch of ethics and until recently in Cambridge, economics was taught within the framework of Moral Sciences.

All the subsequent economists to Smith have always honored his work as an economist, John Maynard Keynes spoke about him as an immortal economist<sup>22</sup>. This author has always been associated to his theories on the *laissez-faire* and on the division of labour, and for this reasons always celebrated; these issues were treated in his second work "Wealth of Nations" (WN); Concerning his contribution on ethics and philosophy, a lot were the different authors that in the past, didn't want to give due importance to his theories; one was L. Stephen who in his work "History of English Thought in the Eighteen Century" in 1962, stated that the name of Smith should always be quoted with great respect, yet not as regards subjects such as ethics and morality.

Also V. Cousin in his work "Philosophie Ecossoise" in 1864 stated that Smith was a philosopher, original in his details and applications, but not for the principles theorized<sup>23</sup>. Over the last few years, the "Adam Smith Problem" (ASP)<sup>24</sup>, has been buried, and the whole of his theory has been understood seeing the author as an economist and a philosopher.

Smith's ethical approach enables the definition of his theories among which there is the one concerning Market where the real lawfulness of exchanges is defined. In the debate of the theories which regulate market exchanges remained celebrated his famous statement taken

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<sup>22</sup> Quotation made by the economist in the "Alfred Marshall" Economic Journal, September 1924

<sup>23</sup> Smith A., *Teoria dei Sentimenti Morali*, Introduzione e cura di A. Zanini, Istituto della Enciclopedia Italiana fondata da G. Treccani, Roma 1991

<sup>24</sup> The first time the "Adam Smith Problem" was defined was thanks to a group of German scholars of the XIX century. These authors claimed that it existed a double interpretation by Smith on the nature of the human being and that these interpretations contradicted with each other. Benevolence and altruism in his first work had no place in the economic theory based on egoism formulated in the second one.

from his work the “WN” where he underlines how “*it is not by the indulgence of the butcher, the brewer or the baker that we expect our meal, but by evaluation they give to their interests*”<sup>25</sup>. Georg Stigler expresses a shared opinion of many economists, asserting that this quotation constitutes the first principle of the existing economic science<sup>26</sup>. Moreover, he asserts that personal interest dominates most of the people<sup>27</sup>.

The “ASP” finds its grounding in a lot of economic theories<sup>28</sup>. The neoclassic economy, where the theories of Léon Walras are placed, found strong limitations in conciliating economics with moral principles as this line of thinking belonged to the engineering approach of economy. In order to understand this, we need only think at the theory of the *homo economicus*<sup>29</sup> in which there is no space for empathy and Sympathy,<sup>30</sup> even if it is admitted that the human being belongs to a group and is capable of feeling emotions and sentiments.

Economics can’t disregard morality from the cultural environment. For this reason, studies which include economic analysis of morality and moral analysis of economics must be done, and it is in that context that we can set the “ASP”<sup>31</sup>. The work the “WN” would turn out to be incomplete if it were not for the moral and ethic basis given by the other work the “TMS”.

It is possible to state that thanks to the integrated view of these two works, the author has given the answer to the problematic relation which exists between economics and ethics and between egoism and altruism. Even if they are two different works and drawn up at different times, we should consider them, as it was the idea of the author, like complementary works. While the first one, concerning time, the “TMS” pertains to social life, feelings, and on how moral opinions of human actions might be built, of Sympathy etc., the second one only

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<sup>25</sup> <http://www.filosofico.net/smith.htm>

<sup>26</sup> SMITH ADAM: SYMPATHY & SELF-INTEREST - Leonard P. Liggio, LITERATURE OF LIBERTY, SPRING 1982, VOL. 5, NO. 1 [1982]

<sup>27</sup> Stigler G. J., *Smith’ travel on the ship of the state*, in Skinner e Wilson, 1975

<sup>28</sup> Pena J. A., Sánchez J. M., *Los fundamentos morales de la economía: una relectura del problema de Adam Smith*. Revista de Economía Institucional, Vol 9, n. 16, primer semestre/2007

<sup>29</sup> The human being seen as an abstract concept, released from his social environment and leaning solely to the fulfilment of his material necessities. In the neoclassic economic theories, seen as a pure and ideal subject of economic mechanisms, endowed with perfect rationality and utter information.

[http://dizionari.hoepli.it/Dizionario\\_Italiano/parola/homo\\_oeconomicus.aspx?idD=1&Query=homo+oeconomicus](http://dizionari.hoepli.it/Dizionario_Italiano/parola/homo_oeconomicus.aspx?idD=1&Query=homo+oeconomicus)

<sup>30</sup> Smith claimed that in a “society of strangers” Sympathy might be translated as a virtue of self-control and self-discipline, as relying on someone else’s Sympathy would lead to weaken one’s own moral fibre. Smith Adam: Sympathy & Self-Interest - Leonard P. Liggio, Literature of Liberty, Spring 1982, vol. 5, No. 1 [1982]

<sup>31</sup> Sen A. K., A Smith’s Prudence, in Lall S., Steward F, ed. By Theory and reality in Development. Essay in honour of Paul Streeten, MacMillan, London 1986



considers the economic system without regarding the discussed part of the first work, and how economics is a concern of the individual<sup>32</sup>.

The “ASP” has been drawn on also by J. Viner, an economist belonging to the school of Chicago<sup>33</sup>, who tried to solve the question<sup>34</sup>. This economist states that the Germans did not give a correct interpretation to the two works of Smith. In the work the “TMS” we suppose that a natural balance exists, while in the “WN” it seems that the author abandoned this belief. And that is what led to a misunderstanding of Smith’s thought. We must indeed consider that while the first work is a study on human psychology, the second one concerns the organization of the economic life.

The economists who have endorsed the “ASP” have on the contrary considered that in the first work it was mentioned that the actions of human beings would be influenced by benevolence, while in the second work this was completely absent. This claim was, to them, supported by the famous phrase, previously quoted, concerning the exchange: “*the butcher..*”, but in doing so, they do not consider another assumption of Smith which concerns the need of a cooperation among individuals. The latter might be achieved maintaining the principles of benevolence. Obviously the same is true for relatives and friends, yet not for outsiders where this is not estimated<sup>35</sup>.

The politician too, if only provided with benevolence, will only favour relatives and friends. So, this can’t be a good way to face the government of a nation. What has been said doesn’t have to be considered as the uselessness of benevolence which according to the author is anyway vital for the development of a society, because exchanges done among individuals always ready to hurt the others couldn’t be profitable<sup>36</sup>.

Smith claims that feeling is inborn in the individual and in normal situations, thanks to it, there cannot be mistakes, it is another thing as concerns reason. Therefore, the author does not consider what will then be the characteristic of the *homo economicus*<sup>37</sup>.

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<sup>32</sup> Pena J. A., Sánchez J. M., *Los fundamentos morales de la economía: una relectura del problema de Adam Smith*. Revista de Economía Institucional, Vol 9, n. 16, primer semestre/2007

<sup>33</sup> [www.encyclopedia.com](http://www.encyclopedia.com)

<sup>34</sup> Viner J., *Adam Smith and Laissez Faire*, The Journal of Political Economy, Vol. 35, No. 2. (Apr., 1927), pp. 198-232.

<sup>35</sup> Becker G., *The Economic Approach to Human Behavior, in Rational Choice*, ed by J. Elster, New York, New York University Press 1986

<sup>36</sup> Coase R. H., *Adam Smith’s View of Man*, Graduate School of Business, The University of Chicago

<sup>37</sup> Viner J., *Adam Smith and Laissez Faire*, The Journal of Political Economy, Vol. 35, No. 2. (Apr., 1927), pp. 198-232.

In having a closer look at Smith's theories we see how in reality he himself does not see the "ASP", as in the last page of the "TMS", he wrote that he would keep up studying the general principles of law, government and politics in the following work that was just the "WN". Moreover, in the advert of the sixth edition of his work, he states that what was stated in the last page of the "TMS" was realized thanks to the "WN"<sup>38</sup>

Becker quotes Smith as the founder of the economic approach to explain human behaviors, A. Sen supports the opposite<sup>39</sup>.

A lot of economists, while talking about Smith's theories also refer to B. de Mandeville's theories<sup>40</sup>, thanks to his book "The tale of bees" published in a second edition in 1714.

The beehive described in the tale<sup>41</sup> is inhabited by ambitious, envious and corrupted bees. The author affirms that in the life of bees there are many frauds and vices, yet in spite of this, the nation enjoys great prosperity. This endorsed the theory of the author in which the vices of private individuals contributed to public happiness, as luxury and vanity of few people brought work to poor people. The pride of businessmen created markets and exchanges. The flourishing of new laws to improve exchanges and commerce led to well-being and prosperity. As said, though, was judged by Smith as an overturned moralism<sup>42</sup>.

In order to better understand the unreasonableness of the "ASP" you just need to study the passages of his works the "TMS" and the "WN"; and as for the authors who tried to explain this unreasonableness, the problem has arisen from a wrong reading of the aforesaid works.

Smith claims<sup>43</sup> that there is a difference between ethics and economics. In fact, the latter studies the behavior of the individual, but it does not explain or analyze the interior world of him. As it was previously said, the author does not consider the isolated man, but considers him in a community with relations, a lot of which are influenced by "Sympathy" and by the possibility

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<sup>38</sup> Pena J. A., Sánchez J. M., *Los fundamentos morales de la economía: una relectura del problema de Adam Smith*. Revista de Economía Institucional, Vol 9, n. 16, primer semestre/2007

<sup>39</sup> Force P., *Self-Interest before Adam Smith. A Genealogy of Economic Science*, Cambridge University Press

<sup>40</sup> Bernard de Mandeville (1670-1733) is author which coined the expression "division of labour". J. M. Keynes made great praise to a few of his theories and F. Hayek defined him as a great mind. Antiseri D. Pellicani L., *L'individualismo metodologico. Una polemica sul mestiere dello scienziato sociale*, Ed. Franco Angeli 1995

<sup>41</sup> De Mandeville Bernard, *La favola delle api*, Laterza, Roma-Bari, 2002

<sup>42</sup> Antiseri D. Pellicani L., *L'individualismo metodologico. Una polemica sul mestiere dello scienziato sociale*, Ed. Franco Angeli 1995

<sup>43</sup> Smith A., *Teoria dei Sentimenti Morali*, traduzione di Di Pietro S., Brossura

of individuals of imagining themselves in another's position. Much as man might think at his own interests, there are principles in his nature which lead him to take an interest on the others.

This does not happen for the fulfillment of one's own need, yet for the pleasure of seeing someone else's happiness. Moreover, in the different situations two subjects exist: "the ego who acts" and "the spectator". The first who gains experience, while the second in observing carries by his imagination the experience to himself. And it is indeed, according to the author, in observing someone else's difficulties that produces a similar sentiment to the "spectator", who imagines having to suffer the same situation and emphasizes with the sentiments of "the ego who acts".

But this empathy does not happen only in hostile situations, but also in pleasant and joyful situations, too. What just said does not have to be considered as the driving force of human actions. The "Sympathy", in a point of fact, creates only opinions of approval or not, and so evaluates the "pertinence" of the behavior of the others.

If the behavior of "the ego who acts" is concordant with the one the "spectator" would have, the latter approves it, otherwise it considers it unfair. Only if there will be a perfect identification of the first in the situation of the second there can be an opinion of approval regardless of the event which has caused the remark. Considering that the emotions felt by "the ego who acts" are surely higher as regards those felt by the identification of the "spectator", "the ego who acts" will try, understanding the effort of the other, to get the maximum of information across to make him understand the pertinence of his behaviors.

Thanks to what was said, Smith asserts<sup>44</sup> that only the selfless and indulgent attitude both in "the ego who acts" and in the "spectator" can lead to the perfection of the human nature. However, the author do not conceal that among the sentiments of men not only good ones exist, but there is also envy. The latter will try to make individuals be more prone to sympathize with the others for little pleasures and for great grieves. Yet, if in the viewer there won't be envy he will then be more inclined to identify himself in joys rather than in someone else's grieves.

The notions outlined by Smith show how his theory is not based on selfishness, like the one of B. de Mandeville. Obviously the concept of "Sympathy" of the author is not benevolence, but one feature of the life in a community of people and relations, where individuals identify themselves in the experiences of the others and where the need for approval causes legitimate behaviors.

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<sup>44</sup> Smith A., *Teoria dei Sentimenti Morali*, traduzione di Di Pietro S., Brossura

What has been said allows to convey the principles explained in the work the “TMS” into the market. In performing transactions individuals that at this point are “acting” will want that the opposing party “spectator” considers their acting as appropriate, and that is why they will behave ethically. That is why we can say that the “Sympathy” is the basis both for moral relations and for social ones.

In commercial relations an ethical attitude governed by the “Sympathy” enables to have a greater efficiency and consequently a lowering of the costs of transactions. What has been told is corroborated by the statement of Smith about the valuation of skill and ability caused by the consensus of the community in determining the value of what is produced<sup>45</sup>.

As it has already been underlined the individual was born to live in a society, yet despite this he tends to give more importance at his own issues as regards those which happen to people that surround him. The excessive self-respect is not considered appropriate by the impartial spectator, and to prefer himself at the expense of everything and everyone will always seem as an inappropriate attitude. So the arrogance of the self-respect must be traced back to an acceptable level, only in this way you will be well considered by the others<sup>46</sup>.

In these dissertations one can see how respect and benevolence that the others feel about an individual are considered at the base of living in the society, as a consequence, Smith too sees and underlines limits for the action according to individual interests.

Any activity of men which can cause benevolence or punishment must be created by an intentional behavior<sup>47</sup>. In the intentional acting we must always consider how the others will judge our acts. Only in this way we can underline the awareness of benevolence and punishments that we should have by the judgment of the impartial spectator<sup>48</sup>.

As a consequence, each person has not only to be “the ego who acts” but also an “impartial spectator” of himself. We must also underline how a human being does not have an innate sense of morality and so there is always the risk that in judging his own doing he strives for the egoistical character and injustice. In reality, the experience and the living in a society

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<sup>45</sup> Smith A., *La Ricchezza delle Nazioni*, Classici dell'Economia, A. Biagiotti, Brossura 2006

<sup>46</sup> Infringing systematically these ethical codes will lead to punishments, shame and also remorse. Smith A., *Teoria dei Sentimenti Morali*, traduzione di Di Pietro S., Brossura

<sup>47</sup> Casual coincidences should not create the same judgments as regards those intentionally created. Smith A., *Teoria dei Sentimenti Morali*, traduzione di Di Pietro S., Brossura

<sup>48</sup> A human being must constantly place himself as in front of a mirror, trying to see what the others may see in him, so as to care on how his behavior deserves blame or approval. Smith A., *Teoria dei Sentimenti Morali*, traduzione di Di Pietro S., Brossura

leads each individual to learn and understand which are the moral rules in order to analyze one's own doings.

At this stage we must linger over the fact that actions which are considered appropriate and may be appreciated, according to Smith, should not err on the side of excess. This is defined by the author and also seen in Aristotle<sup>49</sup>, where an action or passion should place itself in a certain "aurea medietas". The concept of "aurea medietas" by Smith is explained in the context of the influence of mores and trend on the moral sentiments of approval.

Resuming what has been frequently stated, the human being belongs to a society and for this reason he acts for it because he knows that his life also depends on the surrounding society. For this reason, sometimes subjects tend to be interested only on their status and feel unfavorable sentiments towards neighboring States, in particular if they are more prosperous. For this reason, the author claims that individuals not only should act to improve their status but also to increase the life of mankind in general.

The ideal assumptions on which human behavior is based should detach themselves from the form of "fanaticism" and approach more to a universal benevolence. To honor what has been said we cannot rely only on the virtue of prudence, but individuals must also be wise and virtuous so as to sacrifice private interest in behalf of public interest. What has been said somehow can solve the ASP as individuals pursue their interests so as not to harm someone else's happiness and prosperity.

#### ETICAL APPROACH: BETWEEN PASSION, REASON AND STATE

Thomas Hobbes (1588-1678) is a great representative of philosophy, author of the work "Leviathan" in 1651. He was remembered by many, for his contribution on political philosophy, but also for his contributions relative to economics and ethics which are not negligible. In fact, in human behavior we may see the basis of economy and its ethic side.

In men's life there is no place for the ultimate goal or for the greatest good, according to Hobbes. As said opens out a new ethic paradigm on good and evil, on fair and unfair. These values have to be pursued out of nature which compels men to satisfy their appetites and obtain the ability to fulfil them.

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<sup>49</sup> Ciani Scarnicci M.; The Origins of Economy Derive from Ethics, a Detachment from it has to be Considered a Mistake (March 7, 2012). Available at SSRN: <http://ssrn.com/abstract=2017784>

This would lead to a war among individuals seeking their satisfaction and power. But reason allows them to understand that war is not a solution as victory is not predictable and therefore the relevance of agreement and peace increases.

Hobbes doesn't deny that men need each others, yet he claims that they are not ruled by a natural instinct which brings benevolence and harmony; so there is no natural love of the individual towards the others. Natural associations, therefore, do not originate from benevolence but from a reciprocal need; it is then fear which makes societies be great.

Reason allows individuals to raise themselves beyond their own nature, being able to analyze and catch causes and effects. Moreover, reason, with the purpose of reaching peace, rules beyond nature making possible to limit passions and to renounce to appetites.

The unique criteria to distinguish between fair and unfair, according to Hobbes's moral theory, is determined by one's own reason<sup>50</sup> which will allow the individual to live an ordered, fair and peaceful life. Without reason and following only his nature an individual would be obliged to live a life of uncertainty and war.. Reason dictates moral laws against passions, but are the latter which need reason.

In this author's opinion, it is possible to find the importance of penal laws seen as incentive to follow moral ones which can be somehow noticeable in G. Becker, too. Hobbes claims that moral laws are strengthened by civil laws, intended for the author as penal ones; thanks to the fear of penalties for those who infringe moral laws, these are respected by the individuals. For this reason morality has no identity except for politics and moreover it has to be sustained by reason which confirms its rightness..

The theory just stated distances itself from the one given by another great philosopher, John Locke<sup>51</sup> (1632-1704). The starting point for Locke is that the natural status is already a moral one. The author by this theory does not deny the role of human passions in acting, yet he considers reason as an element through which the individual discovers the moral law which is in itself a natural faculty. As a consequence, reason becomes the legislator of moral binding rules and this replaces what Hobbes theorized on the need of a civil coercive power to make people follow moral laws.

Locke claims that liberty finds its limits in nature because the individual is capable of enhancing his knowledge to moral rules. Nature, which is a natural law, teaches men that no one

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<sup>50</sup> This is a concept that we are going to find deepened in Locke, Rousseau and Kant.

<sup>51</sup> Locke J.; *Due trattati sul governo*; ed. Utet, 2010

should damage the others. What was said is based on the principle that all men are equal. Obviously, the capability of elevating oneself to such knowledge might not be approved by men, as passions and individual interests might misdirect the individual from the observation of such laws. For this reason also Locke sees the necessity of an impartial and credited judge who fulfils verdicts through punishments and in this way, it is possible to convince those who are reluctant to respect natural rules. Institutions and civil laws should be modelled considering the capabilities of protecting the natural justice and so to implement moral laws. What was said might appear similar to what Hobbes theorized. Actually, while for the latter morality depends from the will of the king and the State is the only possible place where morality can be exerted, according to Locke morality is determined by the natural reason and not by the political power. How we see in Kant, the State is an instrument that allows to render real a moral life which was already outlined despite an irregular and uncertain way.

This authorizes us to see how Hobbes's theories can justify the constitution of an absolute monarchy, whereas those of Locke concern a liberal constitutionalism. Obviously, the different vision of the role of the State is mirrored also on the economic sphere and strictly speaking on the private property. The first sees it as a benefit determined by the political sovereignty, while the second considers it as a pre-political right and so detracted from the decisions of the government leaders. These theories are the basis of the differences between these two authors and J. J. Rousseau. According to Hobbes the power of the sovereign is indivisible and absolute, whereas according to Locke the State comes to life with a few limits; it is the consensus of citizens which generates civil power and this is a guarantee for one's own liberty. Moreover, in the theories of the latter, citizens can rebel against power if this becomes a tyrannical one<sup>52</sup>.

According to Hobbes justice appears when the individual leaves the natural status and enters the civil one. This perspective is turned over by Jean Jacques Rousseau (1712-1778).<sup>53</sup> Indeed, the latter, claims that is just in the natural status where we meet values such as justice, morality etc.. These values then, give out with the establishment of social relations. Rousseau claims that Hobbes has tried to describe as expression of nature behaviours of man which were typical of the individual integrated in a society.

Rousseau claims that the individual that lives in solitude is subject to little passions and he's self-sufficient. He only feels his own needs and this leads him to live without twisted

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<sup>52</sup> The difference between a king and a tyrant is determined by the fact that the first makes laws on the basis of what represents the public good whereas the tyrant subordinates all to his will and purposes. Locke J.; *Due trattati sul governo*; ed. Utet, 2010

<sup>53</sup> Rousseau J.J.; *Origine della disuguaglianza*; Ed Feltrinelli 2001

inclinations such as greediness and egoism. This shows how according to the author, feelings which lead up to war are not innate in the natural status, yet originate only in the society. Moral law intended by this author is not the same theorized by Locke, even if, at first sight, it might seem similar. The important issue which renders these theories highly different is determined by the fact that according to Locke all is linked to reason while according to Rousseau it is linked to human passions.

An equitable society where moral values are followed, according to the philosopher, is the one where the individuals associate themselves to regain the characteristics of the natural life. The observation of life in Rousseau's days leads him to understand that the individual has reached a point where the love for the self rules to the detriment of piety and this is above all determined by a steady disparity which leads to the conflict between rich and poor men. In order to restore the rules of a natural right, in the just mentioned case, it is necessary to recur to a coercive power to reinstate the individual to morality.

To do this, according to the philosopher, the political power must annihilate the natural liberty replacing it with the civil one<sup>54</sup>. As said, this diverges much from Hobbes and Locke's theories who believed in the natural liberty of the individuals coordinated not to be harmful by a limited intervention of the civil power and to neutralize the conflicting effects which might arise.

According to Rousseau the substitution of the natural liberty with the civil one does not represent a deprivation, but a real liberty lacking egoistical will. The alienation of the particular will in favour of the general one allows the existence of the moral liberty. On the basis of what has been said we define that the State is a moral body run by the general will, and it is superior to the will of single citizens.

This is the justification of the popular sovereignty and of the systems of direct democracy, element which diverges from what was said concerning Hobbes and Locke. According to the author, liberty and civil equality can be found only in the State, and anyone who infringes its rules, not considering the general will in favour of the particular ones, must be punished.

On the basis of what was said Rousseau condemns the private ownership because it creates disparities among citizens and so like all the economic factors they must be regulated by the State. Therefore, when we talk about alienation of liberty and about natural rights, personal assets are included. All this, in favour of the community..

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<sup>54</sup> Rousseau J. J.; *Il contratto sociale*; ed BUR Biblioteca Univ. Rizzoli 2005



Immanuel Kant (1724-1804), German philosopher, distinguishes between doctrine of happiness, which is wholly based on empirical principles and the ethical doctrine which, on the contrary, is absolutely not based on empirical principles but on the reason<sup>55</sup>. This entails a marked separation between happiness and morality; whoever pursues happiness do not reach morality.

The supreme good is represented by a virtuous life, a life respectful of moral laws, yet this is not happiness even if it leads man to deserve to experience it. The utmost good, on the contrary, is given by virtue and by happiness. Therefore, deserving to be happy is being happy at the same time.

The concept of happiness according to Kant is also linked to the problem of liberty<sup>56</sup>, due to the fact that each citizen is integrated in a determined civil society formed by subjects that have equal rights. The liberty in question is considered both at a political and ethical level.

In a civil society citizens must implement their own happiness respecting the universal law intended as the preservation of liberty of the research for the others, too.

So an excessive presence of the State in a society, even if it deals with the happiness of single citizens, in reality, takes away their liberty and responsibility in search of happiness denying them to be free men. As we said, is in opposition with Aristotle's theories<sup>57</sup>. The Greek philosopher considered that a State having the purpose of common good was to be considered as a correct constitution favouring the happiness of his subjects.

In order to explain the difference which exists between the concept of happiness and that of Kant's morality<sup>58</sup>, we must resume the concepts concerning the notion of morality and ethics, seen for Hobbes, Locke and Rousseau. The first two authors talk about morality by linking it to the description of the human nature while the third talks about the state of nature. Kant, on the contrary, claims that morality is deployed by reason, eliminating the inclination and men's wishes who dictate the rules. Morality, therefore, concerns the individual since he's endowed with reason and it is not determined by the society. For this reason Kant claims necessary to separate justice in the moral sense from political one. The individual is capable of distinguishing between good and evil detaching himself from passions and relying on reason.

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<sup>55</sup> Kant I.; *Critica della Ragion Pratica*; Ed Quattroventi 2003

<sup>56</sup> Kant I.; *Scritti politici e di filosofia della storia e del diritto*; Ed Utet 1998

<sup>57</sup> Ciani Scarnicci, M. , *The Origins of Economy Derive from Ethics, a Detachment from it has to be Considered a Mistake* (March 7, 2012). Available at SSRN: <http://ssrn.com/abstract=2017784> or <http://dx.doi.org/10.2139/ssrn.2017784>

<sup>58</sup> Kant I.; *Fondazione della Metafisica dei Costumi*; Ed. Bompiani, Milano, 2003

The State is not able to create a moral justice but only to safeguard the political justice which concerns social relations. No coercive power can render moral a human act: in fact, what matters is not the human action yet the intention that drives man. Politics cannot be called to execute moral demands, yet it will be an opposite, that is, in order to determinate the principles of the political justice the State has to refer to the reason.

The minimal function of the intervention of the State theorized by Kant, is the one which was seen by Locke too, since for both authors the king doesn't have to determine what is fair and what is not fair, as this distinction is in the individual's mind.

## CONCLUSIONS

To conclude we underline how according to A. Sen, the integration of ethical rules in economy can generate new development and not a retardation of it. In order to understand at best the truth which stands behind these words and which gives a point of consideration, only think of what has been happening in the last few years

With the exponential development of the globalization a lot of schools of thought were born such as the "global reformers", among which A. Sen belongs. Global reformers don't theorize the globalization freeze, but only try to face it, mainly respecting the poorest populations and helping them develop. This is also determined by what J. M. Keynes<sup>59</sup> claimed; the world is in any case a finite system and so, if we want to increase exchanges, the only way is that of allowing poorer nations to develop, so as to have other counterparts in business.

The experience of the Grameen Bank, a credit system whose objective is to finance individuals who would be excluded from the traditional financing system, was founded by Muhammad Yunus. Precisely for this system, M. Yunus received the Peace Nobel Prize in 2006 and created development in areas that would otherwise remain depressed.

The awareness of the public towards ethics and social issues is leading a lot of companies, which have as ultimate goal the achievement of new clients, to develop new ethical systems and certifications that may prove it.

Examples on how ethic can boost development are many more than those here quoted. All this can show that, as former theories proved, ethics in economics not only is possible but also advisable.

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<sup>59</sup> Ciani Scarnicci M.; *The Return of Keynes*; <http://mpa.ub.uni-muenchen.de/35128/>

From what has been said we deduce whether the individual is by nature or not projected towards principles such as justice and morality, yet what is certain is that from this review of authors the relation between ethic economics and politics is very tight, independently from the kind of government necessary to control or direct the human behavior .

The presence of laws more or less restrictive on the basis of men's beliefs on justice, are always necessary. Yet, in order to understand which kind of laws are necessary and which is the force that a government must have towards its citizens, we must analyse carefully what are the characteristics of the individual. Only then, a law will fulfil its function and lead economy towards a new state of justice and morality. That is why the interdisciplinary aspect of economics and the union of economics and politics is always a necessity that cannot be postponed.

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