

Economic Ethics at Stake

By Inoki Takenori

As economic societies have become increasingly complicated in technical and structural terms, new ethics problems have been emerging, which, in many cases, require a redefinition of ethics itself. We can no longer deal with issues concerning mankind and nature, such as genes, organ transplants, life and the environment, as well as ethics in economic activities, within the existing legal framework. There are even cases in which we cannot draw a line between good and evil. In economics too, such old but new problems as the inequality of income and wealth, poverty and injustice in business transactions have begun to expose more complex aspects.

Inequality and Poverty

Why does the inequality of the distribution of income and wealth constitute a problem? One answer to this time-honored question was thrust upon us all of a sudden on Sept. 11, 2001 in the most direct and most violent way. Several political groups in countries where economic data except population are missing (Iraq is among them) according to World Development Indicators published by the World Bank suddenly attacked the military and economic heart of the United States, a country which annually produces the world's largest national income of \$10 trillion, in an unprecedented and impermissible fashion. Not a few people had harbored the anxiety that the global inequality of income and wealth would some day explode in one form or another. In a world where telecommunications technology has advanced to an astonishing extent, it was inconceivable that dissatisfaction over the prevailing extreme inequality and poverty could remain cooled and quietly dormant. Though it is not a mistake to review Sept. 11 as a religious or political con-



Photo: Kyodo News

Poverty remains a grave issue in contemporary society

flict, at the root of the incident were primarily problems of economic inequality and poverty.

It is a matter of course that inequality of distribution and poverty are different phenomena. Inequality of distribution generates jealousy and envy among people even where absolute poverty does not exist. But even if inequality expands further, people's discontent does not necessarily increase. Few would feel jealous about a contemporary hero like Bill Gates who has accumulated an enormous fortune. Rather, it would be more correct to say that most people only look upon him with admiration as if he were their incarnation. Such a feeling borders on affection, just as fans of sports and movie stars feel pleasant when they see their heroes.

However, unlike relative inequality, poverty raises unsocial human feelings regardless of delicate differences. But such a feeling is not innate in people living in contemporary industrial society. Aristotle said in his *Politics* that poverty tends to "grow into violent and great criminals." In other words, certain economic conditions encourage people to take good behavior or actions producing happy results, but some other conditions prod people into vicious actions, typically civil wars and crimes. Poverty remains a big, grave issue in contemporary society too. Development of telecommunications has made the age-old problem of poverty more actualized and more socially serious.

There are rich and poor in any country. In between are people of the middle class. In Aristotle's phrase, it is

generally recognized that things will be best when they are moderate and medium. Aristotle went on;

It is admitted that moderation and the mean are best, and therefore it will clearly be best to possess the gifts of fortune in moderation; for in that condition of life men are most ready to follow rational principle. But he who greatly excels in beauty, strength, birth, or wealth, or on the other hand who is very poor, or very weak, or very much disgraced, finds it difficult to follow rational principle.

(Vol.4, Chap. 11, *Politics*)

There is no established theory on how the distribution of income and wealth would turn out under the impact of intensifying competition resulting from the so-called globalization and whether inequality has actually progressed over the past 100 years. However, a new theory in recent research that international inequality has in fact not progressed is drawing attention. But actual facts do not coincide with people's perceptions. Opinions on domestic disparities of income also differ not only in countries but also among theorists in one country. For example, disparity in academic backgrounds and that in professions (between white-collar and blue-collar workers) expanded in the United Kingdom as widely as in the United States in the 1980s. In France and Germany, where wage disparities did not expand, unemployment levels did not decline but remained high. There were various arguments about Japan. There was one shocking calculation that Japan had deteriorated into a country where income inequality is higher than in the United States, though this theory was later repudiated as a result of a cautious definition of the concept of income and through precise recalculations.

Needless to say, verification of income disparities has an academic value. But at issue is whether "people with medium possession," that is, people of the middle class, have formed a wide and thick layer in society. It is

more important to see the ratio of people with culture and moderate wealth, rather than taking issue with the high income earned by Bill Gates or Japanese million-seller pop star Utada Hikaru. And it is far more important to know that political participation by the middle class with moderate possession is necessary to uphold a good society.

In addition to the issue of whether a healthy middle class can exist without decline, one of the most serious problems the world now faces is that there are people who are in desperate poverty. It is clear that the most important challenge in economic development is poverty, and the question is how effectively redistribution policies can be implemented on a global scale. Poverty and hunger have resulted from human errors, such as failed agricultural policies or armed conflicts, not from the absolute shortage of global food production. At issue is not the imbalance between food demand and supply on a global scale, but the imbalance of distribution as illustrated by the existence of countries suffering from extreme food shortages on the one hand and of countries with huge food gluts on the other. It should be noted that countries experiencing dire food shortages are dictatorships totally devoid of equality of opportunities. Given that redistribution hardly functions in dictatorial countries, global redistribution must be implemented to a certain extent.

Problems of Injustice and Illegality

Discussed in the preceding section was the problem of ethics over so-called "distributive justice." Continuing on, what are "commutative justice," which involves problems in individual transactions and commutations, and "legal justice," which concerns whether individuals' actions comply with the law? When we discuss morality, in most cases we take up such justice first. For the past year, we have read about many news reports of accounting fraud and breach of trust in major American companies in the communications, electric power and gas, and broadcasting sectors, which led to their bankrupt-

cy. In Japan, while reflections on old systems and reform programs have progressed in various fields since the end of the one-party rule by the Liberal Democratic Party in 1993, people's distrust of the bureaucracy increased to such an extent that criticism of the bureaucracy testified to the sense of social justice following the disclosure of a series of bribery cases involving public employees. Furthermore, as various scandals also involving financial institutions and large companies were exposed, the Japanese public expressed strong anger over their country's wretchedness. Japanese people's low morality and American people's high moral discipline were emphasized. But, there is now much talk about the degeneration of the moral standard of the American business community, and America's single-minded market economy and focus on competition have been criticized as distorting society.

But, such a simple association of ideas is dangerous. It is true that under any circumstances the more serious competition is, the more severe and violent it becomes. If evaluations and compensation systems in competition become extreme, distortions and injustice are certainly spawned. But we must remember that emphasis of the negative side of competition and denial of its positive side were the dismal mistakes committed by totalitarianism of the 20th century. And we must not ignore the fact that the energy of the market-oriented society brought our society close to the ideals of freedom and equality.

When, for example, we trace the short history of U.S. telecommunications operator WorldCom Inc., which filed for bankruptcy and collapsed on an unprecedented scale in U.S. history in July last year, we can see how great were the economic results produced by the vitality which market competition generated. At the same time, we have learned all over again how difficult it is to remain moderate in competition. Since the purpose of competition is to win, it tends to lead to extremes. WorldCom started out as a small communications company in 1983 and

developed into the second largest U.S. long-distance telecommunications operator, riding the crest of the wave of the stock boom in the 1990s by acquiring network-related companies one after another with its own stocks and through capital increases. WorldCom had gained the unchallenged position in the global telecom business, with 50% of e-mails sent throughout the world allegedly handled by its network.

But in the process of acquisitions, WorldCom made its asset value appear larger than its real size and developed its negotiating skills so that it could assume better positions in acquisition talks. Even after the stock bubble ended, WorldCom had to continue window-dressing settlements to cover excessive equipment and massive debts. Since accounting involves arbitrary arrangements, gray areas and borderline cases, companies tend to fall into temptation. It is not necessarily clear what to define as expenses or assets. Accordingly, it was only thoughtless wisdom for covering its failures after the high-flying period, not cold-blooded vice, that prompted WorldCom to resort to window-dressing in accounting procedures.

In the wake of the series of U.S. scandals, some Japanese began to criticize the U.S. degeneracy of morals and argue that Japan, which is a U.S. partner and has huge credits there, should urge the United States to put an early end to the problem. But things are not so simple. It is not impossible to compare the degree of morality among countries, but mere comparison of averages has little meaning. Vice could prosper and virtue could be defeated at one time or another both in the United States and Japan. And, there will be both virtuous and mean persons in the two countries. The important thing is that to what extent scandals have been exposed, how many persons equipped with more virtue than scandal-causing immorality exist in society, and what treatment these virtuous persons would receive. A society is fully healthy if it has more sound morality and vitality than moral corruption. What we must avoid is to aim at building a police

state, which will introduce a strict surveillance system and punishments to get rid of immorality and put its full energy into efforts to eliminate immorality. Such action would only wither the society.

Measures only aimed at controlling temporary rampant economic crimes with severe punishments are too shallow. For one thing, it is impossible to discuss virtues comprehensively. When we think about individuals in society, we need to discuss private virtues and public virtues differently. The second reason is that, as Fukuzawa Yukichi, a leading scholar and educator of the Meiji period (1868-1912), pointed out, morality, together with wisdom, is an important pillar supporting civilized society, but excessive emphasis on morality and binding society with morality alone could possibly deprive people of freedom and make them idle and ignorant. These two points are related to each other.

Firstly, only a person who possesses a virtue and does not use it only for himself but applies it to other people can make justice a perfect virtue. Aristotle said that the best person is one who does not apply morality to himself but to other people. Aristotle's words indicated how important "public virtues," including the sense of shame, justice, straight-forwardness and courage, among others, is in society.

On the other hand, while a person's "interior good behavior," such as fidelity, purity, modesty and integrity are important, these "private virtues" alone are not enough to deal with human problems. This is what Fukuzawa noted in his *Outline of a Theory of Civilization*. "I do not say that it (private virtue) is useless and to be discarded. My point is simply that there also are other important functions of knowledge and virtue," he asserted. In fact, many politicians and businessmen who are said to have low morality are often good husbands and good fathers.

Photo: AP/WWP



The stock bubble of 1999 led to the series of U.S. scandals

Generally speaking, a person can be more honest in his private capacity than in his public capacity, and commits bigger excesses toward public interests than toward private interests. It is all the more difficult to perfect virtues as a public person.

A democratic country is based on individualism. But certain unstable elements are inherent in individualism in relation to morality. Needless to say, individual postures are compatible both with private and public virtues. But, without strong consciousness, the source of public virtues is easily exhausted. In fact, individualism is in danger of being ultimately absorbed by monomaniac self-love, that is, egoism, unless strong consciousness is sustained. The same can be said of free choice in the market economy.

Individualism and the thought of equality, on which democracy is based, after all separate each person and sever the bond which binds people. Similarly, the market economy respects individuals' choices, but weakens their public consciousness and severs the bond existing between people. But it is difficult and even dangerous to maintain the bond with the compulsory force of morality alone.

Photo: Fukuzawa Memorial Center for Modern Japanese Studies, Keio University



Fukuzawa Yukichi was a leading scholar and educator of the Meiji period

In this regard, Fukuzawa's argument is worth listening to even today. If we lament moral corruption and emphasize the omnipotence of moral education, we are ruining the whole by trying to correct a small fault. This is because an attempt to eliminate the causes of moral evils one by one seems to be positively nurturing people filled with morality, but in the end it will deactivate the workings of the human mind and deprive human activities of diversity. The compulsory force that roots out vicious people from society would in the end prevent the activation of good elements intrinsically possessed by humans. This can be the natural consequence of overestimation of moral education. In other words, by overestimating morality, we are attaching importance only to passive private virtue alone, which withers innate human wisdom. Humans cannot achieve responsibilities in human society with private morality alone. This is what Fukuzawa thought.

Possession of a moral sense can become a necessary condition for a healthy society but can hardly be a sufficient condition. The important thing is whether morality and intellectual vitality that outdo some people's moral corruption exist in society. At a time when moral degradation in Japanese and U.S. economic societies is noted, this is what we should bear in mind. We should remind ourselves whether Japan has enough vitality to laugh at American disgrace.

Enhancement of Intellectual Levels and Ethics

What is important in democratic countries is that people need enough knowledge and information so that they can make ethical choices. In other words, intelligence and information are essential to firmly develop the ethical outlook needed to adequately choose and deal with difficult questions.

For example, when an accident occurs at a nuclear power station, we have no alternative but to believe newspaper reports to see how serious the accident was. And, what level of

knowledge do we have about mad cow disease, and do we understand how wrong the government's response to the issue and what the danger of the disease is like?

Japan's elementary and secondary education hardly offers knowledge about these new scientific and technological questions. Accordingly, it is difficult in Japan to form a consensus based on understanding in the process of discussions on such matters as the introduction of new technologies or large-scale projects. In reality, Japan has to depend on enlightenment by the media or some campaigners, not on consensus based on understanding, when it introduces such technologies or projects. Such a situation has resulted from the low level of scientific and technological literacy, which means the ability to use, manage, understand and evaluate technologies. Japan lags behind Western countries in education of this sector.

Such a situation means that we are placed in an environment which is apt to bring about an evil choice. This indeed threatens to generate an ethically evil choice and stand in the way of making an adequate judgment. Problems of natural resources and global warming are mere projections based on limited data, which are a warning against dangers of the future, or it is a cry in the wilderness. Such a warning

is undoubtedly useful in the sense that it urges us to reflect on our everyday behavior. But such a warning would amount to eschatology if it is played up too much. Needless to say, possibility and probability are different. Logically or incidentally, anything could happen in this world. Anything is possible, but the thing is its probability. Accordingly, judging the difference between possibility and probability in data and logic is indeed what matters.

As a matter of course, we must avoid some catastrophes. But the costs of completely avoiding catastrophes are, in many cases, immeasurably huge. Furthermore, measures for completely avoiding catastrophes would deprive citizens of freedom. A crime-free society is undoubtedly ideal. Such countermeasures against crimes as a limitless increase in the number of policemen, reinforcement of surveillance, thorough prosecution of those convicted, an increase in the number of judges and thorough punishment of offenders may realize a superficially peaceful society. But history has shown that such a state structure is not compatible with human freedom. Bearing this in mind, if we face a choice between a country troubled by ethical problems and a country which has no ethical problems, we would say that the former is less problematic. It is desirable for us to aim at an ethically untroubled society as an ideal. But this is not enough, of course. Those who are determined to protect freedom as a virtue have a moral obligation to assume the optimistic posture of waiting for the advent of a virtuous society while being troubled by the seriousness of ethical problems. **JJI**

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