INTEGRATING ETHICS INTO ECONOMICS

by

Professor M.V. Nadkarni

Third Founder's Day Lecture

CMDR
सा विद्या या विमुक्तये

CENTRE FOR MULTI-DISCIPLINARY DEVELOPMENT RESEARCH (CMDR)

R.S.No. 9A2, Plot No. 82, Dr. B.R. Ambedkar Nagar
Near Yalakki Shettar Colony, Lakamanahalli
Dharwad - 580 004

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VIDYARATNA SRI R. S. PANCHAMUKHI (1898 - 1982)

Founder President of CMDR

Vidyaratna Sri R. S. Panchamukhi was an erudite scholar of Sanskrit, Indology, History, Epigraphy and Archaeology. He was probably one of the earliest indologists who emphasized that history should be an account of development of the society, culture, economy and polity. He interpreted the long freedom struggle of India as the process of interaction of two cultures and the resultant conflicts - a *Sanskriti Sangrama*. This eclectic perspective, about the development of *people and the masses,* seems to have motivated an indologist in him to encourage the process of creation of CMDR in Dharwad. In this endeavour of his, he was ably supported by luminaries like Prof. D. T. Lakdawala, Prof. M. S. Gore, Prof. V. R. Panchamukhi, Prof. B. M. Udgaonkar, Prof. P.R. Panchamukhi, among others.

With his early education in Jalihal (a village in Karnataka), Bagalkot and Dharwad (Karnataka), Vidyaratna Sri Panchamukhi attended Deccan College (Pune) and Karnatak College (Dharwad) for higher education. He responded to the Call for Freedom Movement by boycotting the College in Pune and starting a 'National School' in Bagalkot. He got his B.A and M.A degrees with First Rank from Bombay University and was awarded the coveted Deepak Sanskrit Prize, Gold Medal and the First Daxina Fellowship of the Karnatak College, Dharwad.

After serving as Epigraphist in the Department of Archaeology in Madras and Otacmund, Vidyaratna Sri Panchamukhi became the first Director of the Kannada Research Institute (KRI), Dharwad. Under his able intellectual stewardship, KRI soon earned a place of honour on the Archaeological and Research Map of India. A number of discoveries of crucial historical importance were made by KRI through extensive excavations and collection of rare manuscripts, inscriptions and monuments. A unique Archaeological Museum was established at the KRI - a resource for researcher in archaeologists and history, both Indians and foreigners. After retirement from this KRI in 1963, he was invited by the Karnatak Historical Research Society (KHRS), Dharwad, to be its Chairman and the Chief Editor. He was also the President of KHRS.

Vidyaratna Panchamukhi authored more than twenty five books, a large number of research papers and edited several rare manuscripts of literary, philosophical and historical value. His scholarly contributions include, *Haridasa Sahitya of Karnataka, Sanskriti Sangrama, Karnatakada Arsumanetanagalu* (Dynasties of Karnataka), jointly with another noted historian of his time, *viz.*, Sri Lakshminarayan Rao, *Vedaapoursheyattva Vadah* (in Sanskrit), *History of Karnataka, Guru Sarvabhouma Sapta Ratrotsava Champu* (a philosophical and a literary work in Sanskrit), *etc.* He supervised several Ph. D. theses and trained the young and the old alike in Indian philosophy and culture in particular, and indology in general, including epigraphy, paleography, *etc.* Hallmark of his historical and indological research was undoubtedly his concern for a study of the people in a holistic perspective.

Duly recognizing his contributions to society, he was honoured with titles, such as, *Vidyaratna, Vidyabhushana, Mahamahimopadhyaya, Haridasa Sahityalankara, Panditaraja, etc.,* by the all India institutions and scholars' community throughout the country. In 1978, he was elected as the President of All India Epigraphical Society. In 1980, he was awarded the coveted Certificate of Honour in Sanskrit by the then President of India. In 1981, the Government of Karnataka honoured him with the State Award of *Man of Scholarship and Research.*

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FOREWORD

CMDR has been organizing in recent years Founder's Day Lectures in memory of Vidyaratna Sri R.S.Panchamukhi, its Founder President, by distinguished social scientists every year on themes of fundamental interest to the researchers in different disciplines and also policy makers. So far, two such lectures were delivered, one by a noted historian, since the founder president was a historian and an indologist, by his profession and the other by an eminent Gandhian economist. The Third Founder's Day lecture has been delivered by Prof M.V. Nadkarni, eminent economist and a multi-disciplinary scholar of high repute, Ex Chairman, CMDR and currently Honorary Member of Governing Council of CMDR and Honorary Visiting Professor at the Institute for Social and Economic Change (ISEC), Bangalore, on a highly topical theme of 'Integrating Ethics into Economics'. Prof Nadkarni is known for the choice of very fundamental themes for his works. His book on *Hinduism - A Gandhian Perspective* has been highly appreciated in the scholarly world. Another book of his on *Ethics for Our Times* has also been an equally well received contribution. CMDR is very happy to publish the Third Founder's Day Lecture delivered by Prof. M.V. Nadkarni. As can be seen, there seems to be an element of continuity in the previous Founder's Day Lecture delivered by Prof Sudarshan Iyengar on *Rethinking on Human Behaviour in Economics: A Gandhian Perspective* and this year's lecture by Prof. M.V. Nadkarni on *Integrating Ethics into Economics,* as both aim at examining the philosophical foundations of economic science.

Economics has been described by many critics as a dismal science because of its conceptual foundations. This is particularly true in the light of developments covered under the term neo-classical economics. The assumptions of an economic man, who is presumed to undertake all actions only for maximizing his self-interest, the assumption of *ceteris paribus,* overlooking the effect of all other factors other than the ones being studied, attempts to introduce an element of exactitude in analysing the social phenomena by using rigorous quantitative techniques overlooking the fact that these techniques are only tools for better understanding of the complex reality rather than the bases for formulating precise policy making. This further drifted the discipline from the realistic perspectives. Kenneth Boulding, an eminent reflective and highly critical economist of late last century, had observed, 'Mathematics brought rigor to economics. Unfortunately, it also brought mortis'. Though the difficulties imposed by such restrictive perspectives of economics have been appreciated even by the main line theoreticians in economics itself, the restrictive framework continues to be the most frequently adopted framework by teachers, researchers and others while analysing the real life situations, since habits are hard to die. If the same thing is repeated again and again, then more often the other approaches appear less important and even irrelevant, though they are likely to be more realistic in understanding the real life situations. This is what seems to be happening in the case of the discipline of economics also.

Blind applications of methods of analysis adopted by some of the western scholars of developed countries have further drifted economics from the indigenous framework. In the process, certain human values are made to appear irrelevant while studying economics. This is the tremendous damage inflicted upon our discipline by the trends in research and teaching. Interestingly this was not the perspective of the ancient economic thinkers of the West as well. Unfortunately, Adam Smith - the Father of Economic Science- is known more for his book *Wealth of Nations* rather than for *Theory of Moral Sentiments.* The latter work certainly raises the issue of taking a holistic perspective about human behaviour, adoption of which in a particular background would truly enrich the subject matter of economics. Appreciation of desire to be free, sympathy, habit of labour and sense of propriety are as important as the propensity of self-love or self-interest and propensity to truck barter and exchange, the springs of human conduct in the framework of six springs of human conduct, identified by Adam Smith as motivating forces behind human behaviour. A closer scrutiny of propensity to truck barter and exchange also shows that there are elements of concern for fellow beings even here and this propensity is guided not just by self-interest. However, in the studies such aspects hardly receive a focus. Our indigenous approaches to the human behaviour in the ordinary business of life give an impression of being a better blend of ethical and moral considerations in economics. Emphasis on self-restraint rather than self-interest maximization, renunciation as the end goal of human activities rather than considering consumption as the end of all economic activity, as in the case of modern economic science, treating money as an aid for achieving fundamental human values, *etc.*, as epitomized in the classic statement *(Dhanam hi Dharmaikaphalam)*, in Bhagavata, an eclectic work *par excellence,* not emphasizing the individual right over resources but treating them as the resources of the divinity, *(Ishavasyam idam sarvam yat kim cha jagatyam jagat tena tyaktena bhunjeethaah ma grudhah kasya swit dhanam)*, as ordained in the *Ishavasyopanishat, etc.*, are some of the values which are in-built into the ethos of human thinking in the east in general and in India in particular, since ancient times. There might have been aberrations in this ethos on occasions but the underlying universal ethos in this part of the world cannot be overlooked. Any deviant from these basic undercurrents of values was and even now is automatically treated as an outcast and looked down upon with suspicion and remorse. It is for this reason that even certain systems of philosophy like Charvaka system, advocating the utmost form of self-interest (which is epitomized in a statement attributed to it as *'Bhasmeebhuutasya Dehasya punaraagamanam kutah, Tasmat sarvaprayatnena Runam krutva Ghrutam pibet'* meaning *'since this body does not come back after death to enable us to enjoy the pleasures of life, everyone should enjoy sensuous pleasures without worrying about even the implications of huge debts incurred for the purpose of acquiring the resources for such an enjoyment')* have generally not been held in the same esteem, as the other systems. Hence, in the background of both intellectual pursuits and policy making witnessed in recent times, integrating ethics into economics (rather than integrating economics into ethics, otherwise the dominant ethos of self-interest as the basis for economics might contaminate ethics itself) seems to be the crying need of our times. The theme of the Founder's Day lecture delivered by Prof. M.V. Nadkarni, therefore, eminently deserves the attention of intellectuals in economics and policy makers alike.

Prof. Nadkarni presents his fundamental thoughts in a lucid style, with practical examples mostly drawn from India. The quotations from Vedic literature, Mahabharata, Bhagavad Gita, *etc.*, make the lecture more scholarly providing the needed indigenous perspective. Readers cannot also overlook the comparative perspectives with western philosophical thoughts of Immanuel Kant, Benn, John Rawls, *etc.* Amartya Sen's thoughts in his *The Idea of Justice* also come under a close scrutiny in Prof. Nadkarni's lecture. The issues of ethics and justice are relevant not just in the case of 'persons' but also in the case of 'regions'. Unfortunately, Rawls rules out this extended application to the regional context.

For obvious reasons and rightly so, the issues relating to the ends and means, which normally do not receive primacy in the mainstream economics of our times, do receive priority attention in this lecture. Though these ideas need to be extensively developed further, (and it is hoped that Prof. Nadkarni himself takes them up in his future writings), the fact that a professional economist has recognized their importance, augurs well for the future development of the discipline of economics in our country. CMDR looks forward to a revisit by academicians and policy makers to their discipline with such a refreshing perspective.

The Centre is grateful to Prof. M.V. Nadkarni for delivering the Third Founder's Day Lecture on an important theme with long range implications, not only for the discipline of economics but also for all social sciences. CMDR also expresses its thanks to him for promptly making available the finalized version of his lecture to the Centre, facilitating its publication.

P. R. Panchamukhi
Chairman, CMDR, Dharwad

PREFACE

The Founder's Day Lecture is organized by CMDR in the memory of Vidyaratna Sri R. S. Panchamukhi from the endowment created by Prof. P. R. Panchamukhi, Founder Member and present Chairman, CMDR.

For the Founder's Day Lecture there could not have been a better theme than the one chosen by Prof. M.V. Nadkarni, viz., *'Integrating Ethics into Economics'*. His reminder comes at a time when the limitations of disjoint spheres of economics and ethics have hit not only the a few nations but almost the entire global economy. The spate of scams in India and the recent global financial crisis bear testimony to this fact.

Prof. Nadkarni has put forth a four-pillar framework in his lecture. The first pillar of his analytical foundation points out the *irrationality* and *untenability* of separating economics from ethics. The philosophical basis for this separation and its critique constitutes the second pillar of his analytical structure. The need for integrating ethics into economics constitutes the third pillar of Prof. Nadkarni's analysis. The fourth pillar highlights the Gandhian approach and its contemporary relevance, in local, regional and global contexts.

As a part of deliberations regarding the first pillar, Prof. Nadkarni raises concern over separation of economics from ethics at three levels: (i) individuals/firms/institutions (*i.e.*, micro and meso) levels; (ii) macro or state level; and, (iii) at professional level, *i.e.*, by economists pursuing research and advocacy. In economics literature and in the domain of public policy, one finds the concern about the ethical issues mainly directed at the corporate levels. A number of initiatives have been undertaken in India for corporate governance, particularly since the initiation of economic liberalization of the nineties. In 1996, the Confederation of Indian Industries (CII) set up a National Task Force under the Chairmanship of Rahul Bajaj. Based on the report of this task force, CII released the *'Desirable Corporate Governance: A Code'*. In 2009, CII also released the *'Report of the Task Force on Corporate Governance'* (The Task Force chaired by Naresh Chandra). SEBI appointed two more Committees, *viz., Narayan' Murthy Committee, and Kumar Mangalam Birla Committee,* to look into the issues of corporate governance. The Department of Corporate Affairs, Ministry of Industry, Government of India, also constituted 'Naresh Chandra Committee in 2002, for the same purpose. In brief, there have been multiple initiatives directed at corporate governance in India. Prof. Nadkarni's concern goes beyond that of corporate governance and is far more inclusive, since the violation of ethics happens also in other spheres. More often than not, economic analysis assumes that the objective of policy maker is to maximize welfare of the society, which need not always be true. Prof. Nadkarni critiques the neoclassical economics (guided by the principles of self-interest, utility-maximization by consumers, profit-maximization by producers, *etc.*) which accepts optimization as the basic postulate of rationality. In other words, he rejects the idea that instant gratification can be the basis of a sustainable society, as the long-term welfare of human beings, both as a collective group and as individuals, should be the goal of a society. He also suggests that research in social science should have both theoretical rigor and roots in ethics. Very often, one finds that at least one of these components is missing from the research in social sciences.

As regards the second pillar of Prof. Nadkarni's analytical structure, he highlights the danger of pursuing economic policies which are based on the principle of 'economism' that disregards facets of life other than materialistic pursuits. He draws on the concepts of *'Preyas'* and *'Shreyas'* from *Kathopanishad.* The distinction between these concepts is comparable to that of 'growth' and 'sustainable development'. He also challenges the aggregation that is resorted to in devising public policies and emphasizes the need for 'Antyodaya', wherein the poorest of poor and the marginalized sections are not neglected in the process of social transformation.

The third pillar of the analytical structure proposed by Prof. Nadkarni deliberates on the philosophical basis for integrating ethics into economics. Here he opines that this integration has to be carried out at all levels - micro, meso, and macro - simultaneously. He further argues that no more time is to be lost in attempting sequencing of this integration, as the need for such integration is rather urgent.

The fourth pillar of Prof. Nadkarni's analysis highlights the merits of Gandhian economics and its contrast with the neoclassical economics (or pursuit of growth maximization). The latter disregards violence to nature and is unsustainable: a realization that has come rather late to the economics profession. He draws attention of the reader to the fact that Gandhian approach of keeping wants limited can sustain societies much longer than the dictums of maximization of growth, profits, utilities, *etc.* He argues that philanthropy rather than greed, as put forth in Gandhian economics, alone can constitute the foundation of a peaceful and sustainable society.

CMDR could not have had a better speaker than Prof. Nadkarni to deliver this lecture as he has provided a truly multi-disciplinary perspective to the audience/reader. The analytical framework embedded in his lecture transcends the narrowly defined boundaries of various disciplines of social sciences. His approach to social issues, such as elaborated in this lecture and in his other contributions as well, coincides perfectly with the ideology and the vision of CMDR. CMDR is proud to publish this lecture in which Prof. Nadkarni has beautifully woven the scholarly thoughts from sociology, economics, public policy, philosophy and religion.

Pushpa Trivedi
Director, CMDR, Dharwad

INTEGRATING ETHICS INTO ECONOMICS

M.V. Nadkarni*

I am immensely honoured to be invited to deliver this year's Founder's Day Lecture, instituted by CMDR to honour the memory of the late Vidyaratna Shri R.S. Panchamukhi. Besides being a great Sanskrit scholar, the Vidyaratna was a historian of high repute and developed the Karnataka Historical Research Society and Kannada Research Institute at Dharwad, as the Director of both. As a historian, he was interested not merely in the past, but also in the present from a historical perspective. He thus cultivated an eclectic perspective, which recognized the role of social sciences and philosophy too. CMDR is a product of his rich eclectic vision. It is to the great credit of his sons, particularly Professor P.R. Panchamukhi and Professor V.R. Panchamukhi, their friends and colleagues, associates of Vidyaratna and Professor D.T.Lakdawala, to have given a concrete shape to his vision and dream by starting the Centre for Multi-disciplinary Development Research at Dharwad. Thereby, they responded to the felt need for a research Institute in social sciences of high calibre in the North Karnataka region, which had remained economically backward in spite of being culturally very rich. Today, CMDR takes a place of pride among ICSSR Institutes, with faculty, facilities and infrastructure to carry out multi-disciplinary development research of high quality. Thus, CMDR stands now in a position to pay homage to the memory of the Late Vidyaratna with a sense of pride in its achievements and also with a credible promise to do even better.

I am immensely grateful to CMDR, its Chairman Professor P.R. Panchamukhi, its Director, Professor Pushpa Trivedi and others concerned for the honour bestowed on me by asking me to deliver this lecture. I have accepted your invitation with humility, being well aware that it was due more to your affectionate friendship and trust than to my deserving it.

For my lecture, the topic I have selected is *'Integrating Ethics into Economics'*, which I think is highly relevant today not only in India but also in the world at large. I am dividing my lecture into four sections. In the *first,* I discuss the untenability of separating economics from ethics. In the *second,* I take up the philosophical basis of such a separation and offer a critique of this basis. In the *third* section, I discuss the philosophical basis for integrating ethics into economics, including the Indian approach to it. In the *fourth* and final section, I discuss the Gandhian approach to integrating economics into ethics and its relevance for today's world.

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* Honorary Visiting Professor, Institute for Social and Economic Change (ISEC), Bangalore & Member, Governing Council, Centre for Multi-Disciplinary Research and Development (CMDR), Dharwad.

1. Untenability of Separating Economics from Ethics

Much before Amartya Sen argued about the dangers and irrationality of separating Economics from Ethics, Mahatma Gandhi had asserted in 1941: 'Economics which departs from or is opposed to ethics is no good and should be renounced' (CWMG Vol.81:436). If and when economics and ethics do not go together, it is the economics that is opposed to ethics that has to be rejected, and not ethics. We cannot afford to sacrifice ethics for the sake of economics, in Gandhiji's view.

Separation of economics from ethics can occur at three levels: (i) at the level of actual economic behavior of individuals, enterprises and institutions; (ii) at the level of economic policies of the state; and, (iii) at the level of economic analysis by economists. The process of separation of economics from ethics at the three levels may well be inter-related, influencing each other. Gandhiji's concern was at all the three levels, not excluding the last, but particularly with the first two.

A moment's reflection will show how an economic behavior, which flouts all ethical norms and is unjust, can make the functioning of the economic system impossible. Say, I go to a hair cutting salon, get a hair-cut, a shave, an oil massage and a shampoo, and then simply I walk out of the salon without paying for the services rendered. The barber will naturally raise a hue and cry, which will make quite a few people catch me and force me to pay. Now these people will do this only if everyone believes that one must pay for services enjoyed or goods purchased. And that is how an economy would function on the basis of mutual trust and honesty. In a system where there is no such thing, no salon can open for business, no enterprise can work, and no economy can function. Take the issue of credit. A system of banking operations collecting deposits and making loans can run only on the basis of trust and honesty on the part of both the bankers and borrowers. If an economic system offers no monitoring and regulation of banks, and if banks can simply collect deposits offering high rates of interests, only to vanish from the system leaving the depositors in the lurch, it would be impossible to have a functioning banking system. Similarly, if borrowers are not honest in repaying loans regularly, we will have the same difficulty. In the global economic crisis of 2008, the trigger was indiscriminate lending to subprime borrowers knowingly, who could not repay loans. A few days back, I read in the news papers that a truck was caught transporting fake *paneer* (made from urea, palm oil and some chemicals which can damage the kidneys). This can destroy the faith of customers in the quality of any *paneer* in the market - genuine and fake. The same thing can happen in the case of medicines. If there are spurious medicines in the market with fake labels, how would customers know which medicines are genuine? How will the economy of medicines function in such a case?

You may feel that all this is common sense which needs no retelling. But it needs retelling because cases such as fake milk and milk products, spurious medicines, and corruption by officers and politicians occur in India with such frequency and scale that public consciousness about morality in our economic system can be aroused. It is not often realized that an economy can function and grow only if the level of moral integrity of all economic agents is at least tolerably good. Otherwise, both economic growth and just distribution of gains from growth would badly suffer. It is a complete misunderstanding to believe that some wile and dishonesty are needed for attaining prosperity. On the other hand, a strong economy and economic growth require a strong moral base too. This means among other things that the goods and services produced meet the expectations and requirements of buyers without cheating, that all promises are kept and that there is mutual trust between all economic agents.

The separation of economics from ethics at the level of business enterprises can occur at subtle levels, which may even be convincing to some economists. For example, the eminent economist Milton Friedman once famously observed that the primary responsibility of the management of a business corporation was towards its shareholders, and it need not worry about social responsibilities to others and the larger economy. Mercifully, he added that the management should not breach the law of the land in serving the interest of the shareholders. This small mercy would mean, however, that a multinational operating in a country with inadequate legal protection to employees, customers and environment, can flout ethical norms and social responsibilities in order to enhance its profits and share values.

In contrast to this shareholders' view, there is the stakeholders' view of the role of business, which integrates economics with ethics, advanced by economic philosophers like Norman Bowie. In terms of this view, business management has to take care of the interests of all stakeholders in business, - that is of customers, employees, suppliers, people in the neighborhood who can be affected by air pollution or other form of pollution, and even the public at large, in addition to the interests of shareholders. Bowie insists that the manager should focus 'less on profit' and 'more on doing the right thing' (quoted in Green and Donovan 2010: 24-25). Let me clarify that this need not be just altruism, but enlightened self- interest on the part of business enterprises. A 'moral firm' known for moral integrity in business relations and concern for environment, would have a high brand value, and would thus actually favour shareholders. Integrating ethics into economics would, therefore, be good economics in the long run, whereas economics which is directed by temptations of short term gains and interested merely in making a 'killing' at the next opportunity, would be self-destructive in the long run. This applies to politics as well, and to political economy of formulating economic policies.

The necessity of integrating ethics into economics is even more obvious and strong at the level of economic policy. It is actually the role of the state to ensure that economics both in intent and practice is integrated with ethics. The objective of any economic policy is to ultimately enhance welfare of the people in the country, of course without harming international relations and vital interests of the people in the world at large. Economic policies, however, are not always formulated in welfare-enhancing ways, though lip sympathy may be offered for such objectives. This happens when the state is not impartial but is biased in protecting the interests of the elite, acting, as the Marxists say, as the tool of the bourgeoisie. For example, there is pressure on the state in India to follow the US model of 'hire-and-fire' in labour relations to attract FDI and enhance economic growth, in the name of 'labour reforms'. I read about a proposal before the Central Government to setup a National Investment Board to quickly clear investment proposals to bypass environmental assessment by the concerned Government wings, again in the name of raising investment and the rate of economic growth (see EPW November 10, 2012, pp.10-17). The welfare impacts of such policies and the cost imposed thereby on the economy are ignored, being satisfied with a rise in the overall growth rate of GNP. Such policies actually mean promoting hollow prosperity and dubious growth. An integration of ethics into economics at the policy level would require full and genuine attention to the welfare of *all* and to the distributional impact of policies; elimination of poverty, hunger and illiteracy; promotion of full employment, and taking care of the environment. This itself would require honesty and commitment on the part of both political leadership and bureaucracy. We cannot afford to hide under a belief that by taking care of economic growth, we take care of everything else without extra effort. Though there is always a temptation to set aside ethical issues in the 'larger economic interests' of the country as a whole, it is simply unethical and unwarranted to ride roughshod over human rights and environmental costs. According to Gandhiji, even noble ends cannot be justified by immoral means. But there could at times be a conflict between ethical values themselves in a particular situation, which can be resolved, relying again on Gandhian viewpoint, by unprejudiced and utterly unselfish analysis of which ethical value would secure the welfare of the people the most.

Now we come to the third level - that of economic analysis by economists, both in the theoretical and empirical aspects.

Amartya Sen took up the theme of the relationship between economics and ethics in his Royer lectures at the University of California at Berkeley in 1986, published as - *On Economics and Ethics,* in 1987. Sen looked at the issue mainly from the point of view of how the discipline of economics itself suffered as a result of distancing between the two, apart from the harm it has done to policy, derived from such an artificial construct of economics. Sen is particularly uncomfortable with the narrow view of human motivation in neoclassical 'positive' economics, which assumes that maximization of self-interest is not only rational, but is also the only motivation governing economic behaviour, and that this also governs actual behaviour. Self-interest is assumed to be maximized in modern economics in the form of utilities or happiness in a narrow short term sense, taken to be both actual and rational behaviour. There are several fundamental questions here. Is self-interest the only motivation governing human behaviour, even in the economic sphere? Does it really maximize the happiness of even individuals? Can exclusive focusing on self-interest alone be considered as rational? Can the summation of optimum happiness of all individuals of a group or society considered as the maximum happiness of the society, even after allowing for interaction between individuals on the basis of assumed self-interest exclusive of other motivation? If the answer to these questions is 'No', then the whole foundation of neoclassical economics be considered as shaky. Economics based on such assumptions cannot be considered as reliable either for predictive purposes or for policy formulation. Sen observes incisively: 'Universal selfishness as *actuality* may well be false, but universal selfishness as requirement of *rationality* is patently absurd (ibid: 16). He rightly points out that human motivations are more complex than assumed in modern economics, ignoring which economics lost a good deal of both its *descriptive and predictive* capacities (ibid: 78). Rational human beings normally take a broader and long term view of *happiness*. Not recognizing this fact and treating any deviation of actual behaviour from narrow self-interest as irrational, amounts to denying any role for ethics in social or economic behaviour, which is untenable.

There has always been some tension between economics or economic behavior and ethics, especially since increase in world trade and the Industrial Revolution. But separating economics from ethics in such stark, formal and explicit ways is a recent happening, particularly since the publication of Lionel Robbins's *An Essay on the Nature and Significance of Economic Sciences* in 1935, and in the wake of an obsession to make economics a science and even a *'positive'* science like physics. Sen observes that it was not so bad earlier, tracing the origin of economics (in the West). Actually he traces two origins of economics, one ancient and another recent.

The first goes back to Aristotle's *The Nicomachean Ethics,* where Aristotle related economics to human ends,- unlike modern economics which declared that ends are given and economics had nothing to do with them. Ethics is intimately related to ends. There are two aspects to this, as Sen explains, one is the moral status of human motivation, connected to the basic question of how we should live; and the second is about assessing social achievement which has to be in terms of ethical criteria and not narrowly in terms of 'efficiency'.

Adam Smith straddles between the two origins of Economics, which Sen mentions. Though Adam Smith has been a darling of economists particularly because of his book, *The Wealth of Nations,* published first in 1776, he also wrote *The Theory of Moral Sentiments* published in 1759. Indeed, in *The Wealth of Nations,* he sang the praise of self-interest as ultimately benefiting the society as a whole, but in his earlier book of 1759, he was deeply concerned with moral sentiments which guided human conduct, such as sympathy, propriety, prudence and benevolence. In it he also developed a theory of rights and a theory of government as the upholder of justice primarily. There is little to suggest that he disowned what he wrote earlier or that, in Smith's view, self-interest can over-ride moral sentiments, human rights and justice. However, his second book on *The Wealth of Nations* paved the way for amoral economics in the hands of subsequent economists, who exaggerated Smith's emphasis on self-interest to a point where they viewed it in isolation from 'moral sentiments'. Ironically, it was Smith who spoke of unintended but beneficial consequences of intended self-interest, and it was Smith again who ended up unintentionally as the father of amoral economics.

The second origin, according to Sen, is the 'engineering' approach, concerned mainly with logistic issues rather than with human ends. The ends are taken as given and economics is supposed only to find the appropriate means to serve them (Sen 1987: 3 & 4). I hasten to clarify that the focus on the means or the alternative ways in modern economics, has nothing to do with the Gandhian focus on the means, where he emphasized the morality of the means. In modern neoclassical economics on the other hand, the rightness of the means or choice of the means is decided on the basis of only efficiency, and not morality. It is because of such narrowness of neoclassical economics, that Krishna Bharadwaj termed this as a shopping bag economics. It is the economics of a housewife with given money who has to allocate it among different goods so as to maximize her utility; or of a producer who has to maximize profits through an optimum combinations of inputs and outputs. Nothing more. No wonder then that Gandhiji called it as dismal science.

This has affected empirical research also in economics. An economist handling empirical research faces a peculiar dilemma. If one wants to be rigorous and analytical and uses neoclassical economic theory either at the micro-level or macro-level in empirical research, one has to ignore or sidetrack ethical and human concerns and concentrate only on the issues like economic growth, productivity and efficiency. On the other hand, if one wants to focus one's empirical research on issues like inequality, poverty and illiteracy and social justice in general, one would have to ignore economic theory! Faced with this dilemma, much of our empirical work in economics is either unguided by ethics and non-relevant, or, non-theoretical and uninformed by theory. In either case, economic policy suffers as a result - it is either blind, unguided by the light of ethics, or, lame without a theory to walk upon. Economists' recipes for maximizing growth and FDI usually fall in the former category, and policies for removing poverty and deprivation usually fall in the latter category. There is need to save both economic research and policy making from such an impasse by integrating ethics into economics both in research and policy.

2. Philosophical Basis of Economics Separated from Ethics

What went wrong with economics is its economism which served as its philosophical basis. In the pursuit of making economics a rational and objective science, claiming value-neutrality, it was made to embrace economism or foolish rationalism, making economic agents or decision makers and economists alike 'rational fools' as Amartya Sen called them (Sen 1977).

What is economism? We can find it both at the individual and collective or national level. At the individual level, it means a value perspective which regards earning income or power as the supreme goal of our life, disregarding other values like human rights, character building, love, compassion and altruism. A company forcing its employees to work for more than twelve hours a day (paying officially for an 8 hour day) and even on holidays in abysmal, unhygienic and even risky working conditions, at less than fair wages, treating them like slave labour, is a conspicuous example of economism. We have to distinguish economism of the rich from the economism of the poor. The poor may be compelled to work all the day to earn a bare livelihood, their bargaining power and remuneration being so low that they have no other choice. This is not the case with economism of the rich. They may pretend to believe that they too have no choice, but it is self- imposed.

Having a profit motive for an economic enterprise is by itself not economism. What transforms a legitimate profit motive into an obsessive economism is the tendency to somehow make excess profits, including cheating, hoarding, speculation, *etc.* Such narrow short term view of economism may not be in the long run interest of the firm itself, because to be in business in the long run, a firm has to cultivate its moral image and credibility. Narrow economism, however, does not take such long term and holistic view, and is tempted by opportunities to make a quick buck even at the cost of ethics. If the country is full of only such businessmen, they become serious liabilities to the country, damaging its moral image and economic prospects in the world economy. Even within the country, let alone export markets, investment climate would suffer and economic growth would decline.

Economism at the collective or national level means designing economic policies aiming merely at maximizing growth rates of national income and giving liberal incentives to investors. Such a philosophy may shed crocodile tears at poverty and inequality, but assumes that giving priority to growth would enhance the size of the national cake and facilitate the removal of poverty. It is not realized that economism rides on the back of the poor and the weak at their expense, and of course, at the expense of environment. The damage done to environment by reckless economic growth may often be irreversible. Many of these costs are hidden and do not enter national income accounting, but it does not mean that such costs are not felt by the people. The failure to include such costs in national income accounting is a conspicuous limitation of economics and is the direct result of basing economics on the philosophy of economism (see Nadkarni, 2011: 85-87).

Des Gasper (2004: 80-81) lists a few features of economism which are pertinent at the collective level:

- Primacy to the economic sphere;
- Separation of the economy and economic consideration from other spheres and other considerations (to ensure primacy to the former);
- Primacy to the value of economic efficiency ignoring other values like social justice, human rights and environmental sustainability;
- Most or even all of life is understood, valued and managed its terms of economic calculation;
- GNP or modification of it is accepted as the primary, if not the only, indicator of the achievement and progress of the country;
- The expectation that the 'economy should be managed according to its own supposed inherent technical requirements and without political influence'.

Why did economism dominate economics and economic behaviour so much? This was mainly because a narrow brand of utilitarianism guided economic philosophy for long. Utilitarianism as a philosophy was first developed by Jeremy Bentham (1748-1832) and then by John Stuart Mill (1806-73). Both took the stand that the only ultimate, intrinsic good is pleasure, which is also the doctrine of ethical hedonism. Mill, however, gave a more refined version. His famous work 'Utilitarianism' published in 1863 is the basic scripture of neoclassical economics. The term utility is not used by Mill with its usual meaning of usefulness. "Utility of an action or a good is its tendency to produce pleasure or happiness" (Benn, 2000: 61). At the individual level, the good is to maximize one's utility out of say, a consumption activity, or an economic activity in general. At the collective level, since many persons are involved, the principle is to promote the 'greater happiness of the greatest number'. Utilitarianism does not mean that we do not need truthfulness or honesty; but they are needed only because, and to the extent, they enable promoting the 'greatest happiness of the greatest number' (ibid: 62). Utilitarianism can thus be said to be economists' own version of consequentialism, - a school of ethics which believes that what is good is that which does good or has good effects.

There are, however, several serious problems with economists' utilitarianism to serve as a basis for economics or economic policy (See Nadkarni 2011: 87-88). First, the approach does not provide any guidance regarding conflicts between different kinds of happiness and choosing between them. The *Kathopanishad,* for example, distinguishes between two types of happiness - *Preyas* which is a short term or momentary pleasure, and *Shreyas* which is a lasting or long term happiness. A person is advised by the Upanishad not to seek *Preyas* at the cost of *Shreyas*. There is no such distinction in utilitarianism, and usually the *Preyas* type of happiness takes precedence over the *Shreyas* type. Utilitarianism has nothing to say to a man who spoils his health by smoking or drug addiction.

Secondly, there is the problem of *separateness of persons.* Can utilities of different persons be aggregated, simply by adding their pleasure and deducting displeasures across people? Can utility to one person (or group) be set off against disutility to another person (or group)? This is not just an abstract philosophical problem, but very much a problem of practical economic policy. Take for example, a development project - say, an irrigation-cum-hydro electric project. Let us say, it is expected to benefit 1000 persons raising their incomes by a total of a crore (100 lakh) of rupees, but also to displace 500 persons whose income declines by a total of 50 lakh rupees. It means that the project raises the national income by 50 lakh rupees, and satisfies the criterion of 'the greatest happiness of the greatest number', taking income as indicating happiness. Aggregate happiness rises, more persons benefiting from it than those who lose. Can we therefore go ahead with the project with a clean conscience? No, because it amounts to sacrificing income of 500 people for the sake of 1000 persons, and each person's right to livelihood counts. The economic viability of the project has to be tested on the criterion of whether the losing persons can *in fact* be fully compensated and rehabilitated from the surplus income generated by the project, with not a single person getting worse off than before the project. If a social cost-benefit analysis of the project is done, the cost should include such compensation and rehabilitation costs and also other external diseconomies particularly environmental costs like submergence of forests and loss of bio-diversity.

The problem gets more complicated if the 'greatest number' and 'greatest happiness' do not tally, but are divergent. Taking a development project again, 500 persons are expected to get a rise in their incomes by a total of a crore of rupees, while 1000 persons are expected to face a loss of income totalling 50 lakh rupees. There is of course a net gain from the project to the tune of 50 lakh rupees, but more people lose than gain. 'Greatest happiness' is expected but not for the 'greatest number'. Can we go ahead with the project? The project should not get a green signal, unless the projects' surplus is expected to be large enough to compensate all the losing persons and rehabilitate them, and to take adequate corrective steps to address external diseconomies. If the cost of compensation has to be met by the beneficiaries of the project, it may be more difficult in the second project than in the first, because less number of people have to compensate a large number in the latter. If a project cannot so compensate and rehabilitate displaced or losing people either in terms of economic viability or in terms of political feasibility, then it has to be simply given up. This is a solution suggested by New Welfare Economics or modern welfare economics itself, which has tried to overcome the difficulty posed by 'separateness of persons' inherent in traditional utilitarianism.

It is not as if economics just cannot incorporate human rights or other ethical issues; it can, but it needs first to be conscious of these ethical issues and integrate them into economic analysis and policy. Economism can be tamed and moderated by conscious human will, as taught by world's religions. In practice, however, economism dominates project selections with technocrats and development enthusiasts underestimating displacement and environmental costs and exaggerating project benefits. Adding to these woes, implementation of even accepted and agreed rehabilitation programmes is usually and painfully tardy, inefficient and inadequate. That is how new development projects often encounter bitter resistance from local people.

There is also a widely prevalent attitudinal problem behind unethical economic behaviour both at the individual and enterprise level. Take the case of fake milk and milk products manufactured from urea. Apart from callous indifference to health costs imposed on the unwary consumers, the producers and distributors of these fake products believe that in a market largely of genuine milk and milk products, the fake product would not be noticed. In other words, they 'free-ride'. Free riding is well illustrated from a legend of Akbar and Birbal. Akbar once expressed before Birbal that his subjects were all honest and loved him a lot. Birbal said, 'let us test it'. Accordingly it was announced that to conduct a ritual for the welfare of all including the Emperor, all people living in the capital were to pour a pot of milk into a pond near the palace at midnight in the dark. Next morning when Akbar and Birbal went there, they saw only water and no milk. Birbal explained that people simply believed that everyone else would pour milk, and pouring water by one individual would not matter. Such an attitude of free riding lies at the basis of many problems, obstructing a proper functioning of the system as a whole. Unfortunately, free riding is done not only by individual economic agents but also by enterprises, and even media- the watchdog on the moral behaviour of others. The example of 'paid news' shows how the media camouflages them amidst genuine news, and 'sells' celebrities for extra money. They free ride on the faith of their readers. The problem is, in a society of law breakers, we cannot expect much of law and order! It may not enthuse the so-called 'practical' people to be ethical, because it involves personal sacrifice. For example, it is tempting and personally profitable for the powerful to take bribes. They can easily cover their tracks leaving no evidence. Then what can make a person remain ethical and be incorruptible? Are there ethical philosophies which can inspire and guide integrating our conduct with ethical values, and integrating ethics into economics? This leads us to the next section.

3. Philosophical Basis for Integrating Ethics into Economics

The philosophical basis for guiding our conduct including particularly economic behaviour on ethical lines and the one for guiding economics as a discipline to integrate itself with ethics, need not stand apart from each other. The bases for both are inter-related, and can even be considered as common. A dichotomy between the two philosophies can create a dichotomy between economic behaviour on the one hand, and its analysis and the theorization on the other, as happened with neoclassical economics as pointed out earlier. In other words, economics cannot but take into account ethical values that should guide conduct and policy.

A related issue is where we should begin in integrating ethics into economics. As the individual is at the basis of the society, economy and the polity, should it be first left to the individual's own initiative in morally reforming oneself? Or, should the state take the initiative in morally ordering the conduct of all individuals? Or, should the economist first integrate ethics into economic theory and analysis? After so many millennia of the evolution of the human society, economy and polity, we cannot afford to wait now for the individual to reform first before taking up the task of integrating ethics into economics at the other two levels of state policy and shaping the discipline of economics. The process of integration has to begin at all the three levels simultaneously, so that the integration at one level complements the same at the other two levels. It is the responsibility of all - the individual, the state and the economist - to work together simultaneously in this direction.

Regarding the question, posed earlier, about what can make a person or even an organization or enterprise ethical, in spite of temptations, Aristotle's answer is virtue-ethics. He is credited to have developed 'virtue ethics' in answer to the question of 'why be ethical?' In fact, virtue ethics characterizes all religions including Indian religions preceding Aristotle. Religions have taught us virtues of honesty, truthfulness, integrity, compassion, non-violence and so on. But even then why be virtuous? Aristotle's answer, briefly stated, is as follows: In considering why I should be ethical, I should take a long term view of myself, of what I should be, and how I should be known as, and seek an answer to the question what I should do in that light and how I should behave (see Scruton 1995:293). Developing a habit of taking bribes, for example, will corrupt not only my character but my very being, and rob me of mental peace and composure. A morally confident man is much more relaxed and at peace with himself than a corrupt person who tends to be always tense. Scruton says that every rational being has a reason to cultivate virtues, regardless of personal pecuniary duties (ibid: 295). After all nearly everyone cares for one's image, which has much to do with moral reputation as with material success. What is left of a person, when his or her character is destroyed? This applies equally to enterprises and institutions. Aristotle urged people to be good citizen too, be actively participating in public affairs, watching the conduct of representatives or officers in charge of governance or civic affairs. Aristotle felt that by being a good citizen, a person can reach one's full moral potential, and not by being content with being virtuous at a personal or private level alone.

A reputation for being virtuous on the part of most of the citizens is good not only for the individuals concerned but also for the whole economy, polity and society, *i.e.*, for the country as a whole. It is not good infrastructure alone which can attract foreign or even domestic investment, but also the moral reputation of people concerned. How can we hope to have good export markets, if the quality of goods exported is unreliable, or their production is notoriously based on slave labour or child labour or reckless cost to the environment? Let us remember that several advanced countries have trade laws that prohibit such imports. How can we attract tourists, if we cannot keep our roads and other public places clean and tidy, if we do not even greet customers with a hearty smile, and if women tourists are at the constant risk of being robbed, molested or even raped? It seems to me that we as a country, need moral development much more urgently than economic growth! It does not mean that we need to be virtuous only because of such benefits from being virtuous. Our motivation can be higher, that is aiming at being virtuous for its own sake. This is because a calculated move to be virtuous leads only to *acting* and not to genuine and heartfelt virtuosity. Our motivation should basically be to become a country of clean, considerate, honest, friendly, caring and compassionate people as an end in itself. Beneficial consequences will follow on their own.

I should recall in this context Gandhiji's advice to business enterprises, which contains a whole philosophy of how to treat customers. I quote:

"A customer is the most important visitor on our premises.

He is not dependent on us. We are dependent on him.

He is not an interruption in our work - he is the purpose of it.

We are not doing a favour by serving him.

He is doing us a favour by giving us the opportunity to serve him".

(As quoted in Kulkarni 2012: 489)

Before we go further into some schools of western philosophy which are relevant in the task of integrating ethics into economics, let us at least briefly make a note of how Indian tradition and religions viewed this issue. Amartya Sen makes a rather casual observation that the author of *Arthashastra,* Kautilya, who was a contemporary of Aristotle, adopted an amoral, logistic approach to economics, unlike Aristotle, but like modern economics (Sen 1987:5). But in his Introduction to *Kautilya: The Arthashastra,* Rangarajan (1992:36) observes ".... the condemnation of Kautilya as an unethical teacher is based on ignorance of his work. His is always a sane moderate and balanced view. He placed great emphasis on the welfare of the people. His political advice is rooted in *Dharma*". Regarding where Kautilya's sympathies lay, the following quotation from Rangarajan's translation of the *Arthashastra* is revealing: "Unprotected, the small fish will be swallowed by the big fish. In the presence of a king maintaining just law, the weak can resist the powerful" (ibid: 108). It is true that in certain matters of practical statecraft, especially in foreign policy.

Kautilya's attitude could be stated to be amoral, but even here, he kept the national interest or welfare uppermost in his mind.

In any case, we cannot go only by the *Arthashastra* in understanding the ancient Indian attitude to economics *vis-à-vis ethics.* In Indian religions, self-interest was certainly acknowledged as a motivating force in human behavior, and the pursuit of *artha* (wealth and power) was recognised as one of the *purusharthas* or human goals. But the pursuits of *artha* as well as *kaama* need to be in the overall framework of *dharma* or ethics or moral duty. Pursuit of *dharma* meant recognition of other values too, like altruism, honesty, truthfulness and compassion. A human being in Indian religions is not just a utility maximiser, but an integrated being in whom diverse goals and values have to be reconciled, guiding human action.

Nearly four thousand years ago the *Rigveda* (10.31.2) gave a golden rule to guide how *artha* had to be pursued.

Parichin marto dravinam mamanyaad

Ritasya patha namasaa vivaaset |

Uta svena kratunaa samvadeta

Shreyaamsam daksham manasaa jagrabhyaat ||

It means : Let a man (or women) ponder well on wealth and earn it through the path of moral law or truth, and with humility. Let him (or her) take counsel with his (or her) own conscience and heartily gain justifiable prosperity.

The verse makes it clear that earning wealth is certainly allowed but one has to ponder well *(parichin)* over how it has to be earned through the path of moral law or truthfulness *(ritasya pathaa)*, and not by dishonest means. It has to be earned with humility *(namasaa)* and not arrogance, since success depends on the grace of God and one owes it also to be the society of which one is a member, making it possible. Consulting one's own conscience *(kratu)* also is important in deciding the way in which it is earned. Once these conditions are kept in mind, one can earn wealth heartily *(manasa)* and gain justifiable or upright *(daksham)* prosperity *(shreyaamsam)*.

This is not all. The *Rigveda* goes further and advises how the wealth or one's earnings have to be used. It insists on sharing one's earnings and wealth with others. In the same *Mandala* (the Tenth) as the above verse, we have the following (the *Rigveda* 10.117.6):

Mogham annam vindati aprachetaah

Satyam braveemi vadha itsa tasya |

Naaryamaanam pushyati no sakhaayam

Kevalaagho bhavati kevalaadi ||

It means: The one who is not conscientious earns food in vain. I tell you the truth, it is like (morally) killing oneself. The one who supports neither the learned and the good nor a friend and consumes all by himself, earns only sin.

While commenting on Buddhist attitudes to economic activities, Ajit Dasgupta observes: "A recurrent theme in Buddhist texts is that the worldly and spiritual spheres of activity are not different *in kind* and that the same qualities required for success in them have a large overlap" (Dasgupta 1993:4). It means that the requirements of right thought and right conduct apply equally both to the spiritual and worldly pursuits. The need to temper the pursuit of self-interest through an attitude of compassion, goodwill and sincerity characterised both the Vedic thought and the Buddhist and Jain teachings. This value system in the Indian tradition (including the Gandhian) of integrating ethics into economics, may not have been theoretically as sophisticated as the modern Western economics, but it is certainly more relevant and meaningful for designing and operating both personal and collective economics and socio-economic policies.

Let us now briefly look into some of the approaches to ethics developed in the West and see how they resonate with the Indian approaches, in so far as they are relevant for integrating ethics into economics. We have already discussed virtue ethics developed by Aristotle and found how we find it in the Indian tradition and religions too.

One of the most popular and ancient theories of ethics is what is called as 'consequentialism'. It amounts to the welfare approach in Western economics, a strand of which developed into 'utilitarianism' discussed earlier. The traditional consequentialist approach consists in explaining or justifying why we should be ethical on the basis of beneficial consequences on the individual and particularly on the society. This is hardly new to Indian religions. Right from ancient days, consequentialism has been a leading theory of ethics in India. For example, the Mahabharata says:

Yad bhootahitam atyantam etat satyam matam mama (Shantiparva 329.13).

It means, what leads to the welfare of all beings is satyam (truth). Satyam is seen here in ethical terms of what is good and right. In *Karna Parva* (69.51) again, the epic says that Dharma is what sustains people and the society *(Dharmo dharayate prajaah).* In traditional Indian texts, the word *Dharma* is *not* used in the sense of religion in the western parlance, but in the sense of moral duty or code of conduct or ethics. It is insightfully observed in the texts that when *dharma* is protected, *dharma* in turn protects us *(Dharmo rakshati rakshitah).* It is when we respect ethics and put it into practice that it takes care of us in significant ways and promotes our welfare and progress.

Almost parallel to consequentialism, another approach to ethics developed - the duty centered ethics, called also as deontological ethics. Actually there is no conflict between the two approaches. It is the expected consequences of action on the society as a whole, which lead to the formulation of duties. The virtuous person is and *has to be* considerate to others, and mindful of consequences of what one does to others. This develops a sense of duty regarding what should be done and what should be avoided.

An ancient guideline in this respect is that if I do not like a certain thing happening to me, I should see that it does not happen to others *(aatmanah pratikoolani pareshaam na samaacharet)*. Since I do not like people telling lies to me and cheat me, I should not do so to others too. Otherwise the world cannot function. Let alone the economy, but even the society and polity would not survive if we are not considerate to others and do not do our respective duties. It is because most of us observe this basic ethics that the society and the economy survive, but their stability is at constant threat from free riders. There is a 'golden rule' to which all religions and civilisations have subscribed. The *Bhagavadgita* (Gita for short) says in Chapter 6 (Verse 32):

Atmoupamyena sarvatra samam pashyati yo Arjuna|

Sukham vaa yadi vaa dukkham sa yogi paramo matah||

It means that one who judges others' pleasures and pains by the same standard which he applies to himself, such yogi is the highest. The *Kural*, an ancient Tamil classic on ethics by Tiruvalluvar, also says: "Do not do to others what you know has hurt yourself" (Aphorism 316, Tr. Sundaram 1990:50). The Bible advises similarly: 'Do unto others as you would have them to do unto you'. It is this mutuality that makes it possible for a society or economy to function.

The Golden rule was made more sophisticated and refined by Immanuel Kant (1724-1804), the eighteenth century enlightened philosopher. Morality of action, according to him, is not based on its consequences but on the motive - the *motive* of doing one's duty of doing what is right and for the right reason. Consequences only follow an action, so what guides action is duty. Though duty may be initially derived from *expected* consequences, they are not germane to Kant's approach. To illustrate Kant's point of view, carrying out one's business honestly is certainly praiseworthy, but what makes it *intrinsically moral* (rather than instrumentally moral) is if the motive in doing so is for the sake of honesty as an end in itself, as an intrinsic virtue, rather than merely because it is the best strategy to stay and prosper in business in the long run. A moral action is based on one's sense of duty of doing what is right, for its own sake, and not out of any selfish motive.

Kant developed a principle, which he called as 'Categorical Imperative', which may be said to be a refined version of golden rule. He called it *Categorical,* to distinguish it from a hypothetical or relative or conditional, *Imperative*. The Categorical Imperative is absolute. It says: "Act only on that maxim whereby thou canst at the same time will that it should become a universal law" (Wood, ed., 2001:178). In other words, we should act always in such a way that the principle that we are acting upon can be *willed* by us to become a universal law. Making use of an example given by Kant himself, can I take a loan giving a false promise, and yet wish it to become a universal law? Today I may benefit at somebody's expense, but apart from the fact that I may not get any loan in future, someone can act similarly at my expense. The universal laws or principles with which all rational people can agree, form the basis of functioning of civilized societies and their economies.

Kant derived an important principle from this categorical imperative. It is that we should treat other *persons as ends* in themselves rather than use them merely as means for our purpose. All human beings have an intrinsic dignity which has to be respected, just as I want my dignity to be respected by others. Any cheating in business transactions violates the principle of treating persons with dignity, apart from violating virtue ethics. Deceptive advertisements in business provide a case of such cheating, involving manipulation of potential customers. However, businessmen legally and legitimately employ persons in business to make profits for themselves. Does it mean that they use employees as means? Is it unethical? Not, if the employees are voluntarily in service and agree to terms out of their own free will, without compulsion. Once this condition is met, it amounts to a free contract and is not in itself unethical, unless there is cheating and undue exploitation. In practice, a situation may not be as simple. Let alone slave labour or similar conditions of forced labour, which undoubtedly and openly violate human dignity, what if the concerned workers have no choice and the alternative to accepting employment would be facing starvation? Under such conditions, employment at less than what may be considered as a fair wage, amounts to exploitation and would be clearly unethical. This is because here the workers are *used as mere means,* without treating them with due dignity. The state has to, in such circumstances, act in ways to increase workers' bargaining power or effectively implement fair wages through employment guarantee programme offering minimum guaranteed fair wages. We can clearly see here how ethics can lead us to practical economic policy.

Amartya Sen has expressed reservations about duty-centered approach to ethics. He is opposed to obeying the call of duty disregarding consequences of so doing. He cites the Gita as an instance of duty-centered approach, and observes that Arjuna was right in opposing the war against his relatives and friends for whom he had love and reverence. Since I have responded to this elsewhere (Nadkarni 2011:136-9), I am not going into details here again. I only observe here that even duties are designed normally by taking into account their expected consequences on the society in general, though not personal consequences in each particular instance. Not obeying the call of duty can have unexpected and even unpleasant consequences. Not doing one's duties fearing personal or short term consequences can lead to lawlessness and chaos. It is by ignoring our respective duties in India that we have driven our country to the bottom level of human and moral development.

There is a set of theories of ethics under the name of contractualism or contract theories, which have been used to answer the questions of what is just or how we can derive principles of justice. Ideas of justice lie at the basis of all civilized societies, particularly of their economies and polities. Kant's theory is also considered as contractualist because, according to him, moral principles must be the ones to which all rational beings could agree. Kant's contractualism finds a full expression in John Rawls much celebrated work - *A Theory of Justice* (1972, revised 2001). Rawls wants to derive principles of justice, which are equitable and fair to all. To do this, he sets up an imaginary scenario called the 'original position' in which rational agents participate under a 'veil of ignorance'. These participants do not know what they will be - whether rich or poor, strong or weak, employers or employees, intellectuals or unskilled manual workers. They do *not* know what qualities or skills they have, advantages or disadvantages they would face, and even their gender. Under this situation, what kind of a society will they opt for? What principles would they choose to govern their society? It is this 'veil of ignorance' that will help them to derive and agree to principles of justice equitable to all. It is not necessary for Rawls to assume that these participants would eschew self-interest and act altruistically. All decide according to self-interest, but under the 'veil of ignorance' in the 'original position'. If I were to know I would become rich, I would opt for principles or a system that would favour the rich. But I do not know it, and I might as well be poor too! The question is what a self-interested man would then consider a just system. "A self-interested choice in the original position may be very different from a self-interested choice when my circumstances and qualities are known" (Benn 2000:21-22). The 'original position' under a 'veil of ignorance' may look artificial and unreal, but it is nevertheless a brilliantly helpful way to eliminate prejudices and derive principles of justice impartially.

Rawls derives two principles of justice (2001 edn):

a) 'Each person has the same indefeasible claim to a fully adequate scheme of equal basic liberties, which scheme is compatible with the same scheme of liberties for all'; and

b) Social and economic inequalities are to satisfy two conditions:

First, they are attached to offices and positions open to all, under conditions of fair equality of opportunity; and second, they are to the greatest benefit of the least advantaged members of the society.

The second principle (b) is known as the Difference Principle.

Rawls's principles of justice do not insist on rigid equality. They allow inequality, but only if it is functional and subject to equal opportunity for all. Even if inequality with final outcome cannot be avoided, the starting points for everyone should be equitable as in a race. But even inequality in the outcome is permitted only if it can work for the benefit of least well-off and enables the society to eradicate hunger, illiteracy, ill-health and other such deprivations. This might look paradoxical. But the point behind Rawls's stand can be appreciated only if we recognize that no society can progress if individual initiative and motivation for excellence are curbed. But with Rawls's principles, even the functional inequality resulting from this has to be minimised by using the growth in income for the advantage of the poor. None should be excluded from the gains from development or economic growth in any way.

Amartya Sen in his book *The Idea of Justice* (2009) argues that the contract theories, including the theory of Rawls, have a great shortcoming in that they cannot take note of the interest of nonparticipants in the contract. Rawls assumes rational human agents participating in the contract as having self-interest in mind. What then about the interests of children, the mentally retarded, animals and plants, and nature in general, who are not participating? Sen, therefore approves instead the approach of Adam Smith, who speaks of an 'Impartial Spectator' who can take into account the interests of all, including the interests of those who could not have participated in the contract.

Sen's criticism, however, is purely technical. Rawls's 'original position', in which the contract takes place between rational agents under a 'veil of ignorance', is only a device to logically derive what is just and fair. It need not prevent deriving principles of justice which are fair to all including nonparticipants in the imaginary contract. So interpreted, the difference between the 'original position' of Rawls and the 'Impartial Spectator' of Adam Smith would vanish. Rawls's assumption of participants in the contract deciding in self-interest will have to be modified into enlightened self-interest, where the concept of the self has to be much broader.

Contract theories lead naturally to 'rights approach' to justice, as 'contracts' are meaningless without rights and corresponding duties. Various rights together ensure liberty such as the right to life, right to freedom of expression, right to property, right to equal treatment, and so on. Rights which were not recognized earlier are now recognized, such as, the right to food, to housing, to employment and to a minimum of education, which enable a human being to live a life of dignity. Rights invariably correspond to duties. A child's right to have love and care implies also the duty of parents to provide it; and if parents are no more, the child does not lose its right, and it becomes someone's duty, or the State's duty to provide it. Gandhiji preferred to stress the duty aspect more than the right side of the coin. It is easier to enforce duties than rights. Or, we can say, rights are ensured only through duties. In any case, recognition of both rights and duties forms an important content of justice.

Justice contains freedom too, which Amartya Sen (2009) has emphasized. While there can be no absolute freedom, freedom can be restricted only by a due process of law and the law should satisfy ethical requirements of guaranteeing human dignity. Restriction on individual freedom should be to only guarantee equal liberty for all. The argument that economic development of developing countries can be ensured only through authoritarian regime and suppression of freedom, ignores the very purpose of development. It would not be counted as development at all, and at best only an economic growth. Economic growth through suppression of freedom is hollow and meaningless, and will have a built-in explosive potential, which can be suppressed only by further suppression of rights. It would be a vicious circle.

The essence of freedom is freedom of choice, but it is not confined to providing for consumer sovereignty or freedom to choose between different goods and services. It is capability which enables choice. In Sen's approach to justice, an individual's advantage is judged by 'a person's capability to do things he or she has reason to value' (Sen 2009:231). When we enhance capabilities, we enhance freedom too. It is the essence of economic development to expand such capabilities *of all,* and to ensure that such advantages are enjoyed without discrimination equally by all, instead of being confined to a few elite.

There may be no disagreement with a general statement that all should be treated equally. But equally in what? What is it that we want to equalise - income, wealth, consumption, utilities or welfare? Or, instead of getting bogged down to problems of measurement with respect to each of these alternatives, should we focus only on equalising opportunities? Amartya Sen advocates equalisation in terms of capabilities, which in turn means freedom to do things that an individual values. It does not mean that Sen demands ' ·ryone be made as capable as Albert Einstein. But his approach proposes a 'serious ..eparture from concentrating on the *means* of living to the actual opportunities of living' (ibid: 233). A great merit in thinking of equalising capabilities is that the approach goes beyond providing formal equalities of opportunity, but proposes to compensate persons for disabilities or disadvantages imposed on them by differences in birth, handicaps, and lack of access to education and health. The approach aims at enabling them to overcome these disabilities and come even.

The implication of all these approaches to ethics for economic theorising about consumer and producer behaviour, and economic policy may now be summarised. An important implication is that the assumption of the current economic theory that welfare is maximised at the consumer level by maximising utilities from personal consumption, and at the producer level by maximizing short run profits, needs to be modified. How?

In the first place, a moral valuation of utilities, similar to what is indicated by the *Kathopanishad* in terms of *Shreyas* and *Preyas* would be necessary before they are sought to be maximised. Secondly, we have to allow for the fact that rationality and wisdom would require taking into account ethical values like being considerate, fair and even compassionate to others. It would also require that environmental costs of one's consumption and production are taken into account along with considerations like utility maximisation and profit maximisation. In business, it means particularly that the interests of all stakeholders are safeguarded, and not of the shareholders alone.

Thirdly, we should also allow for the fact that total welfare of the community is not a simple summation of utilities or profits of all individuals (as consumers or producers) considered as separate from each other, and that such a summation does not represent the community's optimum welfare. Such an optimum is attained when individuals act in a way that enhances the welfare of others too, may be along with their own, in a co-operative attitude rather than in an adversely competitive attitude. There could certainly be competition, but it should be healthy and humane, and should not give scope for unscrupulous activities like cheating, deceptive advertisement and unfair or hostile expropriations and takeovers. What should dominate economic activity to attain an optimum is co-operation and synergy, and nothing should be done in competition that destroys the undercurrent of co-operation and synergy.

At the macro level economic policy of the state, the aim would not be one of maximizing growth rates of GNP, but should essentially be one of achieving high levels of human and moral development, enhancing capacities and opportunities. At the same time, opportunities should also be made equally accessible by making the starting point for all equitable. Needless to mention that eradication (not simply alleviation) of poverty, hunger, ignorance, destitution and homelessness ought to receive highest priority. To do this, equal access to education and health is also necessary. Economic growth has to be justified only in terms of these goals. Implementation of such goals would require a much better control and monitoring of governance by the civil society. This cannot come without greater participation by citizens in the affairs of the economy and policy, as advocated by Aristotle long ago. We may have to more effectively demand barring criminals from contesting election at any level, and seek ways of the civil society partnership in the screening of candidates in election.

All this may sound as suggesting an agenda of replacing the existing pecuniary amoral economics by a moral economics. It may not be analytically rigorous, but would certainly be wiser and more relevant. Is it only a dream or is there something to build upon to derive a moral economics? I think that the Gandhian economic thought has the potential to build such an economics. This leads to me to the fourth and final section of my lecture.

4. The Gandhian Way to Economics

Truth and non-violence are the two key principles which Gandhi used for his economics. The Gandhian way to economics is so revolutionary that it may appear that it would require turning down conventional Western economics on its head. *First,* the goal of Gandhian approach is human and moral development, not utility or profit maximization and not economic growth as an end in itself. *Secondly,* the Gandhian approach deplores endless multiplication of wants, subject of course to the fulfillment of basic human needs and needs to keep human life in some degree of comfort that would ensure human dignity and efficiency; it calls for conscious moderation of wants. *Thirdly,* the human being is seen not as a predator, who has the right to exploit nature as he wants, but as a protector who has the moral responsibility to ensure sustainable development. *Fourthly,* while the motivation to accumulate wealth is recognized as legitimate, such wealth in excess of the need to maintain oneself and one's family with dignity and minimum comfort, should be seen or treated as a trust, to be used for the benefit of the community or needy people, so that even if income cannot be equalised, inequity in consumption level is minimised. If such a trusteeship spirit is not voluntarily forthcoming from one's wealth, the state would be free to tax excess wealth and transfer it for the purpose of meeting the needs of the poor and the deprived. *Fifthly,* production activities should be so organised as to give first preference to satisfy local needs and to sell in the local markets. There is no ban on exploring the excess over what is required for local needs, nor any ban on imports - subject to the condition that the consumer gives first preference to local products. This means that the scale of production is small, and energy spent on unnecessary movement of goods is saved.

In his book, *'Small is Beautiful'*, Schumacher makes fun of how, as he observed, a lorry load of biscuits left London for Manchester minutes after another lorry load of biscuits arrived at London from Manchester. Schumacher asks if this to-and-fro movement of the same commodity between the same places added anything to the nutritional quality of biscuits. It involved only extra energy costs and an increase in the price of biscuits to the consumer.

By insisting on small scale production and decentralization of economic activity including production, Gandhiji sought to prevent accentuation of inequality, so that we do not have to depend on the altruism of the rich. It is wrong to characterize the Gandhian approach as relying on the altruism of the rich. The trusteeship principle comes only where some centralisation and large scale production are inevitable. It was the uncontrolled tendency to increase the scale of productivity and to centralise production which created most of the evils of competition, according to Gandhiji .

This leads us to the *sixth* element in the Gandhian approach to economics integrated with ethics - the centrality of the human factor. He was not opposed to mechanization or large scale production if it was not at the cost of reducing jobs or employment. The key to understanding Gandhian economics and approach to development lies in not treating labour as the scarce resource for economisation, but in treating natural resources as scarce. Gandhiji would allow machinery or modern technology, where such technologies reduced drudgery and increased productivity without much reducing employment. He preferred small scale production and decentralisation only because such an approach maximised employment. But he did not mean to go back to ancient or old technologies. Kulkarni (2012) thinks that the Internet Revolution is Gandhian in spirit and philosophy. However, Gandhi believed that we have to ourselves innovate new technologies suited to our conditions. He used to feel that we needed Swaraj in respect of technological development too.

The Gandhian economist, J C Kumarappa (1892- 1960), felt that for sheer survival of the humanity with dignity, Gandhi's ideas on economics would be invariably needed, and he predicted that using these ideas, the central tendency of development would be towards less and less violence, and more and more nonviolence. Ultimately, the basic Gandhian values of Truth and Nonviolence should guide both theorisation and policy formulation in economics.

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2.	Prof. Sudarshan Iyengar	Rethinking on Human Behaviour in Economics: Gandhian Perspectives	22.10.2011

About Prof. M. V. Nadkarni: Speaker of the Third Founder's Day Lecture

Professor Mangesh V. Nadkarni is presently Honorary Visiting Professor at the Institute for Social and Economic Change (ISEC), Bangalore; Member of the Governing Council and former Chairman, Centre for Multi-Disciplinary Research and Development (CMDR) Dharwad. He was a Professor of Economics at ISEC from 1976 to 1999. While at ISEC, he started the Ecological Economics Unit in 1981 as its first Head (now, the Centre for Ecological Economics and Natural Resources), the first such Centre in the country in the field. He also started the Journal of Social and Economic Development from ISEC as its first Editor. He was the Vice - Chancellor, Gulbarga University, Gulbarga, 1999-2002; and ICSSR National Fellow during 2002-04. Though his main work has been in agricultural and ecological economics, he has also been equally interested in Political Economy and development issues. He was elected as President at the 55th Annual Conference of the Indian Society of Agricultural Economics at IRMA, Anand, in 1995, and served as the Chairman of the Editorial Board of the Indian Journal of Agricultural Economics during 2006-2008. He has 18 books on economics to his credit and nearly 150 papers in reputed academic journals. In recent years, he has turned his attention to philosophy, ethics and religion.

Recent books by Prof. M. V. Nadkarni

Hinduism - A Gandhian Perspective
(2006 and 2008 in English, 2010 in Hindi, New Delhi: Ane Books Pvt. Ltd.)

Ethics for Our Times - Essays in Gandhian Perspective
(2011, New Delhi, Oxford University Press)

Handbook of Hinduism
(forthcoming in 2013, New Delhi: Ane Books Pvt. Ltd.)