Financial and Economic Review, Vol. 18 Issue 2, June 2019, pp. 144–151.

Pillars and Prognoses – An Ethical Approach to Economics*

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György Kocziszky (*editor):*
Etikus közgazdaságtan (*Ethical Economics*)
Budapest: Magyar Nemzeti Bank, 2019, p. 370.
ISBN: 978-615-5318-22-1

The latest volume of the Magyar Nemzeti Bank (MNB) book series deals with a core paradox in global financial context. Entitled *Ethical Economics* (2019), the work explores whether a normative, value-based order governed by community rules can be legitimised through institutional practices and what motivates the renewed demand for such in economic theories. The twelve authors take different perspectives in tracing ethical principles in economic practices. There is, however, one thing, that they definitely have in common: in weighing the recent effects of financial and capital market imbalances (by means of social sciences), they all urge a paradigm shift in mainstream thinking. The twelve assiduously prepared, yet comprehensible essays do not simply address the community of professionals: they are of interest to a much broader audience, even as additional reading material in academic courses.

Not all that seems ethical is in fact ethical. On the other hand, a hidden ethical dimension might be capable of restructuring the processes of economics. No member of society is unaffected by *ethos* and *oikos,* as the economy is a sub-system of society (that operates inseparably from our basic human relations, cultural code systems, material, technological and environmental conditions). The overt or covert ethical implications behind economic decisions/business activities can lead to grave financial outcomes, just as the lack of institutional norms and ethics can generate negative consequences. The authors use a variety of examples to illustrate the stabilising or destructive effects exerted by underlying value system(s) on economies. In his study, *Géza Sebestyén* assigns qualitative indicators to distinctive religious preferences (using databases of about 20 countries), analysing their impact on GDP and displaying how denominational commitment demonstrably contributes to the maintenance of macro-level stability.

* The papers in this issue contain the views of the authors which are not necessarily the same as the official views of the Magyar Nemzeti Bank.

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Gábor Gyura points to marginal "security gains" deriving from fair banking practices and to the additional business benefits generated by ethical capital. He thus justifies the way financial regulatory authorities tend to move from sanction policies towards positive incentives. The study by *Judit Hidasi* points out how cultural behaviour and value preferences (such as employees' "organisational loyalty" or "culturally coded" commitment to quality standards) can enhance the economic position of a country or a particular business, but in the same way can also be restrictive in certain production contexts (e.g. when budgetary rationality is superseded by corporate or national reputational pressures or is subordinated to the network of personal relations).

One of the most impressive things about the book is that it examines the concept and manifestations of ethics from a wide range of perspectives. The conceptual definitions, the normative principles laid down by different schools of economic philosophy, the explanations offered by competing economic theories and the maxims derived from the considerations of current economic policies are issues which would all deserve examination in their own right. The essays published in the first part of the book (Chapters 1–6) discuss the expectations of ethical operations regarding individuals, regions, states and the supranational level, the benefits thereof and the associated long-term and short-term costs, with varying levels of detail and from the perspective of a variety of disciplines.

The collection of theoretical and historical analyses begins with a comprehensive, introductory study by *György Kocziszky*. The essay addresses the essential questions of economics and draws the reader's attention to their constant social embeddedness. According to Kocziszky, economic thinking is deeply dependent on the context and values involved and is therefore subject to spatial and temporal changes. After considering the parameters of space and time, the author discusses the imperfections characterising the currently prevailing, mainstream trends and the distortions created by such in the real economy (deregulation of the financial market, unfair interest rate policies, corruption and bank failures, the globalisation of economic bubbles, the pressure of monopolistic concentration). Finally, he offers a suggestion for a normative, ethical approach to be (re)integrated into economic thinking. In his interpretation "ethical economic thinking... does not look for the maximum profit, but rather for a righteous, fair and sustainable version thereof […], its central element being a type of community behaviour that involves responsibility for others, but which – on the other hand – does not exclude the concepts of profitability, efficiency and competition" (p. 46). Kocziszky defines the objectives of an economic and social system operating according to such principles (an ethical way of distribution and redistribution, an ethical market and state), and identifies the tools required (e.g. dual price and interest rate ceilings, ethical taxation and state aid policy, fair coordination and competition rules, a fair financial institutional system). He concludes that a value system favouring public good (the well-being of a given society) is a resource, which is capable of maintaining competitiveness in the long run and contributes to the country's economic performance, while the lack of such a system will bring about destabilisation and damage to the budget and moral values even in the medium term.

The tradition of the biblical value system on which Western culture is essentially built, the paradigm of business ethics derived from this and the changes therein are analysed in an ambitious study by *Norbert Varga*. The essay, which also includes some lessons to be learnt from social theory, studies the transaction patterns of almost two decades in the context of a changing geopolitical order. The conclusion he arrives at is similar to the one outlined above: according to him, societies rooted in Christianity – such as the economic and political elite of the United States which represents a strongly Neo-Protestant context for interpretation or the practices aimed at the implementation of a type of governance based on Christian values – "should include their guidelines concerning business ethics in their monetary and fiscal decision-making mechanisms as well" (p. 96).

There are two other theoretical essays in the volume discussing the issues of justice, public good and ethical responsibility which define social and economic orders in the framework of the modern rule of law. *József Benedek* relies on the social theory defined by John Rawls and based on that he extends the concept of justice as fairness to the spatial dimension as well. His main points include: what is the degree of spatial disparities that can be still tolerated and/or maintained, and at what point exactly does the social fairness of disparities cease to exist? Although he does not offer a direct answer to these questions, he suggests a variety of approaches and provides a number of methodological instructions, which is a good example of how the articulation of a problem in itself can help us to arrive at a solution.

In his essay on the responsible involvement of the state, *Kolos Kardkovács* places the central focus on the institutional-normative aspect of social justice. Following a brief look at the history of theories, he elaborates on the characteristics, criteria and positive results of the ethical rule of law. He lists a number of arguments to support a value-based approach committed to the idea of public good, which manifests itself in the daily practices of the rule of law. He offers the Scandinavian model to be followed *mutatis mutandis*: according to him, the secret of this model can be found in "a work-based economy in favour of the acquisition of knowledge capital, the great capacity and ability for innovation, the stable and scale-efficient institutional system, the higher incomes enabled by high productivity (added value), the entrepreneurial spirit, the financial awareness, the strong and large middle class, the less work, more private life ratio, the health awareness and the protestant values and ethics" which characterise this system (p. 133). He highlights the role of the "public servants characterised by work ethic awareness" and that of an institutional network of high integrity in the representation of the public good and the effective promotion thereof.

Géza Sebestény uses statistical methods to illustrate the statements set out above, namely, how commitment to a set of values can enhance welfare (and well-being). He carries out a regression analysis using the data of 58 countries over a decade to point out the non-linear relationship between economic prosperity and stability, and the intensity of a religious culture. As he puts it in his primary conclusion, "according to the regressions applied for economic stability, an increase both concerning the share of people who claim to belong to a certain denomination and the number of religious groups in the country will have a positive effect on the country's economic stability." Based on his insights "it seems that the stabilising effect of the religious culture in a certain country primarily manifests itself at the times of severe crises." Relying on the results, the author even ventures to propose a new hypothesis, namely, that "there is a positive link between the strength of a religious culture and the sustainability of economic growth" (pp. 160–161).

With due regard to the fact that the regulated system for the distribution and redistribution of goods is one of the most fundamental principles of financial stability and the stability of the rule of law, the book devotes a whole chapter to the principle of equitable and ethical taxation. The study by *György Kocziszky* and *Kolos Kardkovács*, rich in data and illustrated with several diagrams, identifies and elaborates on 10 criteria to be fulfilled by systems of equitable taxation. These criteria include: the principle of legality, the principle of honest taxpayers and fair taxes, the principle of trust, the principle of return and solvency, balance between the taxation of salaries and income from capital, the principles of efficiency, simplicity/clarity and predictability/certainty, and the principle of horizontal sameness and vertical diversity. The descriptions associated with the given principles do not argue for specific tax policy measures, but they do emphasise the requirement of proportionality, the rights and obligations related to equitable taxation (both concerning legislators and taxpayers) and define the basic norms of public trust necessary for the maintenance of a functioning state (pp. 163–202).

The studies approaching the concept of "appropriateness" from the perspective of consumer protection, financial market supervision and bank regulation analyse the issue by applying another type of "microfiltration," that of specific practices. As a result, the patterns of behaviour typical of the branch of investments and portfolio sales (e.g. the question of whether or not it is ethical for a seller to present a business promising a very high yield but coming from a "doubtful background" as an attractive investment), corporate remuneration policies (is it ethical to place managers under profit pressure and to provide them with incentives to generate short-term profits), the credit risk rating of the loan products offered by banks (is it ethical to cover up the associated risks; to create a competitive market environment which favours a gambling institutional behaviour) and the presentation of correct/incorrect information to the public or to consumers (whether it is ethical to shift all the responsibilities within a situation of informational asymmetry) are all on the agenda.

Gábor Gyura refers to practices and activities which do not actually breach legal rules literally, nevertheless, their application results in social and/or financial damage, as "grey zone activities". According to Gyura, innovative products newly introduced on the market and their unorthodox marketing techniques ("mis-selling") can be considered as examples. When referring to the idea of misconduct as an example of abuse he concludes that: "The issues of business are ultimately ethical issues," because due to the "blind spots" in regulation, fair conduct is often subject to the internal control introduced by business actors (pp. 204–207). This aspect makes it clear that modern control practices are no longer based exclusively on deterrent restrictions or sanctions, but strongly emphasise the importance of education, the formulation of and adherence to internal codes of conduct and the incentives for a well-developed organisational culture.

The study by *Vilmos Freisleben* examines the investment sector and addresses similar critical questions regarding seller behaviour: "can it be considered ethical to offer leveraged investments to novice or common investors" or to present an investment vehicle "in a too favourable light" (in the hopes of receiving a commission)? "Will the investor understand the degree of risk he will have to face due to the leverage?" (p. 231). Freisleben also introduces the reader to the "principles for responsible and ethical investment" (UNPRI) laid down by the United Nations and the concept of "impact investing", drawing attention to the fact, that apart from financial return, positive social/environmental effects are also worth considering when investing.

Bálint Dancsik and *Gergely Fábián* investigate compliance with normative principles on a systematic level, analysing the fiscal imbalances arising parallel to each other during the recession of 2008 (the credit market crisis in the USA and foreign currency household loans in Hungary). According to their conclusions, "market mechanisms can only achieve a result that is also desirable on a systemic level, if (a) economic actors (mainly on the side of supply of the financial system) possess the skills required to be able to completely realise the consequences of their decisions, and if (2) their decisions represent a less individualistic approach and are not only concerned with short-term gain." The authors provide many examples to underline the difference between the criteria adopted by consequence ethics and the considerations of alternative ethics (e.g. deontological ethics, behavioural finance) when it comes to evaluating whether a specific monetary/financial market decision or activity is "good" or not. What are the things worth bearing in mind when we are trying to minimise transaction costs, are faced with the dilemma of whether to launch securitised or risky loan products, or are applying performance incentives dependent on share prices and based on volume? Based on the decision-making model, they convincingly argue that long-term structural effects should also be taken into account, and that the "soft instruments" aimed at influencing the behaviour of financial actors (e.g. education, the transfer of best practices, the implementation of behavioural standards, consumer awareness-raising) may be just as necessary as the possible application of restrictive, preventive or bridging state measures (e.g. the rules established by the CRD IV/CRR, the rules concerning debt brakes, the law on fair banking, the National Asset Management Agency) in order to eliminate wrong decision-making mechanisms.

The third part of the book abandons the Euro-Atlantic context and goes on to offer micro-perspectives from the field of Oriental theoretical tradition. This opening is also justified by the fact that international actors are continuously interacting with each other in the connected global economic space, but their cultural contexts of interpretation are entirely different. The studies, written by professionals in Oriental research, all support the settlement of this issue, when offering an explanation for the geo-political and geo-economic differences partly by means of case studies, and partly by the exploration of the customs and mentality behind social behavioural patterns.

In her study on Japanese business ethics, *Judit Hidasi* claims that the successful economic performance of East-Asian countries is associated with the values of Confucianism. She thinks that the so-called "Japanese economic miracle" is the result of the fact, that "out of the teachings of Confucian ethics, the principle concerning the acknowledgement of the existing hierarchy and that of moral obligations (beholdenness) in particular have provided a solid basis for the establishment of Japanese business and economic organisational structure in a country shifting towards capitalism" (p. 178). Nevertheless, this Weberian logic is less applicable to the social and moral shortfall which could be seen during the period of recession following the 1990s. Following the theory of Fukuyama, the author refers to the prolonged crisis, which – as the result of a series of corruption scandals accompanying social recession – (also) led to the weakening of the social identity based on a collective sense of values as the "shrinkage of social capital" Her case studies provide insight into Japanese business mentality, but at the same time, she refrains from offering a comprehensive solution to the issues mentioned.

The two studies published by *Balázs Sárvári* and *Viktor Eszterhai* fill a gap in the field of studies by exploring the background of the values of Chinese economic policy. Their research demonstrates convincingly that just as much as it is absolutely necessary for the interpretation of the geo-political relations prevailing these days to become familiar with the way of thinking presented by Chinese power, none of the European nations can disregard the knowledge of the opportunities, limitations and domains of inter-cultural interactions, in order to be able to develop an adequate position within the network of economic and financial relationships. Following the path of the dominant theoretical traditions of the Eastern Empire, the study on China by *Balázs Sárvári* presents three different state governance models and describes the possible future scenarios of the new world order of the 21st century on the basis of these. He elaborates on the modern Chinese theories of globalisation, also including extremist viewpoints and a set of views offered by pragmatic thinkers (Tingyang Zhao, Yan Xuetong, Pan Wei), using Confucian, Taoist and Legalist theoretical systems as a starting point. Relying on the realist school of international relations, the author himself tends to take a moderate approach: he offers Kissinger's concept of co-evolution as a solution. According to this theory, the parallel operation of the powers of the East and the West "may be considered as the global expansion of the harmony characterising Chinese high culture (...), in which the specific regions, sectors and social groups, although presenting disharmony in themselves, manage to form a stable whole together. Harmony in this sense does not refer to the lack of conflicts (…), but it is rather to be interpreted as an organisational level, on which differences do not pose a systemic threat" (pp. 313–314). Sárvári sees co-evolution as a cooperative form of competition, which "can be a result of either the Western or the Chinese set of values, and fits into the technological and global economic relations prevailing in the 21st century. It is a kind of a power structure, in which China – on the highest level of security policy […] – opts for the stability of the world order and a cooperative participation in the reallocation of the mandates entitling global intervention" (pp. 319–320).

Viktor Eszterhai's study on guanxi (Chinese 关系 means relation) supports the idea that a predefined set of values lies behind decision-making mechanisms. The author introduces a unique perspective, applying the guanxi model to the operation of China's entire economic and social structure, including institutionalised forms of behaviour. According to Eszterhai, "the importance of guanxi lies in the fact, that, as a primary form of social relations, it pervades the operating principles of Chinese society and controls the everyday lives of its members (e.g. the allocation of resources, economic operations, information flows, decision-making mechanisms, cultural roles, social status and the tasks of individuals)" (p. 324). Eszterhai gives a fine description of the intricate structure of Chinese society: besides drawing a map of relationship networks, he also elaborates on their distinctive nature. Compared to Western transactional schemes, the guanxi-driven exchange of goods and values is not merely instrumental, but associated with specific emotional motifs, normative aspects, gestures and inherent values. The defined order thereof designates the place of the individual in this formal and informal system of relationships. We might draw a parallel between his conclusions and the insights of "network theory", hence Eszterhai's observations can be considered complementary to the European concepts of "social capital" and "relationship capital," with due highlights on semantic differences.

The final study of the volume discusses trading and banking strategies from the perspective of Muslim communities, while also providing information on the cultural history of Islam. It serves as a contrastive tool to the Judeo-Christian paradigm of business ethics, the former's encounter with the highly developed mathematical and financial culture of the Arab world in the early Middle Ages. The latter already involved the concept of monetisation, anticipated marginal utility calculations (based on the role of money as a medium of exchange) and managed to maintain a stable banking system. Today, one main contradictions of Islamic economic theory may be that the doctrines concerning appropriate behaviour associated with community beliefs – that reveal themselves in monetary transactions as well – preserve an archaic social structure unable to successfully adapt to changed circumstances. At least, that is claimed by *Judit Balázs* and *József Varga's* study (relying on empirical evidence).

As illustrated by the variety of topics outlined above, this collection discusses possible conditions of (more) ethical economics and opens up a broad scope of analysis, both historically and in disciplinary terms. The representative hardback volume published by MNB does not aim – nor even attempt – to cover all of the relevant issues. Yet, by opening up new directions of thinking, the authors attempt to reformulate the so-far unanswered question of the 21st century: what is the way to a globally sustainable economic paradigm?