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## **ECONOMICS AS A MORAL AND AN ETHICAL SCIENCE FROM THE VIEWPOINT OF THE THEORY OF ECONOMICS AND PRACTICE<sup>1</sup>**

***Abstract:** Substantial qualitative changes that are happening nowadays not only point at the inevitability of understanding the supranational context, but also the necessity of recalling moral and ethics principles. In this context, we conclude from theoretical assumptions listed and define a new basis of the theoretical and practical possibilities of the theoretical approach to social welfare and the ethical level of unemployment. The development of the causes of the economic crisis very clearly shows that the income polarisation is one of the main causes of the global recession. Employment development and the growth of the employment income connected with that shows that it is not sufficient for solving the global consumption problems. However, at the same time it has showed that as long as we do not pay attention to solving the income stratification problem, it will not be possible to renew the development of the global consumption, and as a result of that the cyclical termination of jobs is going to continue.*

***Keywords:** ethics, moral hazard, economic growth, global crisis, welfare, income polarization*

**JEL:** A 13

### **Introduction**

Economic growth can, but also does not have to improve the quality of life of those living in poverty. If we put not the man but the market at the centre of the attention again, if we once again strive for the maximization of production and not for human dignity, creation of the conditions for self-actualization and the freedom of choice, the global crisis will lose its historical chance to help to create a better and a fairer world. [3]

According to the Seneca's economy of prosperity, freedom is not being fulfilled on the free market. Only a strong state, that cares for health, education, security and for providing of options to choose from for its citizens gives us a chance to take part

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in a free market. But not in a way that it offers ready-prepared solutions, but that it creates space for responsibility and freedom of choice. Seneca also refuses the understanding of the task and position of man in the tradition of the social Darwinism, namely, that man's destiny as the only source of victory is a permanent competition. He believes in human dignity and responsibility. [16] Similar opinions are also presented by another Nobel Prize winner Professor Muhammad Yunus, who considers the act of earning of money to be the means to an end only and also presents the idea that the real wealth is not the money, but what we give away. [20]

Narrowing of economics only down to the question of economic terms without their moral and ethical dimension leads to an immense increase of the moral hazard, which is also being proved by the current economic crisis.

It is starting to appear that many opinions that were put aside during the period of the global crisis, such as the conception of the ethic level of unemployment, are being restored as one of the possible economic solutions and postulates providing a new point of view of today's problems. The fact that moral hazard is one of the key reasons for the financial crisis is not being denied by anyone anymore, but realizing the ethical dimension of unemployment is still a rare approach.

In the following contribution we will try to contribute with other ponderings and thoughts to this problematic.<sup>2</sup>

## **1 Economics of the Welfare and the Ethical Rate of Unemployment from the Theory and Practice of Economics' Point of View**

It is possible to say that economics should be an ethical science, although probably not in the sense of today's theoretical approaches and at the same time we state that the elimination of the moral hazard is the key condition for overcoming the critical development, and in this way the moral economics has to be re-defined from the basics.

Many macroeconomic models are based on the existence of identical households, often being called the "representative agents". And then an assumption is made that the changes in the social prosperity can be judged by whether the representative household has improved or vice versa. Despite that, even if all the households should be identical, reasons could still exist for why the social decisions would be understood differently on the basis of the individual usefulness. But even if we would stay in the area of the strictly individualistic abundance, we would not be able to not feel restricted by the assumption that everybody has the same preferences. In majority of decisions that are being made in the real world the opposite interests are always met along the way. The assumption of an existence of one representative agent can be sufficient when modelling a macroeconomic model of behaviour, but excludes the most interesting economic problems concerning with the abundance.

<sup>2</sup> Welfare is a phenomenon, which has both the social and economic dimension. The older authors such as A. Smith talked about the social welfare, the present authors define the welfare either as a multidimensional factor (UNO study) or they understand it as a utilitarian economic phenomenon (economic income and employment).

For example, on the discussion about the European labour market reform the opinions of the workers on the already run-in positions and those who are so called “outsiders”. It would not be possible to discuss the necessity of such a reform without considering the various opinions of the separate groups. In the discussion about the pension reform for example, there are different opinions being represented by separate generations. [1]

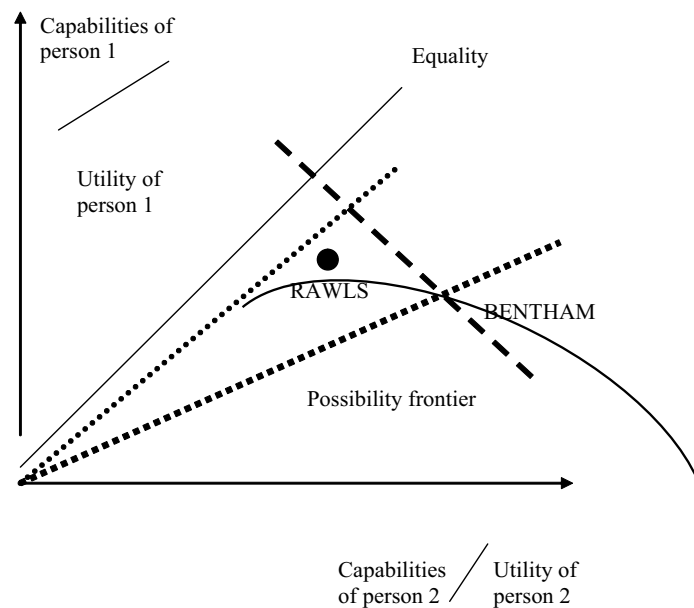
In his presentation for the American Economic Association in 2003, Lucas said that for the evaluation of the effects of political changes on the immense amount of the various consumers, we can count the increase in abundance (or the decrease in abundance) for them all together and then do the necessary compensations. That way we will get the abundant increase in the number for the whole group. Lucas considers this statement to be obvious and refers to it as the general logics of the quantitative analysis of abundance. However, there are many counter opinions against this utilitarian approach. For example, that the sum of increases in abundance does not consider how this abundance is being distributed. Next, this approach does not take into consideration the fact that the moral philosophy has already moved behind utilitarianism and also does not recognize that there are plurality and diversity in the abundance criteria, which are being applied. In this case, plurality is meant in the sense that one person can prefer more than one package of social criteria. A certain person can then be dealing with the biggest happiness, but also with the personal freedom. These two criteria can be compatible, but also in conflict. Diversity in this context means that various people have different value charts. One person can be focused on the personal freedom and the other on the social fairness. There, where the multiplied social criteria exist, is no point in talking about the social consequences; instead of that we have to use these multiplied criteria and consider how the conflicts could be solved. The economy of abundance has firstly to consider the alternatives to the present utilitarianism that have progressed in the last half-century, for example the Rawls’ theory of justice, the ability concept formulated by A. Sen in 1985 etc. Rawls’ concept for example, is all about two principles – the elementary freedoms ‘principle and the principle of differences. [1]

That leads straight to the third approach. This one is about striving for conclusions that are not in fact changing with the changes in the social criteria that means trying to identify the situations of dominance. The best known similar approach is based on the idea of Pareto-dominance, where the declarations about welfare are being restricted only to the changes with which everyone will improve their standard, or at least nobody will worsen. Although this theory is relatively popular, it is not complete, because already the smallest loss for one person is taking away the possibility of any conclusions. Pareto’s approach is strongly based on the individual abundance. As it has already been said, there might be reasons why the social decisions can suppress the abundance of individuals. That is so called non-welfare thinking.

To summarize, the following graph is being presented. If we suppose that both persons are identical, we are finding ourselves on the 45 degree axis. If the origin

is located below this borderline curve of possibility (possibility frontier), then improvements can be reached in both cases. That way a space for the Pareto's improvement can indeed exist. However, the moment we reach the possibility frontier, the improvement for one person can only be made with a loss in the respect to the second person. That means that welfare judging involves strong social criteria.

Figure 1



Source: [1]

At heart, most economists are utilitarians, which leads to choosing the point on the graph named as Bentham. The social welfare is being expressed by an axis with an angle  $-1$ . In utilitarianism, nothing from the approach of egalitarianism can be found. Rawls' principle of difference, concentrated on the most disadvantaged, represents a contrast and leads to different implications in the area of practical politics. In this case the lines of the social welfare are in the right angle, centred on the axis of equality. Although it is necessary to admit that Rawls' approach also is not completely egalitarian. The abundance of the most disadvantaged is raising, but the maximum point does not have to reach the limit of equality. To conclude, it might be objected that social welfare might deal with the distance, considering the increase in the welfare of the rich ones, in the case that it separates them from the rest of the society by too much. The application of the maximum ratio (the thick dotted line) restricts us to the conic area around the equality axis. In our graph that would exclude the utilitarian solution. Naturally, we could get to the left from the Rawls' position (the thin dotted line) what would express choice of such an allocation by which the both person's conditions would worsen. [1]

The strategy of individual welfare was based on the causes-context effort and the effect with a small influence of external state and society. In reality, the development of the modern society (the last 20 years of the global development) showed that the individual as well as the social welfare could be a product of many objective external and subjective factors far from each other in importance, overcoming own effort. It is even possible to pronounce that with the development of the qualitative changes in the last 20 years, the stand-alone factor of the individual effort and one's welfare is still defined more by the external phenomena. We can illustrate this not only on the development of the BRIC countries and the development of welfare in them, but also in the reversed direction on the development of the individual welfare in the countries of the traditional European social model.

In the case of the Asian countries it is the state that is the one who dominates, in the case of the Euro-Atlantic model it is the powerful financial and economic supranational groups. In the case of other countries, redefined dominators descend from the historical structure of the society. These factors, however, mean that we have to start understanding the relationship of meritorious performance and individual welfare anew, as well as the principle of the society's cohesion, whereas the relationship of the cohesion and the individual welfare is the decisive phenomenon of the European social model. Not understanding of this phenomenon means the critical influence on the theoretical and practical conclusions about the rate of error. The key factor when defining the welfare is therefore becoming the setting of the primary and secondary income stratification and from that resulting distribution and redistribution of both the social and individual welfare.

Two key abstract models arise from this way of thinking. The first one results from the concept of redefinition of the state's function and its influence on the individual welfare (here also belongs the new way of defining the principle of the cohesive society developed in the EU 2020 strategy). The second principle is the bonding of the income stratification's individual welfare with the segmentation of global consumption. If we are evolving from the principle that the society is based on consumption, the consumption must be backed-up by real means and not by the virtual credit wealth. Polarization of wealth and poverty not only leads to the changes in the global demand, but is also fundamentally changing the task of the traditional resources of social wealth and of the processes of its dividing, but it also changes the relationship of the global consumption, the incomes and the welfare itself.

The traditional idea that employment- job- incomes- welfare is not valid anymore. Creating of the so-called Hotdog jobs in the USA or the EU leads to the definition of the relationship between employment and welfare, because a big part of the newly created job opportunities are the ones with lower wage level, so despite the sustainment of the employment the real income amount is decreasing and the distribution of welfare is changing. If these processes were a border line, it would not be necessary to theoretically investigate them, but as far as they are of mainstream nature, they mean a fundamental challenge for the theory of economics. Therefore, it is not the static evaluation of the workplaces and from that resulting unemployment

that is crucial here. It is the dynamic process of creation and ceasing of the jobs and with that connected levels of the incomes and the welfare. The second line of this problem is the task of the incomes redistributed by the social state, which although in the case of the Scandinavian model means high taxes (lowering of the individual incomes and welfare), but simultaneously also means high level of re-distribution and extra income of an individual as well as improving his welfare, whereas the key is the quality of services being offered by the state and from that resulting level of increase in the welfare of an individual. There is a paradox related to this topic, and that is that the citizens agree with the tax increase, as far as they get better quality and variety of services. How can we then talk about the traditional approach through the individual welfare?

A. B. Atkinson illustrates the necessity of the increase in persistence and relocation of increased attention to the economy of welfare on the example from the EU area. The author deliberately focuses on the question of the employment's increase, not unemployment's decrease. It is because the necessity of the latter is obvious and the reasons understandable. The increasing employment, however, does not immediately have to mean the lower level of unemployment. Motivating population is what is essential here, to maintain it in the work-active mode, or to motivate it to switch to it again. The Government of the UK for example, is trying to stop people leave for the early retirement and support the increase in involvement of the handicapped people and the single parents being involved in the labour power. The question is then, what does lead to the fact that we need to try to increase the labour power? There are several arguments offering themselves as an explanation. On the one hand, the EU labour market is strongly biased and de-motivates the people to work. The people are influenced by the taxes and the transfers, more than by the real expenses and the benefits of working. A classic example is a couple in which one of the partners gets allowances based on his or her income and therefore has only little motivation to work, whereas every other euro earned lowers the transfer payment. In this particular case, the goal would be to improve the stimuli to which the people in a situation like this are being exposed to.

Of course, there are possible solutions. One of them could be developed from the viewpoint of the social exclusion. We can see a parallel here between literature on the topic of the economy of welfare and the one on the topic of poverty measurement. The measurement of poverty in the UK has made progress under the influence of an enriching research made by Townsend [18] and under the influence of the development in France and Sweden. We have moved from primarily focusing on the financial resources to a wider interest in an individual's abilities to participate in the society. A similar progress can be noticed also in the EU – in 1994 a white book named *Growth, Competitiveness, Employment: The Challenges and Roads to the 21<sup>st</sup> century has been accepted*, in which it is written that creating the job places is unenviable if we want to secure hope and motivation for our children, with the prospect of joining in the economic and social activity. Because an individual is being socially excluded if they do not join the key activities of the society in which

they live. And an employment can be rightfully marked as one of such activities.

So the goal in the area of employment can be rationalized from the viewpoint of the social integration. Furthermore, it is exactly the market labour that is being preferred. Such an instantiation fulfils two roles. Firstly, the governments of the democratic societies have to persuade the members of the particular societies about the legitimacy of their goals and the arguments have to be set and tested. Secondly, it allows us to specify the final conclusions in the area of the particular politics.

Shifting from the financial poverty to the wider concept of the social exclusion involves shifting from the one-value parameter to the more-dimensional approach, which is, according to Atkinson, the key sign of freeing from the standard utilitarianism. With the transition from Bethan to Rawls or Sen, we are changing not only the constant that we are trying to maximize, but also the dimensionality.

Economics, which appears a daunting and dismal science these days, should be more considered to be a moral science. A lot of insularities and disagreements are not a consequence of different points of view of how the economy works, but of the criteria that are used for the evaluation. We cannot talk about the effects on the welfare, because several criteria how to evaluate welfare exist, which can be applied when evaluating the changes or proposals of governments. Different people can naturally arrive to different conclusions, because they apply different theories of fairness. Such a statement may seem obvious to the non-economists, but the economist's occupation in the more recent years has been heading more towards the ignoring the question of welfare or supposing that there is a general consensus on the question. Next, researching of the records of announcements about welfare can help us to constructive thinking and as a result, new view-points on the key topics of the today's world will evolve.

The key problem of the job market is, according to theoretical approaches, the elasticity of the job market usually expressed through the question of the salary flexibility. However, if we are to understand employment as wider social phenomena, in that case employment is connected with understanding of the time factor and with what the society understands as goods, services, etc. It is understood not only as an economic, but mostly as a socio-cultural dimension. It is obvious that contrary to the official statistics the social diapason of the need for work is much wider as the employment phenomena itself. It is not only the grey and black work, but also an array of other kinds of activities that the society has to secure but the economics does not define them (such as occupation, care for family members, raising of children, etc.). From this point of view, the so-far understanding of employment is probably too narrowed and biased.

On the other hand, the existence of the influence of new technologies influence is present, whose important feature is not only raising the work's productivity and affectivity but also sparing of the work labour. This way, the society gets, according to the traditional understanding of things, into a dilemma on the inside, where the technologies spare work but eliminate job opportunities; however the society does not create new ones to replace those lost. The result is a state in which it is

socially acceptable to generate goods and services that are objectively not necessary; however, it is a must to accept them if we want to maintain the rate of employment; that means that the key dilemma is the lack of people in the productive age or the process of the so-far understanding of the re-distribution mechanisms.

From this point of view, can employment, poverty and social welfare be approached also differently than in the traditional sense? Narrowing of attention of the job market's elasticity only on the question of the elastic forms of employing is only an effect of searching for an answer to the fundamental definition of the real need of work in the society. Present society is getting to the vicious circle state, if we want to maintain the employment's levels we have to come up with new goods and services. When we invent them, we need investments to cover them. What are the natural limits for continuing in this circle (raw material resources, energy resources, and natural environment) and is it possible to sustain this manner of the economic development? Is it possible then to talk about a market labour? Is it possible to say that one of the solutions is another and another round of making the labour market more elastic? In relation to these things it shows that the new theoretical approach is vital, not only for the forms of employability, but for the fundamental definition of employability itself and its economic and social dimension.

The development of the causes of the economic crisis has shown very clearly that the income polarization is one of the main reasons for the global recession. Development of the employment and with that connected increase in the job incomes has simultaneously shown that it is not good enough for solving of the global consumption related problems. At the same time, it has surfaced that as long as the income stratification is not solved, it will not be possible to renew the development of the global consumption and as a result the cyclical termination of the job places will continue. This will not only cause a long-term duration of the crisis, but in the end it will mean the deepening of the difference between the economic growth and the employment.

If there were warning signs present before the crisis that the bond, when talking about the economic growth, employment and consumption, is being disturbed and the influence of the separate processes drifts away, the crisis itself has shown these processes in their full strength. That means that the validity of the traditional approaches concerns not only the pre-crisis and the crisis development, but it will with a high probability also concern the whole post-crisis period. Therefore, it is possible to understand the debates about the ethic level of unemployment but also the new debates about the global economic growth and employment as one of the possible new ways of how to solve this crucial social and also economic phenomenon. Between the level of unemployment and the level of inequality exists a particular relationship – the ethical level of unemployment.

The level of unemployment at which the income inequality has tendencies to stabilize itself is then the ethical level of unemployment. Because the increasing level of inequality is negative for an economy and vice versa the increasing level of equality is positive, the ethical level sets the roof for the socially tolerable level of



unemployment. For the sake of the inequality elimination the level of unemployment has to be kept under the ethical constant. Galbraith's assumptions about the evolution of the income inequality in the US were based on the Theiler's statistics, in which we can notice a certain correlation with the Gini's coefficient. Present calculations not only show the annual data, but also the monthly ones. They confirm that there is a relationship between an hour's pay rate and the unemployment.

World Bank's studies have shown that the changes in development in the countries of the third world, namely China, India and Brazil have had huge impact on the development of the global stratification, but also on the national level of unemployment. In the context with the increase of the incomes of a certain part of population they have overshadowed the income polarization in the developed countries.

Development in the so-called transforming countries in the period of 2000-2004 meant a significant deepening of the income polarization; however it had been repeatedly covered by welfare increase in part of the China's population. Therefore it is difficult to judge the overall process of polarization (from the global point of view) only from the national view point, and it should therefore be viewed in the context of the global economy's changes. At present, the income stratification in the separate countries has reached such dimensions, that the attractiveness of a country is not judged by the country itself, but by the number of wealthy segments in society in the stand-alone countries. That has different implications not only for the level of domestic consumption, but also for the different definition of the relationship between employment, income polarization and growth of the economy.

Ethical level of unemployment should be a status to be aimed for by society; however, the crisis and global development are significantly distancing us from the ethical level of unemployment. Whereas the ethical level of unemployment is also a reflection of the moral status of a society, the real level of unemployment is being influenced more and more by the moral gamble.

Partial corrections are unsustainable from both the theoretical and practical point of view. From this viewpoint, evaluation of economics as being moral or immoral reaches a new dimension set by ecological sustainability (limited sources), financial stability (state of sources and their share-out) and technological sustainability (the real necessity of work). From the opposite viewpoint, it is probably necessary to approach the society not as a homogeneous phenomenon, but as a homogenous phenomenon structured on the inside with the differentiated level of priorities, duties but also the efforts of each individual. And because the efforts and interests of individuals differ, it is hard to talk about statistically average individualised image, which we theoretically transform into the speculations about the individual welfare.

## **2 Ethical Dimension of the Welfare**

The outlined theoretical and methodological approaches point out several points of view:

The moral dimension is understood as a very significant aspect of economics.

To this date, the understanding of this aspect is more of a microeconomics' one (despite the thoughts about the whole society's welfare), mostly defined from the individual's point of view.

This Janus' double-facedness manifests itself in the array of international norms (the social co-responsibility of businesses for development, fighting the budding of fast money). Development in the last 20 years created a need for a new approach to morality and ethics, whereas the crisis acts as the catalyst of the new viewpoints from both the theoretical and practical points of view ([17], [2], and [11]). We can define several new system aspects of this dimension:

- It is a phenomenon of a macroeconomic nature that affects all the aspects of economy and society.
- It is a phenomenon that occurs both on the national and above-national levels.
- It is necessary to react to the new role of the state but also the supranational groups in this area.
- It is a necessity of a qualitatively new level of defining the separate microeconomic but also the macroeconomic processes.

The original idea about morality and ethics as some abstract phenomena has to transform itself to the original point of view (A. Smith). Without morality and ethics there is no economy or society, there is only the effort to produce virtual profits and the so-called macroeconomic indices without understanding the main issue and that the economy is the tool that guarantees the society's functionality.

Processes of off shoring and outsourcing globalization absolutely change the key economics' postulates, the regulation task of markets but also the state is undergoing a profound redefinition. Moral hazard, virtualization in many areas of the economy (the financial market), supranational economic processes, all of those change the possibilities but also the task of a national state as well as also the purpose of morality and ethics in both the economy and society. Nowadays, some say that all that is necessary is to renew is the regulation mechanisms (Basil I, II, and III). Where there were the controlling moral and ethical blocks before the bubbles were created (commodity, mortgage); where there were the controlling mechanisms of governments against the overdoing of a country's debt; and where there were the controlling mechanisms in the consumption area?

Are we supposed to understand this development that the invisible hand of the market itself will ensure the equilibrium state, even with the absence of morality and ethics? We are pointing these issues out because the traditional approaches have reached their limits. The investigation of these dimensions of the economic and social processes eliminates the chance to identify the real causes of the crisis phenomena (with all its causes).

If today it concludes that the income stratification of welfare, the phenomenon of moral gamble, the problem of global consumption, grey and black economy and tax paradises is one way to look at the causes of the global crisis; the other is a necessity of a new multi-dimensional understanding of what we define as the quality of life,

society and economy. It is not a coincidence that today, new theoretical approaches to defining and understanding these phenomena (e. g. Stieglitz's group) emerge. The necessity of a new understanding of ethics and morality as the economic and social phenomena is becoming more and more crucial.

Evaluation of development of the opinions we have gathered until today is essential for understanding of the today's breaking point and so starting to work on the new approaches. This manifests not only in the UNO's work in trying to newly define the complexity of life's quality (as the key economical-social goal), but also in starting new viewpoints on the questions of solidarity, fight against corruption and applying moral and ethical principles on both the macro- and micro- levels. These phenomena can be understood as one of the key theoretical challenges of the future.

### Conclusion

The development in the 90s, most importantly in its second half and after the millennium has, however, as a paradox, created practical reasons why the stated economic concepts are becoming up-to-date again. It is not only about looking for equilibrium between the state and the market, but also about finding a new way of how to look at the theory of social welfare. New economic theories are based on different fundamental bases and at the same time have to look for answers to new arising questions that the progress has created. At the same time, it has appeared that many of the original bases have not lost their up-to-date character.

Global consumption, income stratification, polarization of welfare and poverty, outsourcing, offshoring, and looking for a new balance at the job market are becoming substantial challenges not only for the theory of economics, but also for the global practice. At the same time, the present deep economy crisis has shown the unsustainability of the theoretical approaches in the present schemes form and new challenges that have appeared in front of our society, such as the global warming, ecologisation of the economy, but also the search for the new social consensus have again brought back these key questions to the table. Of course, the necessity of answers today is obvious not only in relation to the theoretical concepts, but also in the search of practical exits from the crisis.

Welfare economics, similarly as the convergence theory, got into the centre of the economics science in the sixties and seventies. At the end of the eighties they started to drift away from the economics theory. There appeared a feeling that they were both overcome scientific terms. Then the development in the nineties and after the millennium has, as a paradox, created practical reasons why these economy concepts are becoming current again. It is not only about finding the equilibrium between the state and the market, but also about finding a new way of looking at the theory of social welfare.

New economic theories conclude from different fundamental basis and at the same time have to look for the answers to the new questions that the development has created. At the same it has been shown that many of the original bases have not

lost any of its relevance. Global consumption, income stratification, polarization of welfare and poverty, outsourcing, off-shoring and looking for the new balance at the job market are becoming important challenges not only for the theory of economics, but also for the global practice.

The present deep economy crisis has shown the unsustainability of the theoretical approaches in the present schemes form and new challenges, facing our society, such as the global warming, ecologization of the economy, but also the search for the new social consensus, have again brought back these key questions to the table. Of course, the necessity of the answers today is obvious not only in relation to the theoretical concepts, but also to the search of practical exits from the crisis.

Welfare economics was more concentrated on the question of the first-hand creation of resources, by which it would be possible to sustain the present understanding of the social welfare; however, this approach still concludes from the primary viewpoint of the national economy, which, however, in the case of globalized economy is not true anymore, and the change of the point of view is necessary. At the same time, the excessive prioritising of profit, effectiveness, fortune at any cost without looking at the moral imperative not only leads to an immense asymmetric income stratification of welfare, but also to such negative processes as the current crisis.

It is the very absence of moral principles that is one of the key aspects in the creation of economy bubbles. Along these two processes; however, there emerges the necessity of a new definition of the key social goal (not the tools). The theory of social welfare becomes this goal, which integrates the principle of social development, adequate social stratification, but also the development based on the moral principles that guaranteed effectiveness in the social development and uses the economic strategies as a tool for reaching of these goals.

The crisis and global development is significantly distancing us from the ethical level of unemployment, which should be a state to be aimed for by the society. Whereas the ethical level of unemployment is a reflection of the moral state of society as well, the real level of unemployment is being influenced more and more by the moral hazard.

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