



ETHICS AND ECONOMICS

Lecture Notes for Week 1

Tomáš Cahlík

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Ethics as Practical Philosophy

Theoretical and practical philosophy are two branches of philosophical inquiry that serve distinct purposes and employ different methods.

Theoretical philosophy, also general philosophy, focuses on understanding and explaining fundamental aspects of reality, knowledge, and existence. It includes subfields like ontology, which examines the nature of being and reality; epistemology, which explores the nature and scope of knowledge; and logic, which studies the principles of valid reasoning and argumentation. Theoretical philosophy is primarily concerned with abstract questions and seeks to develop comprehensive, systematic frameworks for understanding the world.

Practical philosophy, on the other hand, is concerned with how individuals should act and live. Ethics, as a branch of practical philosophy, involves applying moral principles and reasoning to real-life situations and decision-making processes. It seeks to bridge the gap between abstract ethical theories and everyday human actions, providing a framework for evaluating what individuals ought to do in various contexts. Practical philosophy emphasizes the relevance of ethics in guiding behavior, shaping laws, and influencing social norms. It addresses complex issues such as justice, rights, and the common good, aiming to foster a just and harmonious society. By focusing on the practical implications of ethical concepts, this approach helps individuals and societies navigate moral dilemmas and make choices that promote overall well-being and fairness.

In the first part of this chapter, different relations of human persons in social structures, three filters for examining human behavior, and four levels for assessing human behavior are specified. In the second part, various ethical and economic concepts, and the links between them, are discussed. In the third part, miscellaneous aspects of ethics are introduced.

Moral reasoning is the foundation of ethics as a practical philosophy. In Appendix 1, some basic principles of moral reasoning are introduced and illustrated using reasoning on Moral Skepticism and the first episode of the Harvard Justice course, “What is the right thing to do?”

It is impossible to fully grasp the essence of the ethical tradition without reading some foundational works. In Appendix 2, Plato and his work *The Republic* are promoted.

Human Person and Social Structures

“What am I to do?” and “What can I hope for?” — Immanuel Kant once wrote that we would be able to answer these questions if we understood what a human person is.

The terms "human person" and "human individual" are often used interchangeably, but they can have distinct meanings depending on the context. The distinction lies in their emphasis. A "human individual" primarily refers to a single, unique human being from a biological and physical perspective, highlighting distinctiveness and autonomy. In contrast, a "human person" encompasses broader dimensions, including inherent dignity, moral agency, rationality, and social roles, often with ethical, philosophical, and theological implications. While both terms recognize the uniqueness of a human being, "person" stresses existence based on relations.

Basic types of relations are: Myself to Myself (Self to Ego in the language of psychology), Myself to Society, and I/We to Nature. All relations are interconnected and form a functional unity — a human person.

Many relations are directly personal, while others are institutionally mediated. These two forms complement, rather than substitute, one another. Conflicts can arise between personal affection and structural necessity imposed by existing institutions (rules and norms linked to roles) that have developed over cultural evolution. Institutions constrain personal behavior but can be changed by personal activity. We are responsible both for our directly personal behavior and for maintaining or changing existing institutions.

Regarding the relation "Myself to Myself": As a first approximation, we can say that the Self represents potential, and the Ego represents what we currently are. The Ego evolves and should realize the Self — in other words, self-realization is the evolution of the Ego toward our potential. If we fail to realize our potential, we experience a loss of

identity, self-alienation, or estrangement. We are responsible for our self-realization. Unlike egoism, self-realization requires the cultivation of other types of relationships. Existing institutions influence the possibility of self-realization. For example, Karl Marx discussed the problem of alienation of labor in capitalist firms. Working solely for money does not lead to self-realization through work.

Regarding the relation "Myself to Society": Interpersonal humanity is based on communication. Through communication, uniquely human features have evolved: human language, reason, and culture. Just as we are responsible for our self-realization, we are also responsible for interpersonal humanity. Interpersonal humanity is neither egoism nor altruism. Unlike altruism, interpersonal humanity does not neglect self-realization.

Regarding the relation "I/We to Nature": Humans depend on the natural environment and have the ability to change it. Significant changes in the environment began with the shift from hunter-gatherers to agricultural societies, marking the start of the cultural revolution of humankind. Just as we are responsible for self-realization and interpersonal humanity, we are also responsible for our environment. Existing institutions shape this relationship. The cultivation of the natural environment involves two aspects: care and use, which must be balanced. The modern global economy is imbalanced toward use. As individuals, we may care about the environment, but as members of industrial society, we often participate in its degradation.

Responsibility means we should be able to describe the motives behind our behavior. These motives lie between opposing ethical principles: altruism and egoism. Altruism involves selflessly prioritizing others' welfare, often at personal cost, driven by empathy and moral duty. Examples include charity and volunteering. Egoism, on the other hand, focuses on self-interest and personal benefit, guided by the belief that individuals should act to maximize their own welfare, such as pursuing personal success and self-care. While altruism emphasizes compassion and the greater good, egoism highlights individual rights and rational self-preservation.

Human society is structured, and human persons are "autonomous cells" in various social structures. These social structures consist of different organizations and institutions (in economic terms, institutions are rules). Some social structures are economic, while others are political.

Human persons behave, and part of our behavior consists of purposeful actions, based on what we want. Our behavior can be viewed through three filters:

- How it is,
- How we want it to be,
- How it ought to be.

Our behavior is assessed at different levels:

- Personal: How it complies with our personal rules; the terms used are "good" and "bad."
- Social: Based on acceptance by the community or society the individual is part of; the terms used are "just" and "unjust."
- Legal: Based on acceptance by the State of which the individual is a citizen; the terms used are "legal" and "illegal."
- Metaphysical: Based on compliance with God's (or some other higher) order; in the Christian context, the terms used are "love" and "sin."

Assessments from different levels may not always align: an action can be illegal, unjust, but good. Fear of punishment may be sufficient to ensure behavior in accordance with social and legal rules, but such behavior lacks moral worth — as we will explain later.

Ethics and Economics

Ethics and normative economics deal with concepts concerning what ought to be, while positive economics analyzes what is. What I/We want to be can differ from both what is and what ought to be.

Moral philosophy, also known as ethics, is the branch of philosophy that investigates questions about what is morally right and wrong, good and bad, fair and unfair. It explores the nature of moral values, principles, and the criteria by which actions and character can be judged. Moral philosophy seeks to understand the foundations of ethical behavior, the implications of moral choices, and the development of ethical theories, such as

utilitarianism, deontology, and virtue ethics, which provide frameworks for resolving moral dilemmas and guiding human conduct. Basic questions can be framed like these: What is the right thing to do? What kind of person ought I to be? Personal ethics focuses on individual moral guidelines, while social ethics deals with the collective moral framework of a society. A fundamental question in social ethics might be: What should social structures look like?

Political philosophy is the branch of philosophy that examines the concepts and arguments underlying political theories and practices. It explores fundamental questions about justice, authority, liberty, rights, and the legitimacy of government. Political philosophy seeks to understand how political institutions should be organized, what constitutes a just society, and the ethical obligations of citizens and rulers. It critically analyzes various political ideologies, such as liberalism, socialism, conservatism, and anarchism, providing a theoretical foundation for political thought and action. While social ethics focuses on the moral principles guiding societal behavior and norms, political philosophy delves into the theoretical underpinnings of political systems and the nature of political authority and justice. A fundamental question in political philosophy could be: What should political structures look like?

Ethics and economics have always been linked:

- Economic thought until the Middle Ages was a byproduct of ethical thought. The basic question during this period was: What behavior of economic agents is or is not ethical? Thinkers tried to determine what constituted a just price or debated the permissibility of usury (lending money for interest).
- **Adam Smith** (1723–1790), both a moral philosopher and the father of economics, highlighted the importance of individual freedom during the Enlightenment. He developed the idea that following self-interest increases social welfare within the framework of a market economy and under certain other conditions.
- **John Maynard Keynes** (1883–1946), the most famous economist of the 20th century, described the "Paradox of Thrift." Traditionally, thrift was considered a virtue. However, savings reduce aggregate demand, which can negatively impact the economy.
- **Max Weber** (1864–1920), an economist and one of the founders of sociology, wrote about the impact of Protestant ethics on the development of capitalism. Protestant en-

trepreneurs believed that success in earthly life was a good predictor of salvation, providing the basic incentive for their entrepreneurship.

- **Karl Popper** (1902–1994), a renowned British philosopher, made the statement (paraphrased): "There is no rational basis for ethics, but there is an ethical basis for economics."

Positive economics is the branch of economics that focuses on describing, explaining, and predicting economic phenomena based on empirical evidence and factual data. It deals with objective analysis and avoids value judgments or subjective opinions. Positive economics aims to understand how the economy operates by examining relationships between variables, formulating hypotheses, and testing them against real-world data. It seeks to answer questions such as "What is the impact of a tax increase on consumer spending?" or "How does inflation affect unemployment rates?" Unlike normative economics, which prescribes what ought to be, positive economics is concerned with what is. **Normative economics**, in contrast, focuses on what ought to be rather than what is. It involves value judgments and opinions about economic policies and outcomes, providing recommendations based on ethical considerations, societal goals, and personal beliefs. Normative economics addresses questions such as "What should the government do to reduce income inequality?" or "Should the minimum wage be increased to ensure a living wage for all workers?" Unlike positive economics, which relies on objective data and empirical analysis, normative economics is inherently subjective, reflecting individual or collective preferences about economic policy and goals.

Even normative economists can gain significant recognition. **Gunnar Myrdal** (1898–1987), a Swedish economist, won the Nobel Prize in Economic Science in 1974, sharing it with **Friedrich von Hayek** (1899 – 1992) for "their pioneering work in the theory of money and economic fluctuations and for their penetrating analysis of the interdependence of economic, social, and institutional phenomena."

Economics and economic policy: Current mainstream economics aims to be positive. Normative economists argue that value judgments are inevitable in economics. Nonetheless, in practical economic policy, value judgments are unavoidable. Economic policy should be based on economic theory, which should be as positive as possible.

Morality: Understanding economic structures requires understanding the incentives of their members, including those based on morality. Morality refers to the principles, standards, and beliefs that individuals or societies hold regarding what is right and wrong, good and bad, just and unjust. It encompasses the guidelines and rules that govern ethical behavior and decision-making, often rooted in cultural, religious, philosophical, or societal values. Morality influences how people interact with one another, make choices, and justify their actions, aiming to promote social harmony, justice, and well-being. Morality exists in a society as moral facts.

Social ethics pertains to the ethics of social structures.

Economic ethics relates to the ethics of economic structures and asks what social (economic) structures are humane, in other words, those that support responsibility in all three types of human relations.

Both Personal Ethics and Social/Economic Ethics are interconnected. For example, if a school or firm's structures are authoritarian, even "nice personalities" at the top of the hierarchy may struggle to create humane working conditions.

Economic ethics must take economic reality into account, i.e., "what is." Without knowledge of economic reality, "what we want" would often be naive and utopian. On the other hand, economic reality should not dictate "what ought to be."

Miscellaneous about ethics

Ethics is a tradition. According to the prominent contemporary philosopher Alasdair MacIntyre (1929–), tradition is a living, dynamic process through which communities sustain a coherent narrative of their moral and intellectual history. This narrative is not static; it evolves as it encounters new challenges and integrates new insights, which can lead to revisions or reaffirmations of the tradition's beliefs and practices. MacIntyre criticizes modern moral philosophy for failing to acknowledge the importance of tradition, suggesting that the loss of a historical context leads to moral fragmentation and relativism.

Etymology: The Greek word "ethos" has shifted in meaning from "home place, habit (custom, tradition)" to "What should I do based on my reason and beliefs," particularly due to the influence of the Greek philosopher Socrates (c. 470–399 BCE).

A typical phenomenon in the development of ethics is the "ethical crisis within

ethics.” A crisis arises when individual morality comes into conflict with social morality. The Greek philosopher Plato (c. 427–348 BCE) described this in his dialogue *Crito*.

In *Crito*, Socrates finds himself in prison, awaiting execution. His friend Crito visits and urges him to escape, presenting various arguments, including the shame that Socrates' friends will face for not saving him, the impact on his children, and the injustice of his sentence. Socrates responds by emphasizing the importance of justice and the rule of law—a significant part of social morality in Greek society at the time. He argues that escaping would violate his principles and the social contract he has with the state, which he has implicitly agreed to by choosing to live in Athens. Socrates concludes that it is better to suffer injustice than to commit it, and thus he must accept his fate and not escape, demonstrating his commitment to his moral and philosophical beliefs.

There is a close link between moral and social evaluation of behavior. Behavior is guided by existing norms. Normative ethics explores what the right norms are.

One possibility comes from proponents of Communitarianism: existing norms are right norms. This is criticized as the “Naturalistic Fallacy,” a term coined by the philosopher George Edward Moore (1873–1958) in his work *Principia Ethica* (1903). It is linked with the so-called is/ought problem, originally articulated by David Hume (1711–1776) in the 18th century. Hume pointed out that one cannot logically move from statements about what is (descriptive statements) to statements about what ought to be (normative statements) without introducing additional normative premises.

Another possibility is that right norms are justified by moral principles, such as “Do not kill!” This raises another question: “What are moral principles based on?” Here, the answer can be based on: theological argumentation (e.g., Thomas Aquinas (c. 1225–1274)), natural law (e.g., John Locke (1632–1704)), moral sentiment (e.g., David Hume), reason (e.g., Immanuel Kant (1724–1804) or Jeremy Bentham (1748–1832)), choice (e.g., Søren Kierkegaard (1813–1855) or Jean-Paul Sartre (1905–1980)), or possibly emotions or intuitions if the previous bases are unconvincing.

In common discourse, we can use moral language—discuss morality—based on a common pre-understanding in our society. In the context of European cultural tradition, this pre-understanding typically includes:

- Moral evaluation: What we do, who we are, and the outcomes of our actions are mor-

ally evaluated.

- Conscience: We all somehow know the basic difference between good and evil, and we know that we ought to do good.
- Voluntariness: Morally relevant actions are voluntary, resulting from free decisions.
- Responsibility: We are responsible for our actions, meaning we are expected to explain the motives of our actions through reasoning.
- Social respect: We recognize that we are not alone and that we ought to act justly. The concept of justice has evolved over centuries. One very old principle is formulated in the Golden Rule: "Do not do to others what you do not want them to do to you."
- Self-respect: We care about our self-evaluation and how others evaluate us.

Summary

In the introduction, theoretical and practical philosophy are contrasted, emphasizing that while theoretical philosophy focuses on understanding reality and knowledge, practical philosophy deals with how individuals should act and live. Ethics, a branch of practical philosophy, applies moral principles to real-life situations, helping individuals and societies navigate moral dilemmas and make just and fair decisions.

The first section discusses the human person and social structures. It distinguishes between the "human individual," which refers to a biological being, and the "human person," which encompasses dignity, moral agency, and social roles. The text outlines three basic relationships for human persons: with themselves, with society, and with nature. It highlights the importance of balancing personal behavior with societal structures and institutions, while stressing responsibility for self-realization, interpersonal humanity, and environmental care. These relationships are framed within ethical principles such as altruism and egoism.

People behave, and their behavior can be analyzed through three filters: how they behave, how they want to behave, and how they ought to behave. Behavior is assessed on four different levels: personal, social, legal, and metaphysical.

The second part covers ethics and economics, explaining that ethics deals with what ought to be, while economics examines what is. It clarifies the difference between moral and political philosophy; the former concerns actions, personal behavioral rules,

and social rules, while the latter pertains to legal rules. The text also touches on the historical link between ethics and economic thought, using as examples some ideas of Adam Smith, John Maynard Keynes, Max Weber, and Karl Popper. The difference between positive and normative economics is clarified, and the importance of considering values in economic policy is emphasized. The concept of morality is defined as the principles, standards, and beliefs that individuals or societies hold regarding what is right and wrong, good and bad, just and unjust. Social and economic ethics are also defined, with the former dealing with rules in social structures and the latter with rules in economic structures.

The third part discusses various aspects of ethics. It emphasizes that ethics is a tradition, referring to philosopher Alasdair MacIntyre's view of tradition as a dynamic process that evolves over time. The section defines normative ethics that is about right norms, which can be understood differently: communitarianism derives the rightness of norms from morality, while another possibility is to derive it from moral principles. This part concludes with a discussion of the common preunderstanding of morality in the European cultural context.

Appendix 1: Moral Reasoning

An idea is only as good as the arguments supporting it. A logical argument is a chain of reasoning, and valid arguments in logic are those where the conclusion logically follows from the premises. In a valid argument, if the premises are true, then the conclusion must also be true; the structure of the argument ensures that it is impossible for the premises to be true while the conclusion is false. Validity does not concern itself with the actual truth of the premises, but rather with the logical connection between the premises and the conclusion. Therefore, an argument can be valid even if its premises are factually incorrect, as long as the logical structure dictates that if the premises were true, the conclusion would necessarily follow. This characteristic distinguishes valid arguments from sound arguments, which are valid arguments with true premises.

Let us illustrate moral argumentation with moral skepticism and further examine it using the 1st episode of the Harvard Justice course “*What is the right thing to do?*”

Moral skepticism is the philosophical position that doubts or denies the existence of objective moral truths. Moral skeptics question whether any moral beliefs or values can be justified as universally true or false, right or wrong. This skepticism can manifest in various forms. Some moral skeptics might claim that morality is subjective—it's about how we feel about matters, not about the matters themselves. One person's opinion is as valid as another's. Values exist only in our minds, not in the world outside us.

In the discussion of this position, the following arguments are used:

1. The Cultural Differences Argument:
 - Example:
 - Premise 1: The Eskimos believe that infanticide is morally acceptable.
 - Premise 2: We believe that infanticide is not morally acceptable.

- Conclusion: Therefore, infanticide is neither objectively right nor wrong; it is merely a matter of opinion.
- Critique: This is not a valid argument. It is logically incorrect to develop a conclusion about “what is” from premises based on beliefs.

2. The Provability Argument:

- Example:
 - P1: If there were an objective truth in ethics, we should be able to prove that some moral opinions are true and others false.
 - P2: In fact, we cannot prove this.
 - C: Therefore, there is no objective truth in ethics.
- Critique: This is not a sound argument. Both premises are formulated in such a way that they can be attacked. However, if an argument is unsound, it does not necessarily mean that the conclusion is false.

In the 1st episode of the Harvard Justice course “*What is the right thing to do?*”:

- Two basic approaches to moral reasoning are demonstrated:
 - The Consequentialist (Teleological) Approach: It locates morality in the consequences of an act.
 - The Categorical (Deontological) Approach: It locates morality in certain duties and rights.
- Two famous problems are discussed:
 1. The trolley problem, a thought experiment that asks whether it is morally permissible to divert a trolley onto a track to kill one person instead of allowing it to continue on its current track and kill five people.

2. The "Case of the Queen v. Dudley and Stephens," a historical case where a shipwrecked crew, after days adrift without food and water, decide to kill and eat the cabin boy to survive. Is it ever justifiable to sacrifice an individual for the greater good?
- Following questions are raised:
 - Do we have certain fundamental rights?
 - Does a fair procedure justify a result?
 - What is the moral weight of consent?

Appendix 2: Promotion of Readings

Plato: “The Republic”, 2nd Book

Plato lived in the Ancient Greece, in Athens in the 5th-4th centuries BCE. He was student of Socrates and teacher of Aristotle. He used the method called dialectic – the dialogue between people with different points of view about a subject but wishing to arrive at the truth through reasoned argumentation. British philosopher Alfred North Whitehead once said: “the safest general characterization of the European philosophical tradition is that it consists of a series of footnotes to Plato.

“The Republic” is generally placed in the middle period of Plato’s dialogues. Dialogues of the early period mirror probably the ideas of Socrates. The first book of “The Republic”, which shares many features with earlier dialogues, is thought to have been originally written as a separate work and then the remaining books were conjoined to it, perhaps with modifications to the original of the first book.

In 2021, a survey showed that “The Republic” was the most studied book at the top universities in the USA.