

Ethics, Politics, and Economics: Philosophical Reflections on Economic Development

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INTRODUCTION

In the talk given by the late Prof. Dr. Syed Hussein Alatas, delivered on 7th May 2006 under the auspices of the Malaysian Social Science Association, he broached on the subject of contemporary economic and social development from the sociological point of view. In this present essay, I continued with the said theme but this time I pursue the subject from a different perspective and range. Realizing that piecemeal approaches to the subject are unsatisfactory, I have attempted to go deeper and broader by looking at the relationship between ethics, politics and economics by way of philosophical reflection since they provide the framework and context within which the problems and issues are articulated. That is indeed a tall order and an ambitious task, but one which is necessary. Unless the issues are thought out at this fundamental level involving the philosophy of politics, economics and ethics, no satisfactory resolution will be forthcoming.

In the first part of this paper I will engage in a philosophical discussion of economics, taking a critical look at neo-liberal economics which is partly responsible for some of our contemporary social problems. I will examine especially the theoretical merits of capitalism and the free-market system, and the role of the state in the economy. I argue for the essential role of the government in the economy, even within the framework of neo-liberalism, contrary to the claims of Kenichi Ohmae. In this connection I also argue for the primacy of politics over economics insofar as politics reflects 'the will of the people' and should work in their best interests, contrary to what market forces could sometimes dictate.

However, being aware of how politics and government, in the wrong hands, could become an instrument of oppression, corruption, injustice and inefficiency as often argued by Syed Hussein Alatas, I also reconsider the merits of the free-market, and how politics should be subordinated to ethics. These considerations form the second half of my paper, which will draw on Amartya Sen's *Development as Freedom* (2000) construed as a 'third way' between socialism and neo-liberalism, in the concluding section. I raise the question of how ethics could achieve primacy over politics and economics, given the powerful forces that work within politics and economics, in which might triumphs over right. The importance of ethics, I must emphasise, forms a critical cornerstone in Alatas'

thinking. I conclude by arguing that although might sometimes triumph over right, it is not self-sustaining due to the lack or absence of legitimacy needed for social control over the long run. However, I maintain that the ethical approach should be adopted on intrinsic grounds rather than as a matter of expediency, which would then confirm our status as moral beings in a potentially corrupt and corrupting world.

THE PHILOSOPHY OF ECONOMIC DEVELOPMENT

The end of the Cold War saw the rise of neoliberal economic thought and practices, with the supposed demise of socialism. Convergence theorists, advocates of globalisation, prophets of eschatology with their ‘the end of everything’ slogan, began to throw their voices and dominating discourses. If we were to believe Michel Foucault, then discourse obviously has power implications, and in fact it sets society on a frame of mind receptive towards such new ideologies—or perhaps continuation of old ones. The booming economy of some capitalist economies, including the Asian tigers, further strengthen belief in the wisdom of the new economic approach, which would see mankind reach a state of economic bliss, unhindered by ideological biases. One formulation of it can be found in Fukuyama’s *The End of History and the Last Man* (1992) Kenichi Ohmae in his book *The End of the Nation State* (1995) saw it fit to condemn the nation-state as a relic of the past, in the face of regional and international economic development.

Neo-Liberalism refers to a set of economic principles and policies that is basically favourable towards capitalism and the free market. Its main characteristics are: (1) the advocacy of free market; (2) reduction in public expenditure for social services such as health care and education; (3) deregulation; (4) privatization. Economic liberalism, as economic thought, had existed way back in the 18th century, as found in the writings of Adam Smith. The prefix ‘neo’ in ‘neo-liberalism’ therefore refers to the revival of economic liberalism in the second half of the 20th century. The revival of economic liberalism in the form now known as neo-liberalism was due to several factors. Among these are: (1) the failure of Keynesian economics with the emergence of ‘stagflation’ in the 1970s, which saw the concurrent rise in both unemployment and inflation (Lipsey 1974[1963]: 779) and led to a reduced role of the government in the American economy; (2) the debt crisis of the 1980s; (3) budget and balance of payment deficits faced by governments (4) the decline of Socialist powers with the disintegration of the Soviet Union in 1991, and the collapse of the East European Bloc in 1989; (5) increased economic integration under multinational corporations (MNCs) and transnational corporations (TNCs); (6) the inefficiency of state-run economic organisations as compared to private enterprise (Anthony P. D’Costa 2007).

The new euphoric mood articulated by the neo-liberals was all for unbridled economic growth, which they saw as the panacea to our problems. But 18 years on, beginning from the collapse of the Berlin Wall in 1989 till now, that utopia has yet to be realised. Nation-states still thrive, and the desire to spread or even impose democracy on a country like Iraq, has only brought disastrous consequences. The economic crisis of 1997 further saw the vulnerability of capitalist economics, and its effects on the poor. And this has nothing to do with the economic cycles which economists thought were the permanent feature of modern capitalist economies. And yet the pervasive influence of neo-liberal economic thought has not waned even in the face of these clear refutations. If anything, it has become stronger through slogans such as ‘globalisation’, ‘commercialisation of R&D’ etc. Even nationalist governments buy such logic of economic growth, seeing it as an instrument to achieve their own national economic goals. In Malaysia, the so-called ‘privatization’ of public enterprises such as Tenaga Nasional and Telekom Malaysia has only led to a monopoly of those sectors served by those companies with no clear gains either in terms of consumer price or efficiency.

But what exactly is wrong with such thinking, if it is wrong at all? Should the criticism be mounted based on some form of resurrected socialism, or should it be based on the old familiar rhetoric of the rejection of materialism (which has its appeal to the religious), or on the kind of argument made by the Club of Rome in the 1990s about the unsustainability of economic growth. As for socialism, the previous two leading socialist nations seem to have eschewed their socialist past—especially China—and joined the ‘world community’ with its WTO and what not. As for the religious rejection of materialism, one might still find that in religious sermons, but not as part of government policy in Muslim and non-Muslim countries, though such forms of cultural resistance to modernisation might still survive at the fringes of society and in isolated pockets. And as for the kind of argument previously posed by the Club of Rome, we now have the slogan of “sustainable development” to take care of that, thus ensuring the co-option of an otherwise potentially recalcitrant and dissenting group.

So all in all it seems that we are now witnessing the triumph of neo-liberal and neo-classical economics, triumphantly marching into the future.

Even conflicts, it is thought, could be resolved given the right economic package. Thus the problem of Afghanistan, and later North Korea, can be resolved given the right financial incentives. As for errant nations such as Iran, economic sanctions will be imposed on them through the mediation and co-operation of the United Nations. The supply or withdrawal of the economic cake, it is argued, can bend the world to the will of the majority—albeit under American hegemony. So if any ‘ideology’ were to remain, it is the ideology of economic growth. To speak of cultural differences, religious tolerance, international ethics, seem to speak the language of the ineffectual and idealistic, which would eventually be subsumed under economic logic.

We in Malaysia are not free from the sweep of neo-liberal economics, partly because it is disguised as nationalist rhetoric. Under Mahathir it went under the slogan of 'Vision 2020', which is the clarion call to industrialisation and modernisation. Currently, it is driven by the rhetoric of 'commercialisation' and 'globalisation', where even the academic world has been subsumed under its sweep.

WHAT IS THE ALTERNATIVE?

If neo-liberal capitalism is unacceptable because of its moral flaws, what then is the alternative? Previously, i.e. before the end of the Cold War, socialism would present itself as a natural alternative because of its human-centred rather than wealth-centred approach towards economic and social development. At least in theory, even though in practice, different forms of oppression could also exist. The economic system known as 'neo-liberal capitalism' has often been associated with the political system of Liberal Democracy. We find this thesis put forward in Fukuyama's *End of History* for instance. They both preach 'freedom' in some way; for Liberal Democracy it is political freedom, and for neo-liberal capitalism it is the freedom of the market, to trade freely without government intervention. In fact political freedom is what neo-liberal capitalism needs to ensure rights such as private ownership of property, and to engage in free trade. However, even Liberal Democracy institutes its own brakes. For example, the freedom of the individual is not an unconditional freedom for otherwise we will be landed with a contradiction since a 'stronger individual' could exercise his or her freedom in order to curtail or suppress that of a weaker individual. In other words, freedom interpreted as a 'free for all' condition would entail the law of the jungle where the fittest survive at the expense of the weak. In the economic domain this could lead to a monopoly situation by the strongest firm in the economy. Even in so-called free America, anti-trust laws exist to prevent monopolies which otherwise could be a natural outcome of free competition itself. In other words, state intervention is still needed in order to protect and guarantee that freedom of economic competition itself! Neo-liberals who are anti-Keynesians might find this logic repugnant. Keynes it was thought, was responsible for bringing government intervention into the economy, back in. The argument that the economy will be deflated if savings exceeded investments in a free market economy, implies that governments can provide a corrective mechanism by taking up that slack itself through government spending. Liberals who thought that the freedom of the market is being violated through such means seem to forget that even the government is an economic actor or agent in the economy, albeit an institutional agent entrusted with the moral conscience of society. If multinationals can exist as legitimate economic actors, then why not governments? If the argument is that governments unlike firms,

act not merely in the economic interest, i.e. profit-maximisation, but with other considerations as well, such as social goals, then surely this should cause us to step back and think as to what the real purpose of our economic activities should be for? The pursuit of wealth by individuals in a society is surely legitimate by democratic standards. In fact the increased wealth which it brings could be channelled for the overall benefit of society itself. A utilitarian social philosophy, based on the idea of the biggest happiness for the biggest number, would surely sanction this. But Liberal Democracy also has the duty to protect the rights of the minority and the underprivileged. These rights cannot be guaranteed unless through the adoption of a Constitution which is upheld by the Government. So the government has a duty, in fact, a moral duty, to protect its citizens, whatever their economic status might be. In a society dominated purely by neo-liberal capitalism, such rights might be eroded, or worse still, cease to exist. Britain under Margaret Thatcher in the 1980s, for instance, saw the power of Trade Unions being reduced, and lame duck companies folding up. Again, the adoption of neo-liberal principles in Britain under Thatcher might have been justified by invoking national interest. That what was perceived as ‘over-protectionism’ will ultimately weaken the State in the face of international economic competition. So the scenario has been extended one stage higher, i.e. that of international economic *competition*. Now it is this idea of international economic competition that has currently given credence to neo-liberal capitalism. It can work in two ways: (1) competition among nations as economic actors, and (2) trade and competition that cuts across national boundaries, i.e. the hegemony of multinationals. The first can be seen in the existence of WTO that seeks to provide the mechanism and legal provisions for international trade. The second can be seen in the mobility of capital and labour across the globe.

THE ESSENTIAL ROLE OF THE GOVERNMENT IN THE ECONOMIC SYSTEM

For neo-liberal thinkers like Kenichi Ohmae who reckon that the government should not interfere with the free market, and that economic theorising ala neo-liberal capitalism should dispense with the government’s role in the economy, they should be reminded that even neo-classical economic theories include the government in their analysis, quite apart from Keynesian models. I refer to two items in particular, in standard economics text-books expounding classical macro-economic theories. These are: (1) fiscal policy adopted by the government, by leveraging on national expenditure (budget) and taxation (Lipsey 1963: 555); (2) the role of the central bank—which is a government agency—in influencing interest rates.

As for fiscal policy, which is for the government to control, it is often contrasted with monetary policy, in which influence on the economy is brought

about through the control of money supply. Fiscal policy belongs to the government while monetary policy is more in the hands of the private sector, although it could be controlled by the government through the central bank. Because government spending is huge, and because revenue earned through taxation is also huge, the economy could therefore be influenced by the government through fiscal policy which involved those items. Hence even our standard economics text-books which deal with capitalist economics, do incorporate the government in their economic theorising under the rubric of 'macro-economics'.

Apart from such direct influence of the government on the economy, the government could also influence the economic system indirectly by providing the necessary infrastructure to enable the free market to function. Some of these are: (1) putting the legal system and its enforcement wing in place so as to uphold and maintain law and order in society, without which economic activities could not properly flourish (2) ensuring that national security is assured through the deployment of the military and police (3) providing an education system which provides industry with the needed human resource. All in all the government's role in the economy, even from the point of view of neo-classical economics, cannot be denied.

However, it might be argued that recent developments in international economics has brought about further encouragement in international economic competition in which modern science and technology were called into service through the mechanism of R&D, designed to impart advantage to the competitor. The commercialisation of R&D results and products is now thought to be the fifth factor of production apart from the classical land, labour, capital and entrepreneurship. But even here we see that R&D activities in a K-economy is not solely the monopoly of the private enterprise. Government spending on R&D is also sizeable, and in fact more so in developing countries. Advanced countries now have with them what is known as *National Innovation Systems* (NIS) designed to maximise the output from R&D activities, with the government being involved in the laying down of the infrastructure for research. So even in the K-economy the economic role of the government is maintained if not increased.

But even if I succeed in proving my point about the essential role of the government in the economic system, even by capitalist lights, this does not necessarily mean that there is no room for the government to work against the interests of its citizens. Governments are not necessarily benign entities. One example would be the so-called 'military-industrial complex' in the world's biggest capitalist economy which is the United States of America. It referred to the collusion between the government, the military and industry, which works against the interests of the people. Critics of totalitarian socialist states, such as the neo-liberal economist Von Hayek, would do well to reflect on the nature and role of the American government which perhaps perpetuated injustice and

oppression on a larger scale compared to socialist countries through its military adventures. So even governments need to be disciplined and in a democratic system such ‘disciplining’ is done through the ballot box.

ON THE MERITS OF CAPITALISM AND THE FREE-MARKET SYSTEM

Capitalism and the free market have often been criticised and chastised for causing some of our social ills, regardless of the fortunes of socialism. This is because capitalism is perceived to be based on greed and self-interest, which translates into the goal of ‘profit-maximisation’ in economics textbooks. By pursuing self-interest exclusively within the economy, it is thought, one inflicts harm over others, deprive them of their rights, and create inequalities. For example, because industrialists do not want to bear the cost of treating effluents, they discharge them into rivers, thus polluting our rivers, and depriving society of a clean river and environment, itself a public good. Although this might be true, and that government control and regulation is needed to redress or prevent the damage, it is also true that private enterprise creates employment and increase the country’s revenue and productivity.

Capitalism allows private individuals to take risks and initiatives to create wealth, and in the process use their own skills, knowledge and creativity to prosper themselves and others. It is this encouragement towards development of human potential and talent provided by market incentives, that makes capitalism an attractive proposition. That it is action based on an individual’s free choice makes individualism compatible with capitalism. Capitalism, in other words, allows individuality and individualism to flourish, without prodding or control by the state. Given that material conditions serve as the pre-condition for personal and individual growth, this is something to be welcomed. However, individualism which forms the cornerstone or foundation of capitalism, in the form of entrepreneurial activity, also has its drawbacks as a social philosophy. Individual self-interest is sometimes pursued at the expense of others. Altruism is not a natural state for most of us, and so society should be protected against ‘aggressive individualism’. However, capitalism is not without its ethics as Amartya Sen (2000: 262) has observed:

While capitalism is often seen as an arrangement that works only on the basis of the greed of everyone, the efficient working of the capitalist economy is, in fact, dependent on powerful systems of values and norms. Indeed, to see capitalism as nothing other than a system based on a conglomeration of greedy behaviour is to underestimate vastly the ethics of capitalism, which has richly contributed to its redoubtable achievements.

... Successful markets operate the way they do not just on the basis of exchanges being allowed, but also on the solid foundation of institutions (such as effective legal structures that supports the rights ensuing from contracts) and behavioural ethics (which makes

the negotiated contracts viable without the need for constant litigation to achieve compliance). The development and use of trust in one another's words and promises can be a very important ingredient of market success.

Sen's attribution of the central role of ethics in (capitalist) economics reminds me of Popper's ascription of the role of ethics in the production of scientific knowledge. According to Popper (1971: 238), "although there is no rational scientific basis of ethics, there is an ethical basis of science." That is, science too has to have its ethical basis, without which the scientific enterprise cannot function, let alone flourish. We know only too well the consequences of fraud in science, and exposure of such frauds has led to the disgrace and downfall of the scientists involved, and how such sanctions serve to protect the integrity and credibility of scientific knowledge. Indeed qualities such as trust and honesty are vital to the functioning of both economy and science. So much so that the previously ineffable qualities or attributes such as 'transparency' is now given numerical indices such as the 'transparency index', which goes to show the importance and recognition attached to such qualities in the functioning of modern society.

THE POLITICAL PROCESS AND RESOURCE ALLOCATION: HOW POLITICS INFLUENCES ECONOMICS

In a free-market economy, resource allocation is a function of the price mechanism, i.e. resources move according or in response to price signals. However, the political process is also a factor in resource allocation through government spending. Through the political process, priorities are determined and resources allocated accordingly. The political process is largely independent of the market process and is an arena of contestation of various interests, influenced by historical, cultural and social factors. It is here that we see Fukuyama's 'robin's red breast' coming to the fore, influencing government policies and hence the economy. It is also here that we begin to see the divergence between the nature of neo-liberal capitalism and liberal democracy, despite the identification of the two.

However, market restriction by political forces could also have a negative impact, if certain vested interests are allowed to predominate. A case in point is the influence of cronyism leading to a form of 'rentier capitalism'. Jomo and Gomez have argued that in the case of the Malaysian political economy, rentier capitalism was indeed practised. So state intervention, while potentially benign, can also be negative in actuality, depending on the nature of the intervention.

THE PRIMACY OF POLITICS OVER ECONOMICS

Neo-liberal capitalism has often been thought to be compatible with liberal democracy, and in fact the latter is regarded as the pre-condition for the former. But the former is an economic notion, whilst the latter is political. Whilst capitalist economics is mainly concerned with the free market and profit maximization, the political process under liberal democracy encompasses something broader. It allows for the democratic contestation of various interest groups where ‘winner does not take all’ since minority interests must be protected.

The democratic political process also demands that the voice of the (constituency) majority be taken into account in decision-making, and not only the interest of the rich and the powerful, who would otherwise dominate in a world governed by pure economic considerations.

In fact, the decision against monopoly in the economy—as had happened in the United States through anti-trust laws—was a political decision and not the result of the economic process, which dictated otherwise. So the primacy of politics over economics should be maintained, because it is through politics that the rights of the people are upheld.

THE PRIMACY OF ETHICS OVER POLITICS AND ECONOMICS

I started out by arguing for the essential role of the State in the economy, in contrast to the thesis put forward by K. Ohmae. In so doing, I provided arguments and examples to show how the government is necessary for the functioning of the economy. However, in the course of developing the arguments, I neglected to consider the (normative) question of the desirability of government intervention in the economy, as opposed to the question of government involvement in the economy. In line with such an argument, I also argued for the primacy of the political process over the economic, this time clearly endorsing the (normative) primacy of politics over economics. However, on further reflection I also became aware of the fact of potential abuse by the ruling party of the country’s economy in the form of for example, rentier capitalism. Given such a possibility (and indeed reality), could I still maintain my earlier position regarding the primacy of politics over economics? I think I can, but with a new proviso. It is of utmost necessity that at this point, one introduces the third factor which is *ethics*. So the primacy of politics over economics can still be maintained if we add the condition that there should be a *primacy of ethics over politics*. That politics must not divest itself of moral and ethical considerations, but must instead be guided by it. That is a tall order, one might add, and the absence of an ‘international’ or ‘universal’ ethics makes it unworkable at the global or international level. But the fact of the matter is that, even at the international level our sense of ethics and justice predominate. Although the

present structure of the United Nations is an outcome of the Second World War, which resulted in the victors acquiring veto power, there is still a sense that international relations be conducted on the basis of ethics and justice in order for law and order to exist, even though this has periodically been violated.

So going back to my deliberations on the relationship between politics and economics, even though I believe that economics should also be subjected to the political process, in the interest of the welfare of the majority (without denying minority rights), politics must be guided by ethics, however idealistic and impractical that might sound. But what is the alternative? To deprive politics of the sense of ethics, morals and justice, is to deprive politics of legitimacy. And we know that without legitimacy governments cannot rule, except by force or coercion through the application of state apparatus such as the military and police. *So in the end I think that ethics and morality should rule our lives not in a marginal but in a central way, i.e. by being above politics and economics.* In nation-states, this concept of 'rule by ethics' is manifested through the existence of an independent judiciary. But even the judiciary, in the hands of 'strong-arm governments', can be subjected to illicit control. So it is not ethics in that sense which is meant, but genuine ethics. What is the yardstick for this? I confess that this is a difficult issue and cannot be easily resolved. One pre-condition can however be put in place, i.e. that *public space* be allowed for the discussion of what constitutes the public good. So the political process and institutions has to open itself up to ethical practices and not merely rely on the judiciary.

THE TENSION BETWEEN ETHICS AND POLITICS

Having argued for the primacy of politics over economics, it is tempting to argue next for the primacy of ethics over politics, as I have tried to do in the previous section. For politics in the absence of ethics becomes mere power play, resulting in the rule of the strong over the weak. Ethics, when socialised, becomes the conscience of society and forms the framework of legitimation, thus controlling the tendency of the zealous or over-zealous to dominate. In this regard however, it is interesting to note Daniel Bell's (1962: 279-280) observations on the relationship between ethics and politics:

One can see the political game, he [Lord Acton] said, as an ethic of responsibility (or the acceptance of limits), or as an ethic of conscience (or the dedication to absolute ends). The former is the pragmatic view which seeks reconciliation as its goal. The latter creates true believers who burn with pure, unquenchable flame and can accept no compromise with faith.

Weber argued that only the ethic of responsibility is possible in politics if civil peace is to be maintained...

Such a view of politics, rather than the dedication to some absolute... is possible, however, only when there is a basic consensus among contending groups to respect each other's

rights to continue in the society. The foundations of a pluralist society rests, therefore, on this separation of ethics and politics and on the limiting of ethics to the formal rules of the game.

In fact as Bell (1962:279) himself asserted in an earlier paragraph:

In some periods of history, generally in closed societies, ethics and politics have gone hand in hand... But a distinguishing feature of modern society is the separation of ethics and politics—since no group can, through the civil arm, impose its moral conceptions on the whole society.

In addition to closed societies, I would add the term monolithic or homogeneous societies as opposed to today's plural societies. And true enough, modern plural societies have the problem of achieving a 'consensual ethics' that can be adopted by the society as a whole. In the absence of such a consensus based on a universal conception of morality, the alternative would be to resort to 'pragmatic strategies', on a 'case by case' basis. Thus although a few basic general ethical principles might be agreed upon and adhered to, there is no guarantee that they can provide a clear guideline for resolving conflicts.

The best approach one can suggest is to keep the democratic channels of communication and dialogue open, to the point that one can even 'agree to disagree'. In fact functionality is not totally dependent on consensus. The very idea of liberal democracy itself presumes the acceptance of differences in a plural society. But under such conditions, how would one answer the question: "whose ethics to accept?" And should the 'ethical' principle based on the pragmatic approach of 'peace at whatever price' be accepted simply because one wants to retain the social order at any cost?

Nevertheless, to argue in favour of war or armed struggle as an alternative, would be to argue in favour of the establishment of an ethical principle or worldview by forceful means. It is doubtful if this approach towards ethics in politics is justifiable since it might only result in prolonged conflict without any tangible benefit or advantage to either side. As long as a society guarantees its citizens their basic freedom, including the freedom to espouse his or her ethical principle without imposing it on others, and adopt 'persuasion' rather than 'coercion' as its governing principle, there is no justification for armed revolution.

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