

## For Morality's Sake!

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“Whether in sea or fire, in earth or air,  
The extravagant and erring spirit hies  
To his confine.”—*Hamlet*.

After much wandering in the woods, the key exponents and practitioners of the discipline seem to have rediscovered that development economics is a worthy discipline in its own right. The general climate seems to be one of homecoming celebrations. This is odd because ‘rational’ behaviour should not have led development economists to cutting down, in the first place, the bough on which they had rested so comfortably. But, looking back, this self-sacrificing posture was indeed assumed for a time by some distinguished votaries of the subdiscipline who could well have wound up their shop. To cut losses, such development economists even sought to arrange a happy reunion of the ‘prodigal’ son (development economics) with the somewhat annoyed parents (neoclassical economics). They meant well, thinking that the subdiscipline would gain in union what it lost in estrangement and that it would thus live happily ever after, aglow with the halo of scientific rectitude, though far removed from the ‘madding crowd’! [Schultz (1964); Chenery (1983)].

Call it a case of successful self-defence or a mere happenstance, the proposed reunion did not materialize. Perhaps, self-interest led development economists not to lose their identity even if such martyrdom was rewarded with an eternal, neo-classical bliss. Or was it that development economists sincerely thought that developing countries should not be deprived of their intellectual heritage? Be that as it may, development economics continues to thrive – it is taught at the universities and pushchaired in the corridors of power; and the many obituary notices published 5 years ago, when I gave my first Presidential Address at the First Annual General

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Meeting of the Society ["Development Economists in 'Emperor's Clothes?'" (1984)], have since accumulated much dust.

I have discussed these matters at length in my previous four Presidential Addresses with a view to putting up a credible defence of development economics as a legitimate discipline, or a new 'paradigm', in its own right. Several other economists have done a similar job even more effectively. [Lewis (1984); Sen (1984)]. That done, now the time has come to have a closer look at our discipline; to see wherein lie its main weaknesses and indicate an effective remedial action. But, I wish to do much more.

I shall try to show that development economics possesses an innate capacity to respond creatively to intellectual challenges of a 'fundamental' nature, especially those which require economic agents to combine selfishness with benevolence. Pushed by the environmental imperatives in developing countries, it would seem natural for development economics to burst out of its anti-ethical egg and live normally, without losing its soul or scientific content, in a world where "rationality" cannot meaningfully be taken as a synonym for self-interest maximization, and where moral concern for others would not count as a mortal sin. Not only that; it will also opt for an ethical stance that is sensitive to the consequences of the exercise of specific moral rights.

My main thesis is that, driven by the combined force of logic and circumstance, development economics in its next growth cycle must seek a creative symbiosis of ethics and economics which avoids the Scylla of anti-moralist oblivion and the Charybdis of a non-consequentialist morality. And in this delicate act of tight-rope-walking, development economics must be based on a moral-economic philosophy. It would be illuminating for development economics to view the justness of the basic institutions – social, economic, and political – as linked to the maximization of welfare of the least-privileged individuals in society, *and* to a net reduction in the number of these unfortunate people whom the society makes 'outsiders'. Such a development philosophy has a clear political dimension: it will help to create, in the words of Rawls (1985), an "overlapping consensus" about the basic aims and direction of the development process.

So as to gain perspective, let me stand back awhile and review the troops before I strike – for morality's sake!

### THE MOMENT OF TRUTH

In my opinion the time is not yet for development economists to bathe in the warm glow of self-congratulation, because the victory of development economics, of which I have just spoken, may be considered by the diehards to be only of the Pyrrhic variety. They may argue that in the aftermath of the *anti-dirigiste's* attack, development economics has relinquished some vital territory: the "invisible hand"

(the market) has been allowed to win for itself a greater role than was envisaged by the founding fathers of the discipline; and much less visible now than in the past are some of the key concepts of development economics – e.g., the strategies of “balanced” or “unbalanced” growth [Nurkse (1953); Hirschman (1958)], “unequal development” between the centre and the periphery [Amin (1974)], the “big push” [Rosenstein-Rodan (1943)], “great spurt” [Gerschenkron (1962)], “minimum critical effort” [Galenson and Leibenstein (1955)], “stages of growth” [Rostow (1971)], “backward and forward linkages” [Hirschman (1958)], and the “unlimited supplies of labour” [Lewis (1954)].

As a result of such vital concessions, development economics may appear to have lost some of its lustre. But, in my judgement, not all of it – not even most of it. What appears to some as a retreat from strategic high grounds may simply have been the result of a learning process on the part of development economists: a greater realization of the deficiencies of the government as a regulator of the economic tides, and a clearer understanding of the role of international trade and international migration in the development process. Furthermore, development economists may have convinced themselves that the marginal productivity of labour is strictly positive in the rural sector; and that labour in developing countries, not being a glutton for leisure, also reacts positively to monetary rewards.

The fact of the matter is that many of the key insights of the discipline have survived the cauldron of controversy. For instance, in the market vs. the government duel, neither in theory nor in practice have things gone so badly for the government as some distinguished ‘rational expectationists’ [Lucas (1972)] would have liked them to be. Development plans are still in vogue in developing countries, despite the warnings to the contrary of the agnostics among development economists [Bauer (1984)]. The no-Plan periods are still considered as an oddity in the annals of policy-making. The problems of poverty, inequality and income redistribution continue to concern both the theorists and the policy-makers. And while economic growth has been healthy in most of the developing countries – indeed it has been remarkable in NICs [Little (1982); Bhagwati (1984)], not all the credit for this success goes to the magic of the “invisible hand”.

### THE PURGATORY

That may be so, but the task of strengthening the foundations of development economics as a paradigm – or, to use the terminology of Lakatos (1970), as a progressive Scientific Research Programme – is large and challenging. There is some truth in the observation that development economics has shown considerable vulnerability to the “unlikely conjunction of distinct ideological currents”; and that “no new synthesis has appeared” to meet the criticism of Left and Right [Hirschman (1981)]. Hence, to meet the many new intellectual challenges – to thrive, and not

just to survive and exist – the conceptual foundations of development economics need to be more clearly laid down than in the past. But to accomplish that development economics must go through some kind of a purgatory to lose its impurities. Our discipline need not continue to be a net borrower of ideas from neoclassical economics – it should look more and more unlike a kind of “black hole” in the economic universe.<sup>1</sup> It should throw fresh light on old questions and offer new hypotheses of its own – especially in areas wherein lies its comparative advantage: namely, in striking a happy balance between the relative roles of the market and the government; in explaining better the processes of growth and structural change; in understanding more clearly the inequalities of income and wealth between the rich and the poor; and in finding the many ways of curing the lot of the worst-off individuals in society. But this is a tall order.

To implement such a research programme would take exploring, among other things, the complex relationships between production and exchange, especially of the wage goods in relation to the ‘entitlements’ of the least privileged groups in society. Equally important, the genesis and structure of private property rights, especially in landholdings, must be evaluated by reference to the universally held ideas of justice and fairness, and such vital issues should also be related to their economic, social, and political consequences. But it is precisely on issues like these that the inadequacies are most striking; of a so-called value-free economics on which development economics draws so heavily; and of the non-consequentialist moral philosophy, which both neoclassical economics and development economics have so far ignored. These inadequacies must be supplied by raising the edifice of development economics on a wider analytical perspective of individual behaviour. On the one hand is needed a view of human motivation which does not rely exclusively on self-interest maximization; but also models economic agents as responding as much to moral values – like impartiality, universalizability, sympathy, and commitment – as to the egoistic drives. On the other hand, development economics must also model a consequence-sensitive view of moral rights, which should nevertheless be seen as possessing an intrinsic value and not just an instrumental value.

In this context, development economists should pay attention to the vast, though somewhat difficult, area of public choice theory, which tells us that there are not one but several rules – made by government, social organizations, labour unions, business, etc. – to relate “the individual to a collectivity”. [Arrow (1977), p. 607]. There is another reason why development economics must be reconstructed from this particular viewpoint. The public choice theory emphasizes that individual

<sup>1</sup>It may be noted here that some important concepts have been borrowed, for keeps, by neoclassical economics from development economics – e.g. the Harris-Todaro’s market segmentation model. [See Khan (1980)].

preferences, and their 'contents', are themselves shaped by the nature of the society.<sup>2</sup> The essential relativity, plurality and comprehensiveness of collective choice rules are exactly the features which development economics needs to acquire to secure its existence as a paradigm and to enhance its theoretical rigour and practical relevance.

It is to a detailed explication of these matters that I now turn. To set the stage for later discussion I will first state, in the next two sections, the reasons for relating economic thinking to the universally accepted ethical mores in a society, and the relevant choice rules, which aim at marrying economics to ethics. I will, then, discuss the problem of what I call the *immorality* of the moral rights. This analysis would then set the stage for a detailed re-examination of many important development issues from the proposed moral-economic point of view.

### FROM SELFISHNESS TO BEING IN SOMEONE ELSE'S SHOES

As we all know, anti-ethicalism was preached by our (intellectual) great-grandfather, Adam Smith, who laid down for his progeny: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interests." [Smith (1975), pp. 26-27]. Adam Smith, who also wrote the *Theory of Moral Sentiments*, has probably been misunderstood by perfectly sane and highly respectable economists as issuing a call *against* relying on moral principles to explain the mysteries of the economic universe. But it was left to Lionel Robbins, writing about the nature and significance of economics, to formalize the separation, indeed divorce, of economics from ethics.<sup>3</sup> As if to reaffirm his filiation from such venerable ancestry, Stigler (1981) also eulogizes the virtues of this separation.<sup>4</sup> According to this line of thought, rational behaviour is taken as a synonym for self-interest maximization; and, indeed, any activity other than maximizing self-interest is considered to be irrational.

Fortunately, the progeny of Adam Smith has not been lacking in imagination to see that 'rational' behaviour need not be – indeed, is not – antiseptically self-

<sup>2</sup> As Sen points out: "just as social choice may be based on individual preferences, the latter in their turn will depend on the nature of the society". [Sen (1970), p. 5].

<sup>3</sup> Robbins laid down: "it does not seem logically possible to associate the two studies [ethics and economics] in any form but mere juxtaposition. Economics deals with ascertainable facts; ethics with valuation and obligations". [Robbins (1932), p. 132].

<sup>4</sup> He states: "we live in a world of reasonably well-informed people acting intelligently in pursuit of their self-interest." [Stigler (1981)]. Unrepentant, he goes on to state in the same vein: "let me predict the outcome of the systematic and comprehensive testing of behaviour in situations where self-interest and ethical values with wide verbal allegiance are in conflict. Much of the time, most of the time in fact, the self-interest theory (as I interpreted only the Smithian lines) will win." [Stigler (1981)].

centred welfarism, which positive economics demands, and which development economics accepts without question. Aristotle's homily – "we should behave to our friends as we would wish our friends to behave to us" – has not been entirely lost on economists. Let me give only a few examples of the attempts made by economics to model individual's ethical and moral concerns for other individuals in society.

Sidgwick's (1874) principle of 'equity' requires that "– whatever action any of us judges to be right for himself, he implicitly judges right for all similar persons in similar circumstances." (p. 379). Harsanyi's (1977) "equiprobability model for moral value judgement" also requires that the individual possess not only *personal preferences* but also *moral preferences*. These moral preferences "guide his thinking in those – possibly very rare – moments when he forces a special impersonal and impartial attitude, that is, a moral attitude, upon himself." (p. 635). Hare (1963) equates equity with the property of "universalizability" of personal preferences, emphasizing that individual's rational behaviour should not differ when acting in "similar circumstances". The Rawlsian requirement for "justice as fairness" [Rawls (1971)] also specifies rational behaviour to be an ethical one. In the "original position" every (free and equal) individual, being ignorant of his personal attributes and social position, is expected to draw up just rules of behaviour. According to Rawls, the individual in this position is essentially seen as an impartial observer, not burdened by the pulls of narrow self-interest.

The central thrust of such arguments and proposed rules of behaviour, which I discuss below in more detail, is to emphasize that selfish behaviour alone is not an adequate description of real life.<sup>5</sup> Of course, the same stricture would apply to the starry-eyed view that altruism alone makes the world go round. In general, it is always a happy mixture of selfish and selfless behaviour which has accounted for success in the real world. Empirical studies show that in the case of Japan – the most shining example of economic success based on a free-enterprise system – qualities like group loyalty, goodwill, sympathy and respect for others have played as much a decisive role as pure self-interest maximization behaviour.

### A GALAXY OF SOCIAL CHOICE RULES

It should be clear by now to this knowledgeable audience that the induction of the ethics-related views into the corpus of development economics would quite 'naturally' take us beyond Pareto-optimality, which most faithfully reflects the self-interest maximization view of rationality that positive economics is based on. But before I go beyond it, let me look at the Pareto-optimality principle and its relevance to development economics.

<sup>5</sup> Sen (1987) has pungently remarked: "universal selfishness as *actuality* may well be false, but universal selfishness as a requirement of rationality is patently absurd." (p. 16).

### (i) Pareto-optimality

A social state is declared to be Pareto-optimal – i.e., ‘efficient’ – if no one’s welfare (utility) can be increased without lowering the welfare (utility) of some other members of the society. Clearly, strict adherence to such a rule would leave the *status quo* in developing countries unchanged: any existing state will, for instance, be Pareto-optimal if the condition of the poor cannot be made better without worsening the living standards of the rich! The anti-change property of the rule springs from its neutrality with respect to the distribution of income and wealth, however unequal may be the gap between the rich and the poor. This result will follow if, as is the practice, all Pareto-optimal points are declared as indifferent. The fact that it signifies ‘unanimity’ does not make the rule any less conservative. The mere fact that a given state of affairs is accepted, though with anger, by the poor does not necessarily mean that it is also endorsed by them, because the political and social forces that sustain such a state may not have their active support. But such seeming endurance of an undesirable state of affairs will vanish on the appearance of the first ray of hope of changing the people’s uneventful survival. Indeed, most cataclysmic events in poor societies are born of such seemingly well-endured states!

The inherent conservatism of Pareto-optimality is also highlighted by the so-called Fundamental Theorem of Welfare Economics: “every competitive equilibrium is Pareto-optimal, and every Pareto-optimal state is also a competitive equilibrium state.” The first part of the theorem proves that competitive equilibrium is “unimprovable”.<sup>6</sup> Thus if competitive equilibrium coexists with extreme poverty, then nothing can be done about it. However, as pointed out by Sen (1987), the second part of the theorem carries the seeds of change: it says that, *for some initial endowments*, the Pareto-optimal state will also approximate a competitive equilibrium, indicating a correction of the sub-optimal initial endowment patterns, which may be biased against the poor before the market takes over its allocative chores. But such a happy confluence will follow only if people voluntarily furnish information about the initial endowment – a condition that is seldom satisfied. At any rate, most neo-classical economists would consider such an interpretation of the theorem as reading too much in the tea leaves.

### (ii) Harsanyi’s Equiprobability Model

I now leave the amoral world of Pareto-optimality to consider models which formally bring together in a model the egoistic and moralistic behaviours of economic agents. One of the more successful attempts in this direction is Harsanyi’s equiprobability model for moral value judgement. The equiprobability character of the model derives from Harsanyi’s suggestion that “each individual is to assume that

<sup>6</sup> The statement in the text holds true *only* in the narrow Paretian sense.

he has an equal probability of being any other in the society.” [Mueller (1979), p. 251]. The key insight of the model is that individuals are motivated into action both for personal and moral reasons. While personal preferences are guided by the self-interest maximization rule; moral preferences reflect the Harsanyi individual’s capacity to make *impartial* moral value judgement by putting himself into other individuals’ position. The criterion for evaluating a value judgement as a moral one is to postulate that it is not “unduly influenced by one’s personal interests and personal preferences.” [Harsanyi (1977), p. 636]. The high point of Harsanyi’s utilitarian model is his success in deriving a social welfare function as a weighted average of the individual utilities. The additive form of the welfare function denotes the highly individualistic motivation of the model – namely, that *every* individual’s welfare matters.<sup>7</sup>

### (iii) The Rawlsian “Justice-as-Fairness” Rule

Unlike the Harsanyi rule, the Rawlsian choice rule rejects utilitarianism. Instead, his rule is expressed in terms of the concept of “justice as fairness”. The concept is based on the notion that free and equal citizens of a society “do not view the social order as a fixed natural order, or as an institutional hierarchy justified by religious or aristocratic values”. [Rawls (1985), p. 231]. Hence, if the existing social order does not accord with the universally considered conception of justice by the people in a society, the social order can be – indeed, must be – changed if it is not ‘fair’. These changes will take place as part of a system of (voluntary) cooperation between free and equal persons “who are born into the society in which they live” and who (mentally) pass through the “veil of ignorance” to make impartial decisions – from the “original position” – about the basic ‘structure’ of the society. What do these persons in the original position maximize? Not an unweighted sum of utilities of all the individuals in society as Pareto-optimality prescribes, but the welfare of the “worst-off” individuals in society.

I do not wish to go into the technical details of the merits or demerits of the Rawlsian criterion as a social welfare function or as a collective choice rule [see Mueller (1979); and Sen (1970) on this]; but I wish to emphasize that the thrust of the Rawlsian criterion is to find just institutions which are chosen fairly. It also implies an activist public policy which aims to correct the injustices of the existing institutions. In this sense, unlike the Pareto-optimality rule, the Rawlsian rule is not *status quoist*.

Another aspect of Rawlsian conception, which should make it especially attractive to development economics, is that it is not a metaphysical concept but a “moral

<sup>7</sup> A multiplicative form would not achieve this result because it would give a life-and-death power to an individual who wishes to wipe out the preference of all other individuals in the society by simply assigning a zero value to a social outcome!



conception worked out for . . . political, economic and social institutions.” [Rawls (1985), p. 224]. Being essentially a politically-oriented conception, it emphasizes the need for creating an “overlapping consensus”, which includes “all the opposing philosophical and religious doctrines likely to persist in a democratic society”. (p. 226). The development process must aim at creating such an “overlapping consensus”, mainly by emphasizing active poverty alleviation programmes, which aim to reduce absolute poverty, within the context of a strongly growing economy. Such a consensus among free and equal citizens is essential to guarantee social unity, which, according to Rawls, denotes “the allegiance of citizens to their common institutions” based on their “public acceptance of a political conception of justice to regulate the basic structure of the society”. (p. 249).

With the Rawlsian conception of justice, we have come a long way from the Paretian insistence on the maximization of utilities and on individual selfishness as the hallmark of rational behaviour. In his model, we have “free and equal individuals”, who go through the mental experiment of thinking of other persons’ welfare – especially of the worst-off individual in the society – without knowing whose shoes one would be in. Their aim is to reconstruct the basic social, political and economic institutions which have a direct bearing on the individual’s well-being and social welfare. But such a laudable aim may *not* be utility-maximizing at all, because structural change will, in general, cause disutility – to those adversely affected by such change.

### ON THE IMMORALITY OF MORAL “RIGHTS”

An important aspect of introducing ethics into development economics is to put at our disposal the philosophical analyses which accord priority to moral “rights” and freedoms – that is, certain rights must be exercised irrespective of their (utilitarian) consequences. But a moment’s reflection should show that the exercise of rights – especially, the rights of private property – has a profound effect on the basic structure of society. It is, therefore, a moot question whether a strictly non-consequentialist view of ethics is what development theory needs? The answer is, probably, in the negative. While rights have an intrinsic value, they cannot be held without being sensitive to their economic and social consequences.

I will consider the question of the priority of “rights” by reference to Nozick’s moral entitlement theory, to highlight the limitations of an extremist view of non-consequentialist moral theories. It is easy to see that an insensitive non-consequentialism can turn ‘moral’ rights into crass immorality.

#### The Nozickian Theory of Entitlement

Nozick (1974) in his famous book, *Anarchy, State and Utopia*, spells out a theory of entitlement and “historical justice”. The theory is strictly non-

consequentialist and procedural. While holdings acquired through illegitimate means, say theft, are not just, Nozick sanctifies as just any existing distribution of holdings if it is based on legitimate procedures regarding the structure of property rights: "The general outlines of the theory of justice in holdings are that the holdings of a person are just if he is entitled to them by the principles of justice in acquisition and transfer, or by the principle of rectification of justice (as specified by the first two principles). If each person's holdings are just, then the total set (distribution) of holdings is just". (p. 153). Nozick explicitly recognizes that "past injustices" may shape "present holdings in various ways". He also recognizes, albeit in a footnote, that "if the principle of rectification of violations of the first two principles [the principles of justice in acquisition and transfer] yields more than one description of holdings, then some choice must be made as to which of these is to be realized. Perhaps the sort of considerations about distributive justice and equity that I argue against play a legitimate role in *this* subsidiary choice." (Italics in the original, p. 153).

Having made this important observation, Nozick does not pursue the all-important question of the rectification of past injustices in acquisition, perhaps because he considers it to be a "subsidiary choice". Instead, he specifically rules out any "patterning" of the existing structure of property rights — say, through deliberate government action — as doing so would constitute a violation of individual's rights. "From the point of view of an entitlement theory, redistribution is a serious matter indeed, involving as it does the violation of people's rights." (p. 168). If accepted, such a procedural view of distributive justice would, for instance, rule out taking any corrective action against the feudal structures of landholdings found in many developing countries today just because the ownership titles were transferred *legally* — even though, as in India and Pakistan, many such transfers were made by a [colonial] government to their local collaborators as a reward for their unpatriotic services. According to Nozick, such corrective action cannot be justified on egalitarian grounds, because "past circumstances or actions of people can create differential entitlements or differential deserts to things" (p. 155), and are, therefore, morally justified.

Obviously, the Nozickian non-consequentialism would certainly not be acceptable either from a moral or an economic point of view. A dramatic illustration of the *immorality* — and also the inefficiency — of strict non-consequentialism is provided by the incidence of famines, which, in certain cases, are the *direct result* of the legitimate exercise of legitimate property rights, *and* of the defence by the state of such rights!<sup>8</sup> The problem with the Nozick-type argument is that it views freedom as

<sup>8</sup> Sen (1984) cites such a case: "... in guarding ownership rights against the demands of the hungry, the legal forces uphold entitlements, e.g., in the Bengal famine of 1943 the people who died in front of well-stocked food shops protected by the state were denied food because of lack of legal entitlement and not because of their entitlements being violated." (p. 458).

strictly *negative*: it takes the form of constraints on individual action only – so that nothing can be done to stop individuals from enjoying their legitimate rights. Nozick rules out taking *positive* action to correct the (bad) *consequences* of an individual indulging his rights. But this is a counter-intuitive argument. One would normally think that it is but natural to be *sensitive* to the consequences of specific states and to take positive steps to guard moral rights if these are threatened; even if one rejects the strict consequentialism of the utilitarian philosophy, which would judge the rightness of specific actions by the goodness of the consequences, *and by nothing else*.

### ON THE BENEVOLENCE OF “THE BUTCHER, THE BREWER AND THE BAKER”

I will now illustrate, with a few examples, that a proper understanding of most of the central economic problems in developing countries requires a clear understanding of the (consequentialist) ethical angle implicit in them. What Robbins calls “valuation and obligations” must intermingle with “ascertainable facts” to produce acceptable solutions of such issues. In other words, pure selfishness should be combined with “benevolence” to model the world adequately.

#### (i) The Poverty Issue

Take the problem of (absolute) poverty, which in the extreme case takes the form of famine. As Sen (1987) shows, this problem is not even *analysable* with the tools of neoclassical economics because, as Koopmans (1957) points out, it *assumes* that “each consumer can, if necessary, survive, on the basis of the resources he holds and direct use of labour, without engaging in exchange, and still have something to spare of some type of labour which is sure to meet with a positive price in any equilibrium”. (p. 59). Thus the efficiency-oriented analyses of poverty (and famine), which focus only on the metric of food availability to model the “survival” requirement, may be seriously misleading. The fact of the matter is that famines have occurred in (efficient) situations where food *availability* was not the problem! The villain of the piece has been the widespread ‘entitlement’ failure of the poor – say, due to the inflation of food prices – which in turn entails for them the failure of an elementary freedom.

The poverty problem is also not analysable with the help of the non-consequentialist moral rights theories. To produce an acceptable solution the exercise of moral rights must be related to their social and economic consequences. For example, the (moral) question of the “priority” of private property rights is related to the prevalence of the feudal structure of landholdings, the title to which is acquired and transferred by the owners legally. But the very existence of such legal structures may, in some cases, be the root-cause of extreme poverty, even famine, in developing

countries. It follows that an adequate resolution of this problem will require that development economics recognize the interdependence of production and distribution of food (the efficiency argument); *and* that it also re-examine the moral aspect of property rights – a *legitimate* exercise of which may contribute to the perpetuation of extreme poverty and deprivation! (the moral argument). Here, as nowhere else, the very ‘existence’ of development economics depends on a moral solution of the problem.

## (ii) On Reducing Inequality

Next to absolute poverty, the problem of inequality – i.e., the economic or social position of an individual in relation to other individuals – is one of the most basic issues that development economics is concerned about. The ‘quality’ of economic growth is judged by reference to its effect on the degree of inequality which, in turn, is measured by such indices as Gini Coefficient. And widening inequalities, *even* when associated with improvement in the lot of the poor, are considered as politically unacceptable partly because of the ‘envy’ factor. Yet both the efficiency-oriented economic analyses and the non-consequentialist moral rights theories make light of the problem. The reason for this apathy is an insufficient understanding of the relation of the inequality problem to consequentialist ethicalism, which both these types of analyses make out to be a forbidden tree.

To see the problem clearly, let us note immediately that the Rawlsian maximin principle of “justice as fairness”, which I have discussed above in some detail, is *not* a principle of equality – even though the two are related to each other in spirit if not in words. The reason is that in recommending an improvement in the welfare of the worst-off individual(s) in all states of the economy, Rawls’s principle does not put limits on how much is done at the same time to improve the lot of the best-off in the society. Thus the Rawlsian criterion of justness may be consistent with a situation in which relatively small mercies done to improve the welfare of the worst-off individual(s) are accompanied by a lot of favours shown to the best-off, thereby widening the gap between the two! Hence, “the maximin principle of justice [as fairness] is *not* a plausible principle of *equality*, for whether or not such an alteration in a society’s institutions would make that more *just*, it would certainly *not* make it better with respect to inequality.” (p. 109) (Italics in the original). Tullock (1986), in his highly readable book, *The Economics of Wealth and Poverty*, also dismisses the Rawlsian principle as a principle of redistribution: “because the Rawls’ [*sic*] method surely would lead to less income redistribution than we now have”. (p. 49). This criticism is valid in the sense I have just noted – namely, the Rawlsian maximin principle is not necessarily inequality-reducing.

It follows that, to be relevant from the point of view of income redistribution, the Rawlsian maximin principle of justice should be made consistent with a maximin

principle of equality. How can this be done? As Temkin (1986) suggests, the trick is to link the degree of inequality in different states of the economy to the position of the worst-off individual(s) in those states with respect to inequality; and to stipulate that for one state of the economy to be worse than the other, the welfare of the worst-off individual(s) must be the worse in that state.

It may be noted that the stated stipulation becomes relevant *only* if the level of welfare of the worst-off groups is the same in alternative states of the economy. The intuitive meaning of this somewhat complex formulation is, however, quite clear: "the maximin principle of equality would first have us maximize the relative position of the worst-off group, and then minimize the number of people in that group, as long as we were not thereby increasing the complaint of the remaining members of the worst-off group." [Temkin (1986), p. 11].

Once the problem is defined in this way – relating inequality to the maximization of the lot of the worst-off individuals, and to the minimization of the number of persons so situated – it dispels much of the confusion surrounding the "reasons for redistribution", which Tullock (1986) decries as "chaotic". He finds these reasons as unacceptable – indeed, hypocritical – partly because he thinks that "most people in discussing income distribution are extremely charitable. It is the amount they actually give away which is modest" (p. 29); and partly because "most of the [income] transfers in most societies, democratic or dictatorial, do not go to the poor. They go to people who for one reason or another are politically well-organized". (p. 30). There is some weight in Tullock's argument because it is mostly the politically vocal middle class, and not so much the voiceless poor, who get the most from income transfers caused by the state-sponsored social-security programmes. But this is not an argument for dismissing the issue, as Tullock does, but to rest the rationale for redistribution on such moral grounds as I have just described. *Also, the 'fact' that charity is too small, or that it does not reach the poor, is not an argument against making charity large or making sure that it does reach the poor.*

### (iii) Competition, Cooperative Action and Distributive Justice

A direct outcome of the anti-moralist, efficiency-oriented analyses of growth has been their exclusive emphasis on "competition" as the only form of economic activity through which private gains *and* social product are maximized. (The recent wave of *anti-dirigisme*, which claims to have shaken our discipline to its foundations, also springs from this source.) The importance of cooperative action is recognized in certain game-theoretic situations, but it is never cast as a star-performer. The non-consequentialist moral rights theories also eulogize the competitive solution on the ground that it preserves individual freedom. Not only that; in Nozick-type analyses this solution is considered superior to any other solution – even that based on a cooperative strategy.

The Prisoner's Dilemma case has been used to illustrate the shortcomings of 'strictly dominant' individualistic strategies, which lead each of the prisoners (economic agents) to follow non-cooperative strategies. Repeated simulation studies have shown that cooperative strategies ensure a superior collective outcome than do the dominant individualist strategies. The importance of cooperative action comes out more clearly in relation to the issues of distributive justice. For instance, as I have discussed above, Rawlsian concept of "justice as fairness" rests on the overarching idea "of society as a fair system of cooperation among free and equal persons". [Rawls (1985), p. 231]. In such a societal context, economic agents are 'concerned' about the welfare of other members of the society. It is through the cooperative action of such concerned individuals that 'just' social, economic and political structures can be created. This is particularly true of developing countries where structural change calls for cooperative action to resolve these problems in a satisfactory fashion.

Another relevant point in this context is that both the positivistic growth theories and the non-consequentialist moral theories typically emphasize such (implicit) values as opportunities, rights and liberties, but do not say anything about equality. Indeed, the importance of social and economic equality is downplayed in such economic and political theories. This is clearly unsatisfactory. If, according to the Rawlsian prescription, a just reordering of society requires cooperative strategies, equality – and more accurately, a movement towards this ideal – between economic agents would be considered by them as important as their freedom. This aspect of the problem of structural change must be emphasized because a social compact, based on a 'fair' system of distribution of rewards (and costs), is a necessary condition for political stability and economic progress.

#### **(iv) Do We Need Minimum Government?**

The debate about the relative roles of the government and the market is central to macro-economics, as well as to development economics. This issue also appears in the moral-rights theories.<sup>9</sup> They both advocate 'minimum' government. A minimum government, according to Friedman (1968), Lucas (1972), and other economists of the rational-expectationist school, follows from a purely positivist argument: the profit-maximizing economic agents, in reacting to government action use up *all* the information that government has access to. As the element of surprise is thus eliminated from government action, adjustments to specific macro-economic policies – e.g., increasing money supply – will occur instantaneously; and systematic, anticipated monetary or fiscal policies will have no effect on output or employment. Macro-

<sup>9</sup> I have reviewed some of these positivistic and moral theories in my last year's Address, "The Anatomy of 'Failures'" [Naqvi (1987)]. I have shown there that the thrust of both types of arguments – namely, the adaptive expectations (Friedman), rational-expectationist theories (Lucas), and the moral theories (Buchanan) – is the same.

economic management is, therefore, a pointless exercise — indeed, it is counter-productive. James Buchanan (1986) shows that a minimum government — and an unfettered market — follows from the *moral* argument that liberty has priority over all other values. Since free markets, run by atomistic, profit-maximizing economic agents, are the *only* preservers of individual liberty, such arrangements are superior to any involuntary arrangements reached through the government.

Nozick's "Minimal State": One of the most influential proponents of the "minimum state" principle is Robert Nozick, whose libertarian views on distributive justice I have already noted. His moral argument for a minimal state rests on the priority of individual's rights: "Individuals have rights, and there are things no person or group may do to them (without violating their rights)"; and that "the state may not use its coercive apparatus for the purpose of getting some citizens to aid others, or in order to prohibit activities to people for their *own* good or protection." (p. ix). Whence follows Nozick's main assertion: "moral values involve side constraints on action rather than merely being goal-directed." (p. xi). Hence it is *morally* wrong for the State to pursue universally accepted egalitarian goals — e.g., the redistribution of income and wealth — through any means whatsoever, including taxing the rich and redistributing the proceeds among the poor. By the same token, the market is the best preserver of the individual's property rights *because* it avoids interfering with the individual's moral rights. State action is justified *only* if it is confined to the prevention of the violation of individual's rights.

Nozick's is perhaps the strongest case for the market. It extends Locke's justification for a system of free markets, which is based on the principle of mutual advantage: according to Locke, to a hypothetical state of nature characterized by non-cooperation, a market system — which allows free exchange and promotes division of labour — is the 'best alternative'. Nozick goes further and maintains that, by virtue of its inherent quality of non-interference with the individual's rights, a market system is superior to *any* other system of cooperation *even* if this alternative system can be shown to be the mutually most advantageous! Why? Because, according to him, any other system of cooperation would interfere with individual's rights.

Nozick's argument seeks to establish a case for limiting the role of the state in economic and social matters so that the existing curbs on individual freedom, even those prescribed *for the individual's own good*, are relaxed as far as possible. But, taken literally, these arguments do not add up to much. Surprisingly, Nozick's argument rests on no systematic proof, heuristic or formal, in support of his advocacy for the unfettered rights of private property, the justification for which rests solely on procedures and rules framed by the state to regulate the processes of acquisition and transfer of holdings. But, as Allen Buchanan (1985) notes, these arguments ignore the fact that individual's voluntary exchanges in the market, which may be morally unexceptionable *in isolation*, may be nevertheless *cumulatively de-equaliz-*

*ing*. Justice would, therefore, demand that some limitations be placed on the inequalities created as a result of the cumulative effects of individual exchanges.

Furthermore, how could a state create a given pattern of distribution of holdings by elaborate rules and procedures, which, according to Nozick, must be considered sacrosanct by all individuals, groups and the state; and yet take an oath not to change this distribution pattern ever, even if the consequences of that "original sin" turn out to be socially abominable? To maintain that the State can create an unfettered Frankenstein through some legitimate procedure, and that it might not be killed even when this odd creature spells destruction for the society, would be to confer an incredible degree of sanctity on rules and procedures *per se*. Indeed, it would be stretching logic too far to maintain on the basis of such 'arguments', as Nozick does, that any state action to alleviate absolute or relative poverty — say, by subsidizing the consumption of the poor and taxing the income (and wealth) of the rich — is illegitimate *because* it conflicts with the individual's (procedural) moral rights. Both commonsense and universally held mores and social norms would contradict the view that the moral right against coercion is virtually unlimited. For these and other reasons, Nagel has derided Nozick's theory as "libertarianism without foundations", a criticism with which I would agree.

The analysis I have presented so far should have substantiated my main thesis—namely, development economics should feature in the various models economic agents, who are attracted both by the lure of self-interest and the joys of "benevolence". Not only that. Such a symbiosis of development economics with ethics must be selective. We need only consequence-sensitive moral theories.

### **ETHICS AND ECONOMICS: AND NEVER THE TWIN SHALL PART**

Enough has been said so far to convince ourselves — the development economists — that ethical values of a society can be fruitfully integrated into the corpus of development theory and practice; that our ethico-moral values should be carefully chosen with reference to their social and economic consequences. Let me recapitulate. The point of departure of our inquiry is that the search for value/(ethics)-free decision rules is both pointless and counter-productive. It is pointless because it is a misnomer. Even the Pareto-optimality rule is not entirely value-free: it involves a value judgement about keeping intact the *status quo* which supposedly commands unanimity. It is also counter-productive because a seeming unanimity about, and a sullen acceptance of, a certain state of affairs — measured by the metric of utility and desire — is not necessarily a sure indicator of a universal endorsement of that state.

But for development economists, the problem does *not* end once economic problems have been analysed from a moral point of view. There is also the problem



of choosing a set of moral values, which are beneficial to the society — e.g., which ensure distributive justice properly defined, within the context of a growing economy. Clearly, moral values which lead to the perpetuation in society of an unjust *status quo* cannot serve as appropriate reference points for economic analysis. But the strict non-consequentialist theories of moral “rights” — e.g., Nozick’s entitlement theory — fall in this category of *immoral* morality, which development economists cannot accept. The Rawlsian maximin principle of justice, which focuses on maximizing the welfare of the worst-off individual(s) in society, is an example of the type of ethics that development economics should take as its ‘reference point’. At any rate, no meaningful theory can advocate the preservation of the *status quo* and still qualify as a valid development theory.

That being the case, we need a wider public-choice perspective which features ethics prominently. But that is where value-free economics offers no help because it considers moral rights only with regard to their consequences on the utility levels of economic agents. When it comes to the fulfilment of rights *per se*, these matters are normally considered to be legal questions and without much intrinsic value to economic analysis. This is because such views directly contradict utilitarianism, on which much economic analysis is based. Harsanyi’s equiprobability model of moral value-judgements, Hare’s principle of ‘universalizability’, the Rawlsian conception of ‘justice as fairness’, and many other such principles which I have not discussed here — e.g., the Suppe’s grading principle, Sen’s concept of “capabilities”, etc. — do provide us with a wide array of formal models which feature ethical principles explicitly. Fundamentally, what these alternative choice rules do is to extend the myopic concept of ‘rationality’, which positivist economics has come to accept and practise with a fanatical, unquestioning zeal — namely, that self-interest maximization is the *only* mover of the economic universe. Adam Smith’s, and later, Lionel Robbins’s anti-ethicalism drove economics into this tight corner. But there is no need for it to remain squeezed and standing there, with its face to the wall. At any rate, if ethical considerations — e.g., the concern for the welfare of others, especially of the worst-off individuals — do influence man’s day-to-day behaviour, it does not make much sense to assert that ethics does not matter. (Indeed, if ethical consideration did not affect man’s behaviour, then there would be no justification for the existence of the science of ethics in the first place!). Universally accepted principles — e.g., ‘impartiality’, ‘universalizability’, ‘impersonality’ — which feature in the many decision rules I have briefly reviewed above do affect man’s behaviour. And it will be sheer **priggishness** to insist that all such behaviour patterns are irrational *because* they are ethical.

It would be useful, therefore, to reconstruct development economics from the vantage point of the social choice theory. Such a perspective would open up new vistas for our discipline. Indeed, once the slavish attachment by economists to

Pareto-optimality, and by moral theorists to non-consequentialism, is given up, development economics will be able to analyse more successfully important developmental problems — e.g., of poverty and inequality, and of assigning appropriate roles to the market and the government — in a logically consistent fashion as they begin to employ both the consequence-sensitive ethical philosophy and the positivistic arguments. What is required is to organize a marriage of ethics and economics to produce the desired results. Such a union would be mutually advantageous. Ethics will gain by incorporating economic insights. For instance, Nozick's moral theory of property rights will not survive once it is analysed from the vantage point of consequentialism, which was first advertized by the utilitarian theory. Economics, especially development economics will gain for reasons I have already analysed above in some detail.

To maximize social welfare, self-interest maximizing behaviour must be supplemented by sympathy for others. The atomistic-maximizing agents must also appear in development models as enjoying the exhilaration that comes from viewing the world from the position of other individuals in society, of being in someone else's shoes. Thus moral rights, entitlements, liberty and equality must feature in formal economic analysis to enhance its explanatory and predictive powers. This is to be especially true of developing countries where most traditional institutional structures are unjust and need a complete overhauling. Efficiency-oriented criteria alone cannot help us to explain, let alone solve, the difficult problems of want, poverty and human deprivations which darken the face of developing economies.

Growth is a painful process, and it cannot be sustained without ensuring a modicum of equality among the citizens; without a just assignment of rights and duties; and without the active participation of the least-privileged in the society, whose welfare must be maximized, no matter what else is maximized. In other words, growth has no meaning without structural transformation. That being so, let the "extravagant and erring spirit" of economics, and especially of development economics, "hie" to its ethical "confine" to find its inner social peace. While a perfect union of selfishness and benevolence, of ethics and economics, may not be achievable, a move in that direction, however, cannot be condemned simply because it is imperfect. "Let the best not be the enemy of the good"! And from this point onwards, let a reconstructed view of rationality illuminate the murky pathways of social choice and action and bring joy to the withered lives of those countless millions who, willy-nilly, must endure what they cannot change.

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