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## ETHICS AND ECONOMICS: THE MORAL FOUNDATIONS OF THE MARKET ECONOMY

### INTRODUCTION

A growing interest in ethical issues is the principal characteristic of contemporary political philosophy and this trend can be observed both in political-economic theories and many areas of social life. Within liberal theory of the last 40 years, significant efforts have been made to provide an ethical justification for the main principles of this philosophy. John Rawls introduced the idea of justice into liberalism, and this concept has since remained an important source of inspiration to philosophers such as Amartya Sen, Martha Nussbaum, Michael Sandel and many others (Rawls, 1971; Nussbaum, 2006; Sen, 2009a; Sandel, 2009). As far as the area of practice is concerned, a need for ethics was first perceived in politics and then in the economic sphere. It is now widely acknowledged that many other areas of social life need to be regulated by ethical rules, and that, among other things, attention to ethics should be seen as a fundamental aspect of organizational leadership in business.

The goal of this paper is to re-examine the ethical justification for the basic liberal principles of competition and private property, and to explore the application of ethics to the evaluation of the present stage of the market economy. The methodological tools used in this article are taken from public choice theory, which combines theoretical investigations with empirical examples and aims to formulate normative conclusions.

Public choice theory, which was established in the mid-twentieth century, has an interdisciplinary character as it utilizes methods taken from economics to

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analyze political life. The founding father of this theory, James M. Buchanan in one of his latest works defines it as a Lakatosian research program based on three fundamental assumptions: methodological individualism, rational choice and politics-as-exchange (Buchanan, 2003). The first two assumptions are widely accepted by economists, and the third gives the approach to politics proposed here an innovative character. According to Buchanan, this last approach, which is typical for economics, can be explained by the fact that this theory was created in response to the strong tendency towards the politicization of human relations observed in post-war socialist theories and welfare economics.

Indeed, the most characteristic feature of public choice theory is that it is based on an economic way of thinking. It draws on the tradition of Adam Smith's political economy and examines and explains economic and political institutions in terms of collective choice. There are other sub-disciplines or research programs connected with public choice, such as: constitutional economy, theories of social choice, and the political philosophy of Amartya Sen, in which both social and public choice theoretical approaches are combined. What all these theories have in common is a recognition of political reality in terms of collective choices in which individual preferences are taken into account. One particular feature of public choice theory is that preferences are neither separate from people nor external to them, and thus in each analysis of choices we must also include the value systems which guide individual decisions.

The problem of the ontological and the epistemological status of preferences has been recently discussed in the works of economists who are interested in philosophical issues (Sen, 1982; Buchanan, 1991). Can they be explained in terms of an overall concept of an individual or are they regarded as separate units? The last attitude is based on utilitarianism and it allows for aggregating preferences (utilities) in purpose to build theories related to the concept of common good or social welfare. As Buchanan points out, "implicit in this whole construction is the ontological assumption that there is "something" – whether called a utility function or not – that exists and can, at least conceptually, be objectified and separated from individual choice." Therefore, "if the individual is presumed to possess superior knowledge of his or her own utility or preference function, there is an epistemic basis upon which arguments for extending the range of voluntary individual choices can be constructed, along with consequential arguments for the establishment and maintenance of institutions that maximally allow such choices" (Buchanan, 1991, p. 222–223).

Buchanan, however, rejects this attitude, the epistemic individualism, as it leads to undesirable political consequences, such as 'benevolent paternalism' and 'scientific socialism'. As opposed to that he describes his own position as subjective normative individualism which "does not allow for any conceptual separation or distinction between an individual's choice behavior and his or her utility function." From the subjectivist perspective, a "utility function" cannot be observed independently of an individual's choice behavior. Thus, according to Buchanan's ontological presuppositions "the individual chooses that what he or she chooses"

and there does not exist an objective knowledge that enables any choice to be classified as ‘correct’ (Buchanan, 1991, p. 226).

Similarly, Sen in his works assumes a broad sense of the term *preference* in which values and choices are its congruent parts (Sen, 2002, p. 14). He rejects the interpretations of preferences as feelings of “preferring” or as the pursuit of self-interest.<sup>1</sup> In this context, he pays tribute to Kenneth Arrow who in his seminal book on social choice theory defined the individual preference ordering as referring broadly to the values that a person may have, including socializing desires (Arrow, 1951, p. 18; Sen, 2002, p. 590).

Like Buchanan, Sen also advocates a subjective version of normative individualism (Sen 1987, p. 41) because he views the ‘agency’ element as indispensable to the concept of a person’s well-being. Thus, what a person values is that he or she chooses. They both share the presupposition that preferences are a part of human behavior and that acting individual is a free human being. Hence, an economist who concentrates on free human choices cannot neglect ethical issues. They point out that origins of economics are related to ethics and to an ethical view on politics (Sen, 1987, p. 6) and that although this tradition, established by Aristotle, was continued in the history of political economy, in particular in the works of Adam Smith, now it has been suppressed by a strong tendency to ‘engineering’ in economic theory (Sen, 1987, p. 7). In consequence, modern economics has been impoverished by the distance that has grown between ethics and economics. They also would agree that economics could be more productive by attention to the ethical considerations (Sen, 1987, p. 9). Undoubtedly, they both greatly contributed to establishing the foundations of the new economics which can hardly be described as a value-free scientific discipline (Putnam and Walsh, 2012).

Ethics is thus an inherent part of Sen’s political philosophy and the theory of public choice. It is used to justify the fundamental theoretical notions of competition and private property, as well as to assess existing political and economic institutions or processes, like the current economic crisis.

## I. ETHICS AND ECONOMIC DEVELOPMENT

Although, historically, ethics has been defined in different ways, the central focus of ethical thought has always been directed at the principles and standards that should govern human interaction. According to the ancient or, more specifically Aristotelian tradition, ethics is concerned with the nature and sources of the Good. Today, however, the issues of right and responsibility are at the center of ethical investigations.

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<sup>1</sup> Sen’s concept of preference and his contribution to the theory of rational choice as well as his criticism of the theory as it is presented in mainstream economics has been discussed in Dhongde and Pattanaik (2008), *Preference, Choice and Rationality: Amartya Sen’s Critique of the Theory of Rational Choice in Economics*.

In this context, ethics has become more cosmopolitan. It is not necessarily related to religion or to a particular society, but is rather more closely connected with the development of humanity as a whole. It is now a commonly shared view that a framework of rights and responsibilities helps people achieve their personal and social goals as human beings. As an invisible structure of norms and precepts, ethics supports positive human interaction and is an important factor in enhancing the economic performance of a society (Buchanan, 1994).

Nowadays it has become commonly accepted that an ethical outlook in business is essential to a company's success. But the question arises: how does ethics support the economic performance of a firm? What are the links between ethical and economic spheres? Nobody at present appears to take seriously Milton Friedman's famous statement that the only responsibility of a business is to return a profit, (Friedman [1970] 2008), and current discussion on ethics has switched to the fundamental issue of the scope and nature of managerial responsibility and related topics pertaining to the purposes of the business corporation.

These new questions have been raised all over the world as globalization of the economy has forced business and government leaders to re-examine the goals and responsibilities of the corporation. This problem has also become fundamental in a general philosophical sense to the legitimacy of the capitalist economic system. It has become clear that without a coherent code of moral values adjusted to society's expectations, business leaders no longer possess the authority to act as creators of wealth and managers of society's resources (Sharp Paine, [1994] 2008, p. 275).

### 1.1. ETHICS AND THEORIES OF COMPETITION

The influence of ethics is noticeable in the works of public choice scholars when they are justifying the basic notions of the market economy, i.e. competition and private property. The notion of competition originally appeared in the work of Adam Smith and was closely connected with the liberal demand for individual freedom both in the economy and in politics. Economic freedom, unrestricted competition and private property, which were exclusive to the capitalist order, became the dogmas of classical liberal doctrine from Adam Smith to Ludwig von Mises and Friedrich von Hayek, this tradition being maintained until the end of the 20th century by their eminent successors: a group of public choice theorists and the Harvard economist, Michael Porter.

In Hayek's theory, the function of competition is not to create the most efficient economic results or *equilibrium* in which demand and supply are balanced but rather to discover economic reality. Objective knowledge based on facts is not accessible to the external observer and is only available to those who participate in economic processes. A man who is not part of a competitive environment cannot behave as if competition existed. This implies therefore that the socialist idea of central planning is utterly mistaken (Hayek, 2002)

James Buchanan, however, has modified Hayekian views on central planning and competition by maintaining that it is impossible to realize the idea of central planning not for epistemological reasons but rather for ethical ones. Like ordinary people, politicians pursue their own interests with the aim of achieving 'political profits'. Even though they could gather sufficient knowledge about all the operations performed on the market, they would use it for their own personal benefit - or to benefit the groups which support them.

Public choice theory explains political transformation as an evolutionary process in terms of constitutional choices. As far as economic changes are concerned, the public choice view is similar to the classical liberal account in stressing the economic value of individual freedom and of private property. It contains normative arguments for creating an economic system based on private property and it can be used both to explain political-economic processes and to lay out programs of economic policy. These arguments can be found in those of Buchanan's works in which he particularly concentrates on the role of government.

Buchanan observes that a belief in the invisible hand of the market ended during the 20th century, and has been replaced by trust in government, which was perceived as a benevolent despot with the power to control the market and competition. But in fact, the state restricts individual freedom and does not improve general economic welfare. Additionally, the growth of governmental power always leads to an increase in bureaucracy, inefficient management, and wasted resources. Government interference should thus be curtailed and constrained by constitutional rules rather than encouraged (Buchanan and Tullock, 1965, p. 286).

The constitutional political economy conceived by Buchanan as a subdiscipline of public choice theory is a science of constraints. Unlike traditional economists, he does not focus on external constraints but rather on the self-constraints built into every individual choice. He often makes use of the following example: If in a shop I prefer apples to oranges, I constrain my consumption of oranges in favor of apples.

According to Buchanan, the moral constraints imposed by individuals on their own behavior are also the constraints inhibiting the behavior of others, and they therefore possess economic value. Thus, it is possible to consider an ethical system as leading towards an efficient economy, or as creating obstacles to economic progress. In particular, Buchanan concentrates on the economic value of the puritan work ethic and attempts to prove that the propagation of these norms in a society leads to general economic welfare.

Unlike Max Weber, who in his book *The Protestant Ethic and the Spirit of Capitalism* (1904) linked the origin of capitalism to protestant ethics, Buchanan argues that *any* society whose members observe the virtues of puritan work ethics is economically better off than a society in which these virtues are absent or weak. Thus, the existence of work ethics in Western culture is the source of profit in the economy.

In his book on *Ethics and Economic Progress*, Buchanan argues that in every individual choice between work and leisure there is an element of inefficiency

which can be diminished thanks to the ethical norms (Buchanan, 1994, p. 85). As a result, an increasing input of work allows for an increase in specialization, as the division of labor is limited by the extent of the market and it will therefore cause a growth of overall productivity. Like Hayek, Buchanan rejects the neo-classical model of perfect competition and instead considers existing forms of competition, and the assumptions on which they are based, namely individual freedom and property rights. These have an economic value; freedom of choice, for example, prevents manipulation of the terms of trade, and favorable conditions can be fulfilled even in a small country when the market is open to every potential buyer from that country or from abroad (Buchanan, 1991, p. 159).

Indeed, within the framework of public choice theory, links between ethics and economics are explained in terms of beneficial exchange processes, which is why the economic well-being of each of us depends on the attitude towards work held by the rest of us and on our internalization of this sort of interdependence through the work ethic (Mueller, 2003, p. 74).

Buchanan also stresses the importance of tradition and historical imagination in relation to economic development, observing that in Western society the central notion of gains-from-trade emerges naturally from the historical imagination and is grounded in the liberty and independence of the individual. On the contrary, in former Socialist economies, there is no such thing as an 'exchange mentality'; instead vendors demonstrate a behavioral indifference towards the whole structure. These different national experiences may affect the feasibility of adaptation to different economic and political organizational structures (for example, Poland's role in the revolution against the communist regime was due, in part, to the historical position of the Catholic Church) (Buchanan, 1993, p. 62–63).

Buchanan's description of this cultural and political 'competitive environment' is to some extent similar to that of Michael Porter, but their opinions on the scope and character of governmental interference in the market economy are slightly different. For Porter, it is no longer valid to talk of a government interference vs. free market competition duality. In his view, in the contemporary world, the role of government is to support the development of clusters, which are the most competitive areas of a country's industry (Porter, 1990, p. 126–128).

Like Buchanan, Porter stresses that the mentality of individuals influences a country's economic welfare. He claims that economic welfare depends on productivity, not on controlling resources or obtaining privileges, and stresses that this productivity paradigm should be implemented in a society through the educational system. A government is able to impose certain procedures but this strategy will not work unless they are accepted by the business circles. If entrepreneurs opt for illegal activities, bribes, and dealing with the *Mafia*, government policy will be unsuccessful. In general, Porter assumes that the economic culture of a society is rooted in its own particular tradition but that a country can change its culture nevertheless through economic education and the efforts of entrepreneurs (Porter, 2000, p. 25).

Although the leading libertarian philosophers of the 20<sup>th</sup> century, Robert Nozick, Murray Rothbard, and Milton Friedman, attempted to justify unrestricted competition in every domain of social life, Buchanan and Porter, who oppose direct governmental interference in the economy, claim that competition should be constrained by ethical norms (Buchanan) or by the limited actions of the State (Porter). Buchanan analyzes traditional ethical systems in terms of their economic value, whereas Porter remains skeptical about the direct impact of inherited work ethic on efficiency and economic growth. However, they both would agree that classical liberalism cannot be applied to many domains of social life, especially to those in which public goods are present as these require the existence of the state and commonly held principles of social cooperation. These principles should be observed in order to remove from this cooperation *free riders* who make use of public goods without paying for them.

## I.2. ETHICS AND PRIVATE PROPERTY

The other important liberal idea, private property, has been also re-examined by public choice scholars who have attempted to deliver an ethical justification for it. Classical liberalism places private property among human rights as it protects individual freedom. However, according to Buchanan, it seems impossible to talk about individual rights in isolation from present society and its historical background.

Unlike Nozick, Buchanan does not address his attention to the way in which a particular holding was acquired or transferred. He concentrates only on the actual system of property within a society. In living in a society we accept the *status quo* and behave as if this came into being through voluntary mutual agreement. Those who originally reached this agreement imposed laws upon themselves, including property laws, and set up a government to enforce them. However, if a government permanently infringes property laws, this causes moral protests and may lead to revolution, resulting in anarchy. But there is another option put forward by the public choice theorist, which is called a 'constitutional revolution', namely the peaceful transformation of existing laws according to the will of all members of society. Buchanan stresses that the main goal of a constitutional revolution should be the redefinition of property laws in a way that all members of society approve. Decisions about transforming property rights should be taken unanimously and written into the constitution (Buchanan, 1975, p. 178-179). Thus, for the public choice theorist, the unanimity rule ethically justifies a system of property in a democratic society.

## II. THE MORALITY OF THE MARKET AT THE TIME OF THE ECONOMIC CRISIS

It has been repeatedly stated that the recent economic crisis had a different character than the previous ones. According to the well known Italian economist,

Stefano Zamagni, the present crisis is entropic, not a dialectical one - as was the 1929 crisis. Entropy, in this context meaning disorder, is deeply rooted in the lack or absence of ethics in contemporary societies, and is connected with multiculturalism and globalization which are characteristic of contemporary world. As a result of these processes, societies are either losing or failing to recognize their own social goals, values, and the meaning of the common good. Hence, we are unable to repeat past strategies in order to combat the present crisis, and so we have to come up with completely new strategies. However, the serious obstacle in the way of creating such strategies is the reductionist stance, prevailing in the contemporary economic theory, which assumes that the market is morally neutral, not subjected to ethical judgments (Zamagni, 2013).

## II.1. PUBLIC CHOICE APPROACH

In general terms, while efficiency and maximization are seen as goals in economics, redistribution is related to political strategies. In contemporary liberal democratic societies, there is a clear trend towards separating the market from democracy. From the public choice point of view, this attitude is utterly false as the market needs some external rules in which it operates, and these are invented within the framework of democracy. Apart from legal rules, and no less importantly, there are also moral constraints. Individuals need both legal and ethical rules in order to restrict their own freedom, and actually these constraints are of benefit to them.

As I mentioned previously, in public choice theories, successful competition also requires constraints, rules and institutions. Even Adam Smith noticed that a market which is absolutely free will destroy competition. Thus we need regulations, rules, and anti-trust laws which emanate from the democratic state. This view has been confirmed also by Elinor Ostrom, who observes that the market does not of itself generate a 'common good', and delivers empirical evidence to support the idea that common good problems can be solved by voluntary associations rather than by coercive state and also claims that political rules should combine both efficiency and solidarity (Ostrom, 1990, p.90). In her works and in most of recent discussions on social justice concerning the distribution of goods in a democratic state, ethics has been inextricably combined with politics.

Ethics is undoubtedly very important nowadays when large financial and economic institutions "collapsed", sometimes due to the irresponsible behavior of top management and often accompanied by unethical CEO attitudes towards employees and the rest of the society. One might say that in a time of economic crisis, ethical rules must either be relaxed or neglected, but in my opinion these ethical rules are even more important for two principal reasons: firstly, from the examples of collapsing corporations we can learn about how to avoid their mistakes; and secondly, the current global economic crisis forces us to re-think our traditional approach. While it is true that at a time of recession it seems extremely difficult to observe ethical rules and codes of behavior, it is nevertheless impossible to view the modern market as an ethics-free zone.



Thus, the view that contemporary business cannot be separated from the rest of the community and must be integrated into the society is obviously in direct opposition to the Friedman's argument. The new perspective on the problem of the morality of the market is especially visible in the constitutional political economy of Buchanan and has been developed in Amartya Sen's political philosophy. Buchanan stresses the importance of incorporating ethics into market functioning whereas Sen concentrates on the idea of social justice to be realized in a democratic society. Both these Nobel Prize winners assert that economic issues cannot be separated from ethics and politics because of the complex nature of the contemporary society. They also claim that the main interest of any political theory should be the scope and means of increasing individual freedom of choice in all areas of social life, both in politics and in the economy.

Their concern for the individual human being, who is the instigator of changes in any social, economic and political reality, has led them to the political economy of Adam Smith. They share a critical view of contemporary economics, seeing it as a purely mathematical discipline, and they link economics with choices made by individuals, as in their view economics is the science of the choices these individuals perform. Therefore it is close to Smith's approach. In addition, according to Amartya Sen, we should also look to Adam Smith's work for guidance on how to understand and combat the recent economic crisis.

## II.2. SEN'S DIAGNOSIS

In his article *Capitalism beyond the Crisis* (2009), Sen does not analyze the behavior of particular persons, banks or governments during the economic crisis. Instead he discusses the problem of the legitimacy of the capitalist system in general in the light of recent events.

According to Sen, we should clearly look for a remedy and think hard about how to get out of the present crisis. But we should also re-examine the usefulness and applicability of certain economic theories, for example, of Keynesian thought, and assess the role of certain institutions and establish priorities.

First of all, Sen argues that the old fashioned idea of capitalism as a system based on the profit motive and private ownership no longer corresponds to the reality of modern societies since various public goods, such as unemployment benefits, the provision of education and health care, are not based on private property. Thus, to him, the idea of capitalism now seems utterly unproductive and should be replaced by an earlier notion of the market economy as found in Adam Smith's *The Wealth of Nations* (1776).

Sen, in fact, suggests a new interpretation of this famous book, similar to the one presented earlier by James Buchanan. Both disagree with the reading of Smith's philosophy as an apologia for a free market with no constraints imposed on it by the state, which served as the basis for the ruthless capitalism of the nineteenth century. Such interpretations, common during the last few decades in

the US, provided some justification for the absence of state regulation and thus may have contributed to the present crisis<sup>2</sup>.

According to Sen, however, Adam Smith cannot be blamed for misinterpretations of his doctrine. In fact, although Smith advocated the usefulness and dynamism of the market economy, he did not uncritically believe in the pure market mechanism as leading to economic excellence, nor did he concentrate solely on the profit motive as the only end. He stressed the fact that confidence and trust (necessary conditions for any successful banking system), together with prudence shown by particular bankers, were the essential values to accompany and guarantee a good economic performance (Sen, 2013, p. 44).

In the light of this interpretation, Adam Smith's theory cannot be neatly summed up by using the metaphor of the invisible hand on the market. Quite the contrary. He not only defended the role of the State in providing public services, such as education and poverty relief, but was also concerned about the inequality and poverty that may arise from a market economy (Sen, 1987, p. 27). Smith never used the term "capitalism", nor did he argue for the sufficiency of market forces, nor for the dominance of capital. Indeed, in his first book, *The Theory of Moral Sentiments* (1759), he stressed the importance of ethical values that went beyond profit-seeking, like "humanity, justice, generosity, and public spirit". Adam Smith's moral theory has also served as the inspiration for Sen's concept of social justice, as laid out in his recent book, *The Idea of Justice* (Sen, 2009, p. 124)<sup>3</sup>.

Thus, in Sen's view, the present economic crisis is generated principally by an overestimation of the wisdom of market processes and also by the absence of state regulations and constraints imposed by governments on the behavior of big corporations.

Apart from the absence of regulations, there is another factor of great importance. Several years ago, Michael Porter made the provocative claim that governments and companies must stop thinking in terms of CSR and start thinking in terms of 'corporate social integration' (Porter and Kramer, 2006). Now, when we are analyzing the sources of the present crisis, we perceive that the idea of integrating business and society has also been completely neglected in the performance of big corporations and this might well have contributed to the economic recession.

There are many different ways of integrating corporations and society. Currently, both in the U.S and Europe, we observe a growing state interference in the economy, a matter that should also be looked at carefully, since, as the past experience have shown, state interference in a national economy may turn

<sup>2</sup> This is how Alan Greenspan, for example, explained his non-interference strategy.

<sup>3</sup> The role of sentiments in Smith's economic and political theory has been recently considered to be the basis of judgment about values as being a part of economic striving and exchange (Rothschild, 2001). It is also stressed that a concept of an economic man, attributed to him, seems too narrow and cannot be reduced to the neoclassical model of self-regarding human behavior as the foundation of the market economy (Gintis, 2005, p. 3–8; Sen [1993] 2008, p. 257–258).

out to be the road to serfdom, as Hayek puts it. It might introduce socialist central planning into an economy, along with a suppression of individual freedoms within the political sphere. To avoid these totalitarian consequences, we should examine the links between the economy and politics with care.

Sen observes that Keynes' concentration on the regulation of the whole economic system was accompanied by his relative negligence of social concern. The latter attitude, however, applied to contemporary economy, can have negative consequences. In a situation of rising unemployment, for example, the absence of a national health service may lead to a substantial worsening of the quality of life of the unemployed. In countries where all the citizens have access to a public health service, loss of employment does not produce such devastating results (Sen, 1994; Sen, 1999, p. 91). What seems dangerous today is that Keynes is now considered to be the guru of the new capitalism as he offers a recipe for stabilizing fluctuations in the market economy. Thus, according to Sen, the overestimation of the regulative function of the state may also have dangerous consequences for an economic policy based on Keynesian theory.

### II.3. APPLICATION

During the recent economic crisis, epitomized by the collapse of the investment bank Lehman Brothers, governments took various actions to prevent the downfall of other global financial institutions. As a result, certain banks received large subsidies and loans from governments, both in the US and the EU (France, Britain, Cyprus). Another sector on the brink of bankruptcy was the car industry, which prompted the decision by several governments to subsidize the production of automobiles.

However, there is a noticeable difference between the US and the EU government policy towards banks. At the beginning of the financial crisis, the American government urged private investors to offer certain banks financial support. Warren Buffett, for example, bought shares in Goldman Sachs and together with other investors prevented the collapse of the whole banking sector. In contrast, governments in the EU subsidized banks in order to save them from bankruptcy. It is often stressed that at a time of crisis, large and powerful companies in rich European countries receive governmental subsidies whereas smaller companies situated in poorer countries are forced to close down, leaving hundreds or even thousands of employees out of work because nobody cares about their problems. However, protectionism in richer and larger companies might turn out to be harmful for competitiveness and even devastate the entire European economy. Moreover, the growing role of governments and big corporations is often accompanied by a distinct lack of interest in the damage done to the lives of ordinary people.

This situation cannot be justified by the theory of public choice, which primarily focuses on the freedom and welfare of the individual, rather than on the corporation or the state. Thus, governmental interference in an economy can

only be justified if it purports to improve the situation of particular individuals according to their preferences. It is precisely because of this concern for individuals that public choice theorists, including Buchanan and Sen, prefer Smith's theory, which justifies state interference in the market only to some extent, over Keynesian interventionism.

## CONCLUSION

It is clear that the contemporary liberal economists, Sen, Porter, Buchanan, consider the state and the market as complementary. Both the state and the market should be assessed from the point of view of the welfare of an individual and as institutions which enable individuals to choose freely from the many alternatives available to them. When evaluating these institutions in a time of crisis, one should not be taking into account short term effects but should instead be looking for long term consequences and the influence of present decisions on the prospects of future generations. Thus, the problem of sustainable development has recently been generally acknowledged as one of the vital issues of the global economy. Moreover, the impact of these decisions on the welfare and quality of life of individuals should be assessed, together with considering whether they broaden or restrict individual freedoms.

What is the role of public choice theory and the political economist in these processes? How ethics can be included in the process of the market decision making? Definitely, the role of ethics in public choice theory cannot be restricted to the justification of its basic notions. What is even more important, ethics can be perceived as an inherent part of the process of collective decision making, which is an fundamental issue of this theory.

A public choice scholar cannot pretend to possess an objective knowledge about the market processes. Being aware of his or her own value system, the political economist should not impose what is good on the rest of society. The only thing he or she can do is to recognize what people want and to formulate hypotheses in a form of policy recommendations on how to solve the current problems. These hypotheses cannot be verified by empirical procedures or some strategy of optimization in which we would know what is the best solution in any particular situation. It is not possible to assess which solution should be chosen and which is the most efficient one as the principal criterion assumed in this theory is the unanimous support which will allow to assess whether any prediction is correct. Thus, the theory requires both existence and the proper functioning of democratic political institutions and can be applied only within a framework of popular voting, constitutional and legal rules, and citizen's participation. The role of the political economist in this democratic framework is to be a well-informed adviser to the citizens.

Public choice theory does not provide us with a direct course of action, or a mathematical model which would be easy for politicians to implement in their

struggle against the economic crisis. Neither experts nor governments have a magic wand which would enable us to return to a period of economic prosperity. Public choice theorists are only able to present us with certain currently available options, and suggestions as how to compare the effects of different decisions. In the face of every crucial decision to be taken within a democratic society, we have to remember that it is up to us all how we solve recent economic problems. Indeed, public choice theory places responsibility on individuals and does not delegate it to impersonal external forces or general historical processes.

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## ABSTRACT

The goal of this paper is to examine the application of ethics to the market economy as it is presented in the framework of the contemporary liberal political philosophy. The methodological tools employed here are taken from the theory of public choice, which combines theoretical investigations with empirical examples and aims to formulate normative propositions. The analysis of relationships between ethics and economic development include the ethical justification of the basic notions of the market economy, i.e. competition and private property, as well as the evaluation of the role of ethical rules as complementary to the coercive state. In conclusion, it is argued that public choice theory allows not only for the assessment of the present stage of the market economy but also offers an important diagnosis of the recent economic crisis.

**Keywords:** ethics, economics, public choice, competition, economic crisis.

**JEL Classification:** P16, B40, A13

## ETYKA I EKONOMIA: MORALNE PODSTAWY GOSPODARKI RYNKOWEJ

### STRESZCZENIE

Celem artykułu jest zbadanie zastosowania reguł etyki do analizy gospodarki rynkowej, tak jak przedstawia się ono w ramach współczesnej liberalnej filozofii politycznej. Stosowane tu narzędzia metodologiczne zaczerpnięte zostały z teorii wyboru publicznego, która łączy rozważania teoretyczne z przykładami empirycznymi i ma na celu formułowanie wniosków normatywnych. Analiza relacji między etyką i rozwojem gospodarczym obejmuje m.in. etyczne uzasadnienie podstawowych pojęć gospodarki rynkowej, konkurencji i własności prywatnej, a także ocenę roli zasad etycznych w gospodarce jako alternatywnych wobec wywieranego przez państwo przymusu. W konkluzji stwierdza się, że teoria wyboru publicznego umożliwi nie tylko ocenę obecnego stanu gospodarki rynkowej, ale także oferuje diagnozę obecnego kryzysu gospodarczego.

**Słowa kluczowe:** etyka, ekonomia, wybór publiczny, konkurencja, kryzys ekonomiczny.