

Economics, Ethics and Spirituality

World renowned organizational scholar, *James March* of Stanford University once said that *undermining the self-interest doctrine* may be the most important project of the 21st century. (March 2011) The collected papers of this book aim to contribute to this enormous task.

Self-interest is at the heart of economics, politics and everyday life. People and organizations are encouraged to pursue their own self-interest without paying attention to the wider and longer term consequences of their choices and actions. The often celebrated „Invisible Hand” doctrine states that individual self-interested behavior finally produces beneficial outcomes for all.

Self-interest maximization and free market competition are the basic pillars of the Invisible Hand doctrine which claims that self-interested competitive forces bring benefit for all. Overwhelming empirical evidence and strong theoretical arguments show that the working of the *Invisible Hand* is rather an exception than the general case.

There is a lot of controversy about the exact notion of the Invisible Hand doctrine. However, a commonly accepted understanding of the doctrine reads as follows: If individual actors follow their own self-interest in a competitive setting then this produces the optimal outcome for them collectively. (Samuelson and Nordhaus 1989)

Conventional economic criticism lists some important factors which limit the beneficial effect of the invisible hand of the market. These factors include the existence of externalities, imperfect information and the undersupply of public goods. (Stiglitz 2006)

There are important cases when self-interest based competition becomes destructive. One is the psychological case which shows that self-interested actors employ *moral disengagement mechanisms* which allow them to harm others both directly and indirectly. Another is the case of *positional arms race*, when competing actors want to improve their own relative position but arrive at a situation which is detrimental for them both individually and collectively. A third case is the *tragedy of the commons* when competing actors follow their narrow self-interest and destroy the collective good on which their survival depends.

Stanford psychologist *Albert Bandura* states that a division between thought and action takes place when people break the rules or get involved in dirty business. What is most surprising in rule violation and misconduct is that people are not bothered by their conscience, do not fear any sanction and do not feel obliged to make reparations. (Bandura 1986)

The empirical findings by *Gian-Vittorio Caprara* and his team suggest that the more people are concerned with *self-enhancement goals*, the more they are inclined to resort to mechanisms that permit them to *disengage* from the duties and obligations of civic life and to justify transgressions when their self-interest is at stake. If economic agents become self-concerned then it is likely that - by employing moral disengagement mechanisms - their self-exonerative maneuvers will do *harm* to *others*. (Caprara and Capanna 2006)

Based on behavioral evidence Cornell economist *Robert Frank* claims that the failure of the invisible hand is almost always inevitable as there is an inherent conflict between the interest of the individuals and the interest of the community as a whole. (Frank 2011)

Frank shows that people care about relative wealth rather than absolute wealth. They are interested in social comparisons with their peers which in turn results in positional arms races for income, property and other objects of social status far beyond the optimal level of these positional goods.

The tragedy of the commons model developed by ecologist *Garrett Hardin* (1968) shows how self-interested individuals in free competition destroy their own common resources and ruin themselves. The model demonstrates the depletion of a shared resource by individuals, acting independently and rationally according to each one's self-interest, despite their understanding that depleting the common resource is contrary to the group's, as well as their own, long-term best interests.

In addition to the conventional solutions like governmental regulation and developing institutions for reducing destructive competition the papers collected in this volume suggest an alternative solution whereby the behavior of the competing actors can be enriched by *adopting explicit moral considerations*. Pro-social actors who consider the well-being of the community and measure success in broader terms than their own material welfare can avoid destructive competition. This solution is not far from the original insight of *Adam Smith* (1759) presented in his „Theory of Moral Sentiments”.

The book's contributions

The paper „*The Moral Economic Man*” advances a view that economic behavior is multifaceted and context-dependent. This is in contrast to the so-called Homo Oeconomicus model which presumes that agents are perfectly rational, self-interest-maximizing beings. This model can be criticized on both empirical and normative grounds. The paper argues that understanding economic behavior requires a more complex and dynamic framework. The suggested departure point is the "I & We" paradigm developed by American sociologist *Amitai Etzioni* (1988) which states that economic behavior is co-determined by utility calculations and moral considerations. The paper emphasizes two major factors which can explain the ethicality of economic behavior; namely, the moral character of the agents and the relative cost of ethical behavior. It is argued that economic agents are moral beings, but the ethical fabric of the economy determines which face of the Moral Economic Man predominates.

The paper “*Corporate Transgressions*” is jointly written with *Albert Bandura* (Stanford University) and *Gian-Vittorio Caprara* (University of Rome „La sapientia”). It starts with the observation that corporate transgression is a well-known phenomenon in today's business world. Some corporations are involved in violations of law and moral rules that produce organizational practices and products that take a toll on the public. Social cognitive theory of moral agency developed by Bandura (1986) provides a conceptual framework for analyzing how otherwise pro-social managers adopt socially injurious corporate practices. This is achieved through selective disengagement of moral self-sanctions from transgressive conduct. The paper documents moral disengagement practices in famous cases of corporate transgressions and discusses some implications for

business ethics on how to counteract organizational use of moral disengagement strategies.

The paper “*Ethical Decision Making*” states that the self-centeredness of modern organizations inevitably leads to environmental destruction and human deprivation. The principle of responsibility developed by German-American philosopher *Hans Jonas* (1984) requires caring for the beings affected by our decisions and actions. The paper argues that modern organizations should develop a critical sensitivity and empathy toward human and non-human beings with which they share a common environment. Ethical decision-making creates a synthesis of reverence for ethical norms, rationality in goal achievement, and respect for the stakeholders. The maximin rule is suggested to use in making decisions. It selects the "least worst alternative" in the multidimensional decision space of deontological, goal-achievement and stakeholder values. The ethical decision-maker is characterized as having the ability to take multiple perspectives and achieve an appropriate balance across diverse value dimensions.

The paper „*Beyond Competitiveness: Creating Values for a Sustainable World*” is jointly written with *Antonio Tencati* (Bocconi University Milan). It stresses that economics is rightly called a ‘dismal science’. Mainstream economics propagates a negativistic view of human nature. In this view economic agents are always self-interested and want to maximize their own profit or utility. Their interactions are based on competition only and their sole criterion of success is growth measured in money terms. Mainstream economics generates vicious circles in which market players expect the worst from others and act accordingly. Competitive economics produces an enormous abundance of goods and services but at an intolerable environmental and social cost.

The paper argues that if we want to get closer to a sustainable world we need to generate virtuous circles in economic life where good dispositions, good behavior and good expectations reinforce each other. The collaborative enterprise model advanced in the paper promotes a view in which economic agents care about others and themselves and aim to create values for all the participants in their business ecosystems. Their criterion of success is mutually satisfying relationships with the stakeholders.

The paper „*Management Needs Spirituality*” emphasizes that the self-concept of decision-makers plays an important role in determining the ethicality of their decisions. Decisions can be understood as self-expressions of the decision-makers. The paper suggests that spiritual experiences have a vital function in developing the self of managers and improving the ethicality of their decisions. Spiritual intelligence can be understood as transformative intelligence that makes us ask basic questions of meaning, purpose, and values. It allows us to understand situations and systems deeply, to invent new categories, to be creative and to go beyond the given paradigms.

The conclusion of the paper is that spiritual intelligence is badly needed in management. Management decisions considerably affect the life and fate of human communities, natural ecosystems, and future generations. The well-being of these primordial stakeholders requires authentic care, which may develop from experiential one-ness with others and with the universal source of creation.

The paper *Future of Capitalism* argues that the moral foundation of capitalism should be reconsidered. Modern capitalism is disembedded from the social and cultural norms of

society and has produced a deep financial, ecological and social crisis. Companies, regions, and national economies seek to improve their productivity and gain competitive advantage. Competitiveness usually produces monetary results at the expense of nature, society and future generations.

The paper suggests that the economic teachings of the world's major religions challenge the way capitalism is functioning, and that their corresponding perspectives are worthy of consideration. They represent life-serving modes of economizing which can assure the livelihood of human communities and the sustainability of natural ecosystems. The paper concludes that ethics and the future of capitalism are strongly connected. If we want to sustain capitalism we have to create a less violent, more caring form of it.

The paper on *Why Frugality?* is jointly written with *Luk Bouckaert* (Catholic University of Leuven) and *Hendrik Opdebeeck* (University of Antwerp). The paper defines frugality as an „art de vivre”, which implies low material consumption and a simple lifestyle, enabling the mind to be receptive for spiritual goods such as inner freedom, social peace, justice or the quest for ultimate reality. Frugality signifies a release from egocentrism, opening the mind for the inner voice of conscience.

The paper argues that a genuine spirituality of frugality, leading to self-detachment and other-centeredness, does not exclude rationality. Spiritual-driven praxis of frugality needs rationally conceived plans. Frugal practices may lead to rational outcomes such as avoiding positional arms race in consumption and production alike. In this way economic actors may reduce ecological destruction, social disintegration and the exploitation of future generations.

The paper *Buddhist Economic Strategy* emphasizes that Buddhist economics is centered on want negation and purification of the human character. It challenges the basic principles of Western economics, (i) profit-maximization, (ii) cultivating desires, (iii) introducing markets, (iv) instrumental use of the world, and (v) self-interest based ethics. The paper reconstructs Buddhist economics and proposes alternative principles such as (I) minimize suffering, (II) simplify desires, (III) non-violence, (IV) genuine care, and (V) generosity. The paper argues that Buddhist economics is not a system but a strategy, which can be applied in any economic setting. Buddhist economics provides a rational, ethical, and ecological value background, which promotes happiness, peace and permanence.

The paper *Shallow Success and Deep Failure* is jointly written with *Knut J. Ims* (Norwegian School of Economics – Bergen) states that in our modern society, we tend to favor and celebrate short-term success, pseudo-solutions and window-dressing activities at the peril of ignoring long-term consequences. An obsessive hunt for short-term gains, often concretized as profit, produces detrimental effects for all life conditions. In the functioning of today's corporations, and in whole societies as well, we find many activities that result in grave failures rather than the creation of real solutions to pressing problems. The paper argues that we need scientific and technological knowledge, but we also need a better understanding of the existential conditions of human beings to avoid the fallacy of defining most problems as technical/economic/scientific and solving them in purely technical ways. We should gain a better understanding of self-realization and what this means in the perspective of deep ecology and sustainability.

The paper *Respect for Future Generations* starts with the observation that activities of present generations affect the fate of future generations for better or worse. What we do with our natural and cultural heritage mainly determines the way the members of future generations may live their own lives. Thus moral responsibility demands that we take into consideration the welfare of those who, without being consulted, will later be affected by what we are doing now.

The paper employs the principles developed by American legal scholar *Edith Brown Weiss* (1989) that underline our obligations to future generations: (1) Each generation should be required to conserve the diversity of the natural and cultural resource base. (2) Each generation should be required to maintain the quality of the planet. (3) Each generation should provide access to the legacy from past generations to future generations. The paper concludes that caring for future generations is not an altruistic concern only. Improving the position of future generations enhances the future of the present generations, too.

The paper *The Ethics of Systems Thinking* argues that in the case of a complex system we should consider all the important aspects of the system and create appropriate evaluation criteria for them. Systems theory suggests that the quality of life can be served by taking the view of whole systems. This requires considering all the relevant value dimensions, evaluating the performance of systems in adequate scales of measurement and using disqualification criteria for blocking trade offs among non-substitutable values. The paper concludes that in our ecologically fragile, socially disintegrating world multidimensional decision making is a prerequisite for survival.

The paper *Redefining Economic Reason* stresses that the main goal of economic activities should not be profit-making but providing right livelihood for people. *Amartya Sen* (2004) suggests that economic reason can be understood as reasonableness of preferences, choices and actions. Reason requires that economic activities are achieved in ecological, future-respecting and pro-social ways. The paper argues that intrinsically motivated economic agents who balance their attention and concerns across diverse value-dimensions are able to do this. Organic agriculture, the Slow Food movement, ethical fashion, fair trade initiatives and ethical banking show the viability of true economic reason under the circumstances of present day “rationally foolish” economic world.

In serving the survival of humankind we need agents who care about the natural environment and pursue self and community interests in a balanced way.

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