

# Ethos

## IN ECONOMIC AND FINANCE



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One of the highly consequential errors in the modern understanding of economics, devastating for the social and economic life, is to assume that it is the art of making money – “chrematistics.” It is dangerously false. Adopting such a definition would mean that all actions are permissible and desirable as long as they make a profit. Although such a perception of economics was unfortunately favoured over the past few decades of dominance of neo-liberalism as a doctrine shaping the social and economic life in many Western countries (to a large extent also in Poland), it was spectacularly negated by the economic reality, especially the global crisis. And so was the famous “greed is good” statement. The research conducted by the American sociologist Michael Sandel, author of the book “What Money Can’t Buy,” does negate such an approach, too.

Many economists are concerned with a misrepresented understanding of economics, and especially its translation into practice. Such concerns were voiced in 2008, the year which marked the beginning of the global crisis, by Nobel-Prize winning Edmund Phelps, who reminded that “economics is not about making money. It is about the relations between the economy and social life.” Economics studies behaviours of people in the process of management. Separating economics from morality is, in a sense, tantamount to desecrating the idea of Adam Smith, the 18th century’s Scottish philosopher considered to be the founding father of economics. For Adam Smith, free market and morality were absolutely intertwined. His first work, “The Theory of Moral Sentiments,” laid the groundwork for the theses set out in “An Inquiry into the Nature and Causes of the Wealth of Nations,” Smith’s magnum opus. The neo-liberal free market concept lacks such a symbiosis, creating fertile ground for unethical actions which, if intensified, increase the risk of a financial meltdown. This was spectacularly confirmed by the recent global recession.

The free market economy requires a sensible economic governance framework, but also, and perhaps above all, a set of ethical and moral principles underlying the system of law. It needs an ethos taking into account the importance of social and human factors, freedom, but also responsibility and morality. Ethos denotes a set of values, norms and behavioural patterns adopted by a group of people. In this sense, ethos and economics, understood as a study of people in the process

of management, are inseparable. In practice, however, such a separation unfortunately occurs, that is more and more frequently. As aptly pointed out the economics Nobel laureate Joseph E. Stiglitz, “economics had moved, more than economists would like to think, from being a scientific discipline into becoming free market capitalism’s biggest cheerleader.”

Fostering and respecting social values are necessary to counterbalance to a destructive anomie and a confidence crisis, to improve life quality and well-being of the society. Suffice it to study the very etymology of the concept of anomie to realise its destructive features. Derived from Greek (a = without, nomos = law), this word literally means the absence of law. It is not, however, to be confused with lawlessness. The Ancients already warned that “the more corrupt the state, the more laws.” Anomie stands for contradictions, disorganisation, disintegration, chaos and mismatches in the system of social values, in the system of norms and rules governing the social and economic life in its various forms.

Economics is a social science, which compels economists to care not only for economic, but also (and perhaps primarily) for social and ethical aspects of life. After several decades of marginalisation of these issues in economics and finance in line with the principle that “greed is good,” fortunately more and more economists have come to address these issues in their works and studies. One example is “Finance and the Good Society” (Princeton and Oxford: Princeton University Press, 2008) by Robert J. Shiller, last year’s Nobel Prize winner in economics, one of the few economists to have predicted the outbreak of the US financial crisis in 2007/2008. This book is primarily intended to restore the ethos of economics and finance, which has been severely eroded in the past few decades, as drastically evidenced by the crisis itself. In his book, Robert Shiller highlights the role of ethics in finance and social functions to be performed by economics.

Therefore, economics and finance need changes; they need to be somehow reinvented. Certainly, positive changes can be nurtured by studying the academic literature reporting on the latest research results, reflections and recommendations. Shiller’s “Finance and the Good Society” is one of such works. The Polish Economic Society will soon release its Polish version as part of the “Economics Nobels” series. I am deeply convinced that it is worth reading.