

CHANGES IN VALUES AND THE WORLD OF MONEY

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Economics is a site of *conflicting values*. Economic decision-making often generates different pay-offs for natural beings, human communities and future generations. The *world of money* provides a rather *poor model* of the real complexity of life.

The title of *Paul Feyerabend's* posthumous book "*Conquest of Abundance. A Tale of Abstraction versus the Richness of Being*" (2000) can be applied to economics as well. Economics uses two heroic assumptions about values.

- *Reducibility*: all kind of values can completely be reduced to monetary values
- *Substitutability*: every value can adequately be substituted by monetary values

Both reducibility and substitutability should be challenged in real life complex economic cases. A provoking case concerning the *World Bank environmental policy* can illustrate the point.

In the early 1990s, some economist advisors of the World Bank were considering that the World Bank should encourage *more migration of dirty industries to less developed countries*. The argument was as follows: "The measurement of the costs of health-impairing pollution depends on the foregone earnings from increased morbidity and mortality. From this point of view a given amount of health-impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages. (...) The costs of pollution are likely to be non-linear as the initial increments of pollution probably have very low cost. (...) The demand for a clean environment for aesthetic and health reasons is likely to have very high income-elasticity. The concern over an agent that causes a one-in-a-million in the odds of the prostate cancer is obviously going to be much higher in a country where people survive

to get prostate cancer than in a country where under-5 mortality is 200 per thousand. Also, much of the concern over industrial atmospheric discharge is about visibility-impairing particulates. These discharges may have very little health impact. Clearly, trade in goods that embody aesthetic pollution concerns could be welfare enchanting.” (*The Economist*, February 8, 1992)

In the case ecological, ethical, and social values are involved. They are in irreconcilable conflict with monetary values. If decision makers pay attention only to monetary benefits and cost it may lead to misleading policy direction.

1. Multi-perspective considerations

Economic decision-making requires multi-perspective considerations that go beyond the world of money. The crux of the matter is that how the *evaluative space* of decision-making is defined.

In his influential book “On Ethics & Economics” *Amartya Sen* argues that “To get an overall assessment of the ethical standing of an activity it is necessary not only to look at its own *intrinsic value*, but also its *instrumental role* and its *consequences* on other things.” (*Sen* 1987, 75)

Solving economic problems requires making a synthesis of deontological values, goal-achievement values, and stakeholder values. *Deontological value* of an act is its value in relation to the applying ethical norms. *Goal-achievement value* of an act is its value in relation to the realization of the goals of the decision makers. Finally, *stakeholder value* of an act is its value in relation to the affected parties.

If we want to make an overall evaluation of a decision alternative A_i we can use a vector:

$$\underline{v} = [D(A_i), G(A_i), S(A_i)]$$

where the first component of the vector is the deontological value of the decision alternative; the second component is the goal-achievement value of the decision alternative, while the third component is the stakeholder value of the decision alternative.

Such a vector provides simultaneous evaluation of an action from *different perspectives*. Deontological value is assessed from the perspective of an impartial *observer*, goal-achievement values is assessed from the perspective of the *decision maker*, while stakeholder value is assessed from the perspective of the *affected parties*.

2. The Maximin Rule

Multi-perspective evaluation may present *value conflict*. The best strategy is to keep the complexity of the decision situation and try to find an *optimal compromise* among diverse value dimensions. Moral philosophers until recently have disfavoured compromise. But inasmuch as the position of *moral pluralism* becomes accepted, the value of compromise becomes more and more clear.

Trying to balance different values against one another is an essential strategy in complex choice situations. The *maximin rule* can do the required job quite well. It implies the maximization of the minimum pay-off of decision alternatives.

Austrian logician *Earnest Zermello* first described the maximin rule in 1912. In his groundbreaking “Theory of Games and Economic Behavior” Hungarian-American mathematician, *John von Neumann* developed the rule further (*von Neumann & Morgenstein* 1944).

In complex decision situations the *maximin rule* is stated as follows:

$$\mathbf{A}^* = \mathbf{maximin} [\mathbf{D}(\mathbf{A}_i), \mathbf{G}(\mathbf{A}_i), \mathbf{S}(\mathbf{A}_i)]$$

Maximin rule demands the selection of the *least worst alternative* in the decision space of deontological, goal-achievement, and stakeholder values, in the sense that the *minimum value* of the selected alternative is *greater* than the minimum value of any other alternative available for the decision maker in the given situation.

If there are two decision alternatives **A1** and **A2** then the responsible decision is **A1** if and only if

$$\mathbf{min} [\mathbf{D}(\mathbf{A1}), \mathbf{G}(\mathbf{A1}), \mathbf{S}(\mathbf{A1})] > \mathbf{min} [\mathbf{D}(\mathbf{A2}), \mathbf{G}(\mathbf{A2}), \mathbf{S}(\mathbf{A2})]$$

The underlying principle is that the decision maker should find an optimal compromise among the applying ethical norms, her or his own goals, and the interest of the stakeholders.

The maximin rule provides a *Pareto optimal result* in the multidimensional decision space. This means that given the set of decision alternatives it is not possible to increase their value in one value dimension without decreasing their value in at least one other value dimension. In this sense the alternative chosen by the maximin rule dominates all the other alternatives.

3. Analyzing the World Bank case

The World Bank case reported earlier illustrates the real complexity of economic decision-making. Participants of the *WFSF Budapest Futures Course* were asked to analyze this case from multiple values-perspectives.

First they reflected on the most relevant *ethical norms* (deontological values) in the case? This provided them with the opportunity to make *deontological value judgments* on the World Bank environment policy options.

Second, participants discussed how does the policy option ‘encouraging migration of dirty industries to less developed countries’ serve the *achievement* of the declared *goal* of the World Bank, which is enhance *global welfare*?

Third, participants determined the most important *stakeholders* (affected parties) in the case and evaluated the World Bank policy options regarding major stakeholders.

Finally, considering deontological, goal-achievement, and stakeholder values participants made some *overall value judgments* on the World Bank environmental policy options.

The main goal of the World Bank was determined by the bank itself (enhance global welfare) but all the other factors in the case were negotiable and matter of rational debate.

The following is a rational reconstruction of an ideal multi-perspective analysis of the case.

The most relevant ethical norm in the case is *fairness*. The “pay-your-way” principle: locate polluting industries so that those who derive the largest benefits from industries endure most of the pollution costs.

The most important stakeholders are *citizens* of the *developed countries*, *dirty industries* in the *developed countries*, *citizens* of the *less developed countries*, the *natural environment* affected by dirty industries in the *developed countries*, the targeted *natural environment* in the *less developed countries*, and *future generations*.

The *alternatives* (policy options) for the World Bank were as follows:

A1 = *encouraging the migration of dirty industries to LDCs*

A2 = *not encouraging the migration of dirty industries to LDCs*

From a deontological perspective alternative A1 is certainly *wrong* while alternative A2 is certainly *right* because the latter corresponds to the norm of fairness and the former violates it.

Alternative A1 can be *useful* for the goal of enhancing global welfare while Alternative A2 might be *unuseful* for the achievement of this goal.

Migration of dirty industries to LDCs would be *good* for the citizens of developed countries, for the industries themselves, and for the natural environment affected by those industries in the developed countries. However, it would be *bad* for the citizens of less developed countries, for the targeted natural environment in the less developed countries, and for future generations since environmental pollution is much more controllable in the developed countries than in the less developed countries. Not encouraging the migration of dirty industries to LDCs does not change the present status quo and for these reason it is *neutral* for all the stakeholders, except one. *Future generations* could benefit from keeping dirty industries in the developed countries by forcing them to innovate and to become more environmental friendly.

Taking multi-perspective considerations we could reach the conclusion that the *World Bank should not encourage migration of dirty industries to less developed countries.*

Encouraging the migration of dirty industries to less developed countries is unacceptable from the deontological perspective and mostly negative from the stakeholder perspective. Some questionable welfare improvement cannot compensate for the violation of ethical norms and vital stakeholder interests. The rejection of the policy option is justifiable also in the case if citizens of the less developed countries get *full monetary compensation* from citizens of the developed countries.

4. Final remark

In economic decision-making the *informational basis* should be extended beyond monetary values to include *ecological, ethical and social values* that cannot adequately be translated to money terms.

The *irreducible complexity* of economic problems can be handled by the help of the maximin rule that contributes to the preservation of the *Richness of Being*, which is at the heart of the *Quality of Life*.

References

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