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Bożena Klimczak

MAN OF INTEGRITY OR ECONOMIC MAN¹

From antiquity to the present day, the economy has always formed part of the science of ethics.

Both Aristotle and Adam Smith evaluated the workings of the economy and gave moral dimension to the basic problems of a contemporary economy. Adam Smith was a professor of moral philosophy and an author of two treatises. The first, 'The Theory of Moral Sentiments' and the later, more celebrated, 'An Inquiry into the Nature and Causes of the Wealth of Nations'.

In the first work, Adam Smith presents his view of man as an individual, equipped with a conscience constantly evaluating human actions, separating the good from the bad. He thought that the basis of the human favouring 'good' was a capacity for compassion, sympathy and love towards other humans. These impulses of good sentiments in man are subjected to the rule of reason which is the final arbiter in deciding which way a human should behave following a sentiment.

Positive, worthy feelings towards other people were, according to Smith, an effect of man reaching maturity within society and his realization, based on observation of the life of society, that solidarity pays off because it allows to expect reciprocation. He laid particular emphasis on intentions as a factor responsible for arousing distinct moral approval in a man. Acts based on egoistical intentions do not attract sympathy and acceptance from other people and, according to Smith, should not initiate positive reactions, particularly if they are based on reflection rather than impulse.

Moving onto defining Smith's own ethical viewpoint, one should acknowledge two related ethics – utilitarian and rational – which shape man's moral sentiments.

¹ This paper was published firstly in: *Prace Naukowe AE [RW of WAE]* 1993, No 653.

Utilitarian ethics are an attribute of calculating egoists who are tolerant and friendly towards people close to them because they bear in mind the possibility of an equally friendly and positive return of emotions. Such ethics do not formulate general norms, do's and don'ts, by accepting the subjective nature of basic moral values.

Therefore the only objective values of such ethics are the negative ones. However 'The Theory of Moral Sentiments' also contains a positive approach to freedom, connected with intentions beyond narrow egoism and mercenary motives. Rational ethics don't present such an independent and consistent system. It is rather a splinter of metaphysical rationalism which pronounces the transcendental logic of the world.

On these grounds, rationalistic ethics accept such values as those corresponding with the supernatural order of the world, and such behaviour which results not from emotions but rather from reason. Such a rigorous version is not to be found in 'The Theory of Moral Sentiments' as Smith tones down peremptoriness and intolerance present in rationalistic ethics, taking from it mainly trust in reason ruling over spontaneous moral sentiments, reason, which is strongly rooted in tradition and the culture of a given society.

Man from 'The Theory of Moral Sentiments' was therefore neither a cold, calculating egoist nor a cog ruled by God's will in a mercilessly logical world, but a combination of both. He was, however, softened by his tendency to honesty which was interpreted by Smith as an ability to imagine other people's emotions and a readiness for the emotions to direct his actions (Klich 1990).

This is the evidence of Smith's perplexity concerning human nature, which also surfaces in his second work, 'An Inquiry into the Nature and Causes of the Wealth of Nations' in the sphere of axiology of the market economy. Smith, as an economist, maintained that the system of market economy constitutes a model (homeostat) moved by the extremely strong desire to obtain individual benefits. *Homo oeconomicus* therefore replaces a friendly, honest man from 'The Theory of Moral Sentiments'.

Because Smith maintained that selfish and egoistic behaviour is enforced by the mechanics of the market and particularly by competition, there arose a dilemma concerning not only human nature but also the value of market economy, known as The Adam Smith Problem (Legutko 1986). The dilemma was formulated earlier by B. Mandeville in a paradox which says that private vices become public benefits (Mandeville 1924). Every action, whatever its motive, brings, according to Mandeville, different side effects which in today's terminology are known as external effects.

Side effects can be good or evil, irrespective of human intentions and the effect obtained in private activities. It is therefore possible that immoral motives and behaviour can change (under the influence of 'the invisible hand of the market') into positive results as much as it is possible for good intentions and

actions aimed to benefit humanity to change into bad ones, which are opposed to them. According to Mandeville, market economy lacks consistent ethos, ethics being redundant in economic activities.

Smith tried to solve this problem differently. He claimed that private, egoistic interests of people always become public virtues because (owing to the excellent mechanics of the market) they contribute to the common good. 'The invisible hand of the market' becomes then a substitute of ethical actions, as a result there becomes possible axiological legitimization of the market economy. One should point out however, that such legitimization is not total.

It should be assumed that the common good is a sum of individual benefits obtained in economic activities; and that in such activities there do not exist negative external effects and that all interested parties are included. It is not difficult to notice that a transition is made here from legitimization to idealization of the free market society, in which internalizing of external effects and the inclusion of all interested parties spreads over the whole decision-making process, and not just over the economy.

In reality, therefore, Smith did not resolve his difficulty. The model of 'the invisible hand' is important only under several rigorous conditions known from the theory of perfect competition. Only when these conditions are fulfilled can the egoistical tendencies directed by 'the invisible hand of the market place' contribute to the common good.

Utilitarian arguments for economical ethics describe it as an internal pre-coordination of the market economy. The market is a network of connections among people who carry out those communications for private firms in the form of contracts. All the transactions contain an element of uncertainty which is one of the reasons for unethical conduct by participants on the market. Let's compare three such cases (Koslowski 1988).

In the first instance, a singular participant of market transactions behaves impeccably according to all the rules of honesty, reliability and responsibility etc, and puts them before his own private interests.

In the second case, the positive ethical conduct is conditional. He is prepared to follow the above rules on condition that the majority also follows them. If, however, such persons feel they are at a disadvantage by following the rules while everybody else indulges in unfair competition, he will naturally be inclined to follow the majority conduct.

In the third instance, the singular participant on the market thinks that the best results will be obtained if everybody else – except him – follows the ethical rules. Such a case is known in the theory of game as the prisoner's dilemma. It is founded on the fact that one can never be sure of the reaction of the other participants if one of them breaks the rules of the game.

In small groups this dilemma is not as clearly obvious as in large ones where the sides do not know each other and do not have contacts with others. In such

conditions there arises the possibility of only a few participants following the rules and bearing the consequences for the misdemeanours of others.

In the first instance it can be said that the occurrence of negative external factors relates only to those who follow the rules. The function of economical ethics would therefore involve the majority of the participants behaving in the positive way because the others do. In such situations there appears an element of conditional trust as a positive side effect, resulting in lowering the costs of transaction. It also increases competitive abilities and market optimization and removes several reasons for the state to co-ordinate and to regulate the economy.

Acknowledgement of the utilitarian argument for economic ethics demands the necessity of accepting ethical rules as limiting and correcting factors of economic accounting. Such a proposal of ethical-economic accounting (*Wirtschaftsethik Rechnung*) was presented by P. Koslowski (Koslowski 1988). Such a solution does not however give sufficient grounds for axiological legitimization of the market economy. Let's return to Smith's problem.

He was torn between the desire of affirming the market economy and his awareness of its imperfections. Such weaknesses included: the spiritual impoverishment of hired labour which, two centuries later, was described by W. Röpke as proletarianization (Röpke 1948), the producers acting against the interests of the consumer, the owners being alienated by the executive bodies of the big corporations, exploiting the democratic system by the influential business lobbies and the tendency to weaken and eliminate competition.

It is not sufficient to employ utilitarian ethical-economical accounting in order to lessen the impact of these and other known weaknesses of the market economy. Such accounting could improve the effectiveness of the market economy and contribute in that way to the common good. However, to contribute is not the same as to make good. An objective and absolute good is not identifiable with economic good, with the efficiency and competence of the market.

Economic ethics go beyond the utilitarian argument and remind us that efficiency is not the only purpose of economic activity. Putting this statement in a negative form gives only some basis for a difficult but fundamental reflection which would lead to a positive answer dealing with the ethical intentions of economic activities.

Nowadays, ethics searches for a formula embracing the sense of unconditional and independent human condition in the context of economic activities. However valuable would be a rehabilitation of wise self-interest conducted by contemporary economists (Friedman 1990 or Novak), there still remains a strong need for absolute values, as shown by exponents of Christian ethics and liberals such as (Kristal 1978 and Aron 1991).

Following the utilitarian concept of Friedman's positive economy, the economists of some 30 years ago defined the boundary between the economy and ethics, separating normative economy which, as opposed to positive economy,

Table 1
Typology of research connections between ethics and economy

Specifi- cation	Methodological status				
	normative				analytical-empirical
	market theory		human behaviour theories		
	assumption	contribution to assumption	assumption	contribution to assumption	
Individual ethics	Type 1 a) Moral behaviour on the market. b) The problem of a fair price, ethics of entrepreneurs, merchants and workers; ethics, philosophy and culture of the enterprise. c) Thomas Aquinus, Martin Luther, the Catholic social science.	Type 2 a) Market as a moral institution. b) Freedom of the market as a paradigm of individual human freedom. c) L. von Mises, F. von Hayek, R. Nozick, H. Giersch.	Type 3 a) Moral behaviour of economic subjects. b) Ethics of politicians, officials, bureaucrats, managers. c) Davos manifesto.	Type 4 a) Considering the outcome of actions as a basis for the norms of morality. b) Utilitarianism, consequentialism. c) J. Bentham, J. C. Smart.	Type 9 a) Empirical theories of respecting the norms. b) Investigative altruism, pedagogical research of norms development. c) M. Weber, A. O. Hirschman, H. Margolis, G. Gäfgen, L. Kohlberg, G. S. Becker.
Social ethics	Type 5 a) Moral basis of market correction. b) (Ordo) liberalism, social market economy, fair price in a new world economic order. c) W. Eucken, E. Röpke, F. Böhm, A. Rüstow, A. Müller-Armack, Catholic social science.	Type 6 a) Market economy in society. b) Domestic economy, new political economy. c) A. Smith, D. Ricardo, J. St. Mill, G. W. F. Hegel, K. Marx, J. Messner.	Type 7 a) Moral behaviour of economic institutions. b) Concepts of Mitbestimmung, theory of justice. c) J. Rawls, J. Habermas.	Type 8 a) Economical basis of moral institutions. b) T. Hobbes, utilitarianism, economic theories of forms of agreement democracy, rule of the law, theory of transactional costs. c) R. B. Brandt, J. Elster, J. Harsanyi, J. M. Buchanan, R. Posner, O. E. Williamson	Type 10 a) Empirical theories of development of moral institutions. b) Research of condition and development, biological and economic evolutionism. c) F. von Hayek, G. Gäfgen, O. Wilson, N. Luhmann.

a) researched problem; b) main directions; c) main representatives.

Sources: based on analysis of *Wirtschaftswissenschaft und Ethik* (1988), ed. H. Hesse, Duncker und Humboldt, Berlin.

requires certain conditions from the reality and demands its compliance to them. The picture of strict and bountiful relations between economy and ethics as presented in Table 1 proves a need for existence of not only ethics of responsibility but also ethics of convictions, the presence of which in economic activities is manifested through the intentions higher than own interest. Hence man of integrity from 'The Theory of Moral Sentiments' rather than homo oeconomicus from 'An Inquiry into the Nature and Causes of the Wealth of Nations'.

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