

ECONOMICS AND MORALITY: HOW TO RECONCILE ECONOMIC THINKING WITH BROADER SOCIAL THINKING?¹²

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***Abstract:** In contrast to the neo-liberal ideology which dominates much of modern economic discourse, virtue ethics embraces the same set of morality for both private and public sphere. In this paper we argue that virtue ethics need nevertheless not at all be in clash with contemporary economic theory. Linking the preferences represented by utility functions in neoclassical economics and the system of values which inspires them can in our view align economic thinking with broader social thinking. Using this novel approach, we demonstrate that many economic and social problems can be solved so as to arrive at efficient outcomes and a higher expected level of utility compared to a case with separate public and private moralities. For addressing the problems characteristic of small open economies, our virtue-ethics perspective on economics supports some government intervention as well as cooperation and solidarity between societies in a similar situation.*

***Keywords:** Virtue ethics, neoclassical economics, market efficiency, small open economies*

1. INTRODUCTION

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A defining characteristic of neo-liberal political ideology is a sharp divide between private and public morality (e.g. Gray, 1995). This divide is the dominant determinant of the concept of human flourishing in neoliberalism. In this work we argue that such a divide is deeply controversial from the point of view of virtue ethics which we promote in this text. For instance, what a public official does in his private life is also important for his job, not in the least because of the example that he sets to his fellow citizens. We demonstrate that instead many phenomena important for human flourishing cross the border between private and public. From the point of view of virtue-ethics, such phenomena are therefore also subject to moral regulation. For this reason, the virtue-ethics perspective on economics which we develop in this paper also crosses the border between public and private.

Moreover, we argue that our virtue-ethics perspective on economics need not at all be in clash with the contemporary economic theory. In contrast, we show that it is possible to join the lens of virtues-ethics with the toolkit of neoclassical economics, the dominant set of economic theories studied at the world's leading universities. Using our innovative method, we argue that a multitude of contemporary problems of the economy and the society can be seen as failures of the markets to themselves lead to efficient outcomes. In particular, we emphasize that efficiency of any allocation of goods or of output is a category which can be evaluated only subject to certain set of preferences, while the choice of the set of preferences is determined by a desired system of values. It is exactly this link between the preferences represented by utility functions in neoclassical economics and the system of values which inspires them can in our view align economic thinking with broader social thinking. Note further that opting for a certain system of values will simultaneously determine which outcomes can be considered market failures. Once identified, these failures could then be addressed using the standard policy prescriptions of neoclassical economics that involve some form of government intervention.

We would like to emphasize that various systems of values, and not only that inspired by virtue-ethics, could in principle be used to determine the preferences represented by a certain utility function. But, we argue that values inspired by virtue-ethics could lead to superior outcomes in terms of social wellbeing compared to values inspired by liberal ethics. This is because using the same set of morality for both private and public sphere, a distinguishing characteristic of virtue-ethics compared to liberal ethics, allows the elite to serve as the role model for the society. Moreover, it allows the elite to raise the society's happiness by creating cohesive value communities around a carefully chosen set of values.

We finally argue that reconciling economic thinking with broader social thinking is important for the social wellbeing and the sustainability of economic growth,

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particularly in small open economies. From among a number of reasons for this, we emphasize two. Firstly, small markets are more likely to experience market failures as a consequence of market power of a few mighty firms. While this is a typical market failure, the ideological bias of the elite of a recently opened economy would have a tendency to overlook it or even justify it. Secondly, the sudden change to an open economy, undoubtedly beneficial in many respects, could also endanger the positive aspects of national business culture and culture in general. In such an environment, our virtue-ethics perspective on economics can support some government intervention with the aim of correcting market failures and so preserving the economic wellbeing, national culture, and sovereignty; it can also support cooperation and solidarity between societies in a similar situation.

The rest of this chapter is structured as follows. The following subchapter introduces the concept of virtue ethics and compares the main implications of virtue ethics with those of liberal ethics when analyzing the problems of the contemporary society and economy. The third subchapter explains the importance of the concept of efficiency for social wellbeing and its dependence on the chosen system of values. The fourth subchapter argues that opting for a system of values inspired by virtue ethics can lead to higher social wellbeing than choosing an ethical system which stands for a distinction between public and private moralities. The fifth subchapter illustrates how aligning economic thinking and broader social thinking can be particularly beneficial for small open economies. The final chapter concludes.

**2. THE CONCEPT OF VIRTUE ETHICS AND ITS VALUE
COMPARED TO THAT OF OTHER CONTEMPORARY SYSTEMS
OF ETHICS**

Virtue ethics differs from the other methods of thinking about ethical issues in that it posits certain substantive values as guiding criteria by which to make moral evaluations, and embeds those values in a particular vision of desirable moral character of a person. Thus virtue ethics is able to avoid many of the pitfalls of more formal and impersonal views of ethics, such as pure deontic ethics, consequentialist ethics, or developmental ethics. For example, deontic (or deontological) ethics insists that the moral value of actions (or choices) is determined by the consistency of those choices with certain universal moral principles, regardless of the practical value of the choices in real life (e.g. always act so that you may wish that under similar conditions everybody else would choose the same course of action). This means that one is justified in making moral choices in accordance with one's conscience, and this entails that one would consistently be able to desire for everybody else to think in the same way and act

similarly in similar situations. However, the problem with deontic ethics is that in reality people tend to value universal moral principles differently. Thus, for example, if my universal moral principle is to always protect the vulnerable, no matter what the cost, I would naturally be able to desire that everybody else makes their relevant choices based on the same principle; however, by acting consistently with this principle, I am likely to offend the moral sense of those whose primary, universal moral principle is that of everybody's right to their own property, because, if, for instance, I am a public official, protecting the most vulnerable will likely mean arranging a redistribution of income in society which will favor those who would otherwise fall through the social system and be helpless. This is only possible at the cost of those who have done well in the same system, and my desire that everybody acts as a socialist might cause substantial rifts, even social or political instability, if it collides with sufficiently many others who hold different principles particularly dear. In acting against the interests of those who wish to hold on to their rightfully gained wealth, I act perfectly clearly deontologically: my adherence to the deontic principle of always assisting the most vulnerable is sincere, and if I were wealthy, I would genuinely desire to be taxed additionally, however this does not necessarily solve the problem of the practical consequences of my choices for society.

The opposite moral methodology is the so-called “consequentialist ethics”, which postulates that a moral action is justified if and only if in the sum of its foreseeable consequences it increases the well-being (or rights, or satisfaction of interests, or however else general satisfaction might be defined) of most stakeholders in the decision. In the above example, this would mean that in making a decision on the level of taxation and the consequent redistribution of wealth, I must consider how many people would benefit from my decisions and to what extent, and then choose that course of action which enhances the well-offness of most. This may mean acting in the same way as the benevolent deontologist above, if there are so many of those who are vulnerable who would be helped substantially at the relatively moderate cost to the few of those who are well off, but it also may mean letting the vulnerable fail utterly and reduce taxation for the wealthiest. The outcome is the result of a calculation, not of adhering to a universal moral principle.

Virtue ethics is capable of avoiding both of these pitfalls of deontology and consequentialism, because it assumes that in a particular community there are certain character traits in people which are generally desirable, and individuals with these traits should be trusted to make the most prudent and morally acceptable decisions. Virtue ethics thus posits standards which an exemplary moral personality should fulfil, and the actions are judged largely based on what such an exemplary person might have chosen to do. Traces of virtue-ethics-based thinking are present in the manner in which many legal norms are defined in the English

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law. These formulations involve characterizations such as “what a reasonable person might expect in the given circumstances”, “what a prudent person would be expected to choose”, etc. In adjudicating individuals’ actions, the courts thus deliberate, among other criteria, whether and to what extent the choices of the person were what an essentially upstanding individual in society might chose to do or not. The described way of thinking about the law allows the courts to moralize: they make their decisions not only based on the letter of the law, but also on moral evaluations which they explicitly or implicitly ascribe to particular individuals. This type of practice is essential for the maintenance of standards of social decency and an accepted vision of virtue; contrariwise, the practice of many European continental courts, which tend to be guided literally by the law, and even explicitly distance themselves from any kind of “moral, as opposed to strictly legal” reasoning, is potentially deeply destructive for public morality. The law by itself, ideally, should stem from basic moral intuitions and the ideal of virtue in a community; however there is no guarantee that the positive law will necessarily reflect public morality, and in such cases an interpretative, creative role of the courts is absolutely essential to preserve the higher standard (morality) from being actually undermined by the lower standard (the law itself). Judging the personality, in aspects both directly relevant and not directly relevant to the issue that is being adjudicated is fundamental here. For example, there is reason to believe that an exemplary community member who embodies many of the community’s virtues ought to be treated considerably more leniently for a legal transgression than someone who is known to show disregard for public morality. This is a controversial issue, and one that one of us has recently addressed at more length (Fatić, 2016: 201–226).

This very aspect of virtue ethics brings us close to the mentioned discussion of the public and private. The liberal ideology and its neoliberal incarnation insist that the preservation of individual liberty is predicated upon a strong separation of the private from the public, or of private life from public life. This is thought to prevent the “infringement” of the state and society upon matters deemed entirely within the sovereignty of a free individual in a democratic society. Such a view is essentially incompatible with virtue ethics, simply because virtue cannot necessarily be separated into private and public virtues. A person is judged to be upstanding based on one’s life and one’s choices, both private and public. Thus, someone who might act impeccably as a public servant, but regularly cheats on one’s spouse, drinks and is seen in disreputable company would hardly be considered a virtuous individual by most accepted social standards. Yet, in a neoliberal context, it would be morally unacceptable to factor the person’s personal immorality into their evaluation as a public servant. To take an extreme example, as long as one sticks to the neoliberal concept of privacy, this would mean that a police officer who is neither corrupt, nor deviant during office hours, but is known

to commit adultery, gamble, use legal drugs and associate with the town's ruffians, would not be able to be considered less morally fit for the job than another police officer who acts the same at work, but has none of the enumerated problematic habits in her private life. Such a conclusion, while "liberally" correct, would certainly be counterintuitive. Virtue ethics does not recognize a sharp divide between the private and the public, although it is capable of acknowledging various degrees of relevance of private life in the judgment of a person in their public capacity.

One particular type of virtue ethics which is especially relevant to our argument here is sentimentalist ethics (Slote, 2010). Its distinguishing feature from the other virtue ethics is that it insists on the possession of a particular quality in virtuous individuals, namely the propensity for and high regard for empathy. Sentimentalist ethics is thus an ethics which sees empathetic persons (and, by extension, empathetic public policy) as virtuous in itself. This, then, gives rise to an array of other virtues that are called for, namely loyalty, solidarity, trust, dependability, etc.

Sentimentalist ethics has special repercussions for the idea of an efficient economic system which would also be just, because it presents a contrasted alternative to the neo-liberal thinking. While the main idea of neoliberalism is that the best way to contribute to human wellbeing is to promote free entrepreneurship (perhaps the most accurate definition of neoliberalism, which is often used as a fuzzy and mainly negative characterization) (Harvey, 2005: 2), sentimentalism is close to the concept of care ethics, where the duty of care is seen as paramount to the work of public institutions and the state as a whole. This duty, then, extends to the economic system, as well. Care ethics requires the system, whether it is the economy, the military, or the social service, to actually care for the wellbeing of the citizens not in terms of their relative positions vis-a-vis one another (e.g. as in ensuring "fair competition"), but factually, how satisfied and stable they are in their lives in all aspects that depend on a particular system. This would mean that the moral justification of an economic system depends on whether the main economic institutions can actually demonstrate that the decisions they have taken have arisen from genuinely caring and trying to assist those in need in society, as well as from trying to keep those who are well-off from failing significantly. Such arguments would have to go considerably beyond statistics and academic discussions about particular ideologies, and would likely involve examples and references to specific substantive values which the economic institutions have sought to uphold. Developing such an economic ethics which would be based on care ethics as a variant of moral sentimentalism is our work in progress.

One promising avenue of pursuing a theory of economic ethics would be based on the role trust plays in maximizing the efficiency of economic and, indeed, of most

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transactions in society overall, and how virtues are inculcated in the possibility of trust. On the one hand, trust arises either from institutional assurances (in which case a certain “virtuousness” or “trustworthiness” of institutions is presupposed), or from a moralistic belief that people ought to be trusted until they prove otherwise. Eric Uslaner labels the first type of trust “strategic trust” and the second type “moralistic trust” (Uslaner, 2002: 14–50). Once accumulated, trust in society leads to the development of a number of other virtues, such as civility (Seligman, 2010: 62–74) and facilitates what Seligman calls “generalized exchange”, namely transactions in society on all levels and at a far more efficient rate. Trust is thus a prime form of social capital (Seligman, 2010: 75–100).

Finally, it may be useful to point it out here that sentimental ethics shows methodological advantages over other methodologies of ethical thinking, in that it is capable of reconciling and uniting both deontological and consequentialist ethics. Empathy, or, by our lights, care, is a deontological principle: recall that in sentimentalism actions are judged as morally justified or unjustified depending on their conformity with the duty of empathy or care. At the same time, sentimentalism is a consequentialist method of ethical thinking, because it seeks to achieve a state of affairs in which the overall amount of empathy, solidarity, trust etc. is maximized. Finally, of course, sentimentalism is a virtue ethics, because it posits an empathetic or caring character as socially exemplary. This allows sentimentalist virtue ethics to serve an inclusive role which makes it particularly suitable for developing an economic ethics and dealing with the concept of efficiency.

3. ECONOMIC EFFICIENCY AND SYSTEM OF VALUES

Neoclassical economics represents the body of economic theory which the leading centers for education and research in economics around the world uphold as the contemporary standard.³ Central to it is the idea of a perfectly competitive economy in equilibrium (Pearce, 1999: 301). Importantly, the competitive equilibrium of an economy is characterized by economic efficiency: in exchange (Pareto efficiency), markets for production inputs (technical efficiency), as well as output markets (output efficiency) (Pindyck and Rubinfeld, 2001: 574, 590-91).⁴ Efficiency is important because a lack of it means that, by rearranging the available resources, it would be possible to increase at least someone’s wellbeing without

³ In the subfield of macroeconomics, neoclassical economics is complemented by neoclassical synthesis (Pearce, 1999: 302).

⁴ That competitive equilibria are economically efficient is stated by the first fundamental theorem of welfare economics.

decreasing the wellbeing of anyone else. For this reason, inefficient outcomes are necessarily suboptimal for a society that cares, at least to some extent, for each of its individuals.

The goal of an economic system ought to be however not only efficiency but also justice. While an inefficient outcome appears necessarily unjust – since correcting the inefficiency would make at least someone better off without hurting anyone – an efficient outcome need not be just. For instance, if one person is in possession of all the goods in an economy, while the others of none, this may also be efficient; in case the rich person feels no compassion for others and she is not willing to voluntarily share some of her goods with them, the only way to make others better off would be to make her worse off. Striving towards justice, societies therefore frequently engage in some form of redistribution of income, goods, or property, where the optimal form and the extent of redistribution depends on the system of values held by the society, or at least its decision-making elite. Nevertheless, if redistribution were to disturb an efficient outcome and lead to an inefficient one, one problem would simply be substituted by another. Luckily, in competitive markets, trades following any redistribution would lead to an outcome which would also be efficient and could be more just than the original one.⁵

For an efficient outcome to be achieved, both prior to and following redistribution, we therefore depend on markets being competitive. But the requirements for competition do not always hold. In these cases we face market failures which are traditionally considered to take the forms of market power, externalities, public goods, and incomplete information (Pindyck and Rubinfeld, 2001: 591-92). Luckily, economic theory has already devised remedies, which typically involve some form of government intervention, for each of these types of market failures. When applied, these remedies could move markets back to competitiveness and lead to efficient outcomes. While a system of values stands in the focus of discussions on the desired form of redistribution, we argue that it should also be taken into account when answering whether outcomes are efficient and whether markets are competitive. This is because both allocative and output efficiency can only be evaluated subject to a utility function which represents a certain set of preferences (Mas-Colell, Whinston and Green, 1995: 175), the latter being inspired by a system of values. We therefore argue that economic thinking and broader

⁵ That every efficient allocation is a competitive equilibrium for some initial allocation of goods, as long as individual preferences are convex, is stated by the second fundamental theorem of welfare economics. In practice, however, any state-administered redistribution involves institutions which are costly, and the need to pay taxes may lead individuals and firms to work and produce less. Thus, at least some loss of efficiency, and its tradeoff with the compensating gain in equity, appears hard to avoid.

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social thinking could indeed be reconciled by making the preferences represented by utility functions in economics consistent with a chosen system of values.

To illustrate how the system of values can determine whether a market can be considered competitive and the outcomes to which it leads efficient we will use, similar to Mladjan and Marković (2016), an example of trade between two countries. Suppose that both of these countries start by producing both food and jewelry. If their citizens are allowed to freely trade, each would specialize in the production of that good for which it has a comparative advantage⁶. After specializing, only jewelry would be produced in one of the countries and only food in the other. By opening to trade, citizens of both countries would be able to consume more than in autarchy, so specialization could be considered both an improvement in wellbeing and an efficient outcome. But, how could our conclusion change if we were to allow for the possibility that the two countries go to a long-lasting war? If this were to happen, the one producing jewelry would have to surrender so as to avoid hunger. Suppose now that occupation by the other country would not endanger the income of the occupied population, which would still be allowed to produce jewelry and trade it for food, but that sovereignty and many elements of national culture would be lost.

In order to answer the question whether the market was competitive and whether the outcome of specialization was efficient, we would need to form an expectation on the likelihood of war and know to what extent the citizens of the country that would specialize in producing jewelry care about sovereignty and national culture. In case that their system of values is such that they are concerned solely with their income, specialization was an efficient outcome. If they however do care for their independence and national identity, specialization was not efficient. The individuals instead traded without being fully aware of the consequences that their decision to buy food from abroad could have for their country and the lives of their loved ones in the long run. This could be regarded as a market failure due to incomplete information, for those unaware of the consequences of their trades. Moreover, it could be seen as a negative externality imposed by those that were aware of the consequences of their trades but did not take into account the pain that loss of sovereignty and national culture would impose on their countrymates that,

⁶ “Country 1 has a comparative advantage over Country 2 in producing a good if the cost of producing that good, relative to the cost of producing other goods in 1, is lower than the cost of producing the good in 2, relative to the cost of producing other goods in 2” (Pindyck and Rubinfeld, 2001: 585). Notice that, using comparative advantage, opportunities to trade are more likely to be found than if a country were to export only goods for which it has an absolute advantage, which would mean that it has a lower cost of producing them than the other country.

unlike themselves, care for these values. Importantly, when we opt for a system of values and use it to identify a market failure, we can resort to remedies already prepared by neoclassical economic theory for correcting that type of market failure. In this case, government intervention in the form of tariffs or quotas on imports, or direct government production, could insure that enough food is produced domestically even after partial specialization in the production of jewelry.

It appears that the preferences that are used to judge on the efficiency of a certain outcome could be inspired by various systems of values. In this work, we chose to rely on a system of values that stems from virtue ethics. Notice that, after appropriately choosing a set of preferences in the aforementioned example, the distinction between what could be considered decisions that concern only the individual, and those that concern the whole society (alternatively the division between private and public morality), is reduced or even fully removed, just as it is in virtue ethics.

4. UNITING VIRTUE ETHICS AND NEOCLASSICAL ECONOMICS: FEASIBILITY AND ADVANTAGES FOR INDIVIDUAL AND SOCIAL WELLBEING

Could virtue ethics in principle be reconciled with neoclassical economics? For this to be the case, the system of morality associated to virtue ethics needs to be compatible with the utility functions which are used in neoclassical economics. At first sight, there seems to be a fundamental obstacle to achieve this: consequentialist moralities appear to be those that could intuitively be built into preferences which are used in utility functions while important elements of virtue ethics are deontic in nature (Slote, 2010: 13–27). Consequentialist moralities justify actions based on the consequences they produce. For any set of actions a set of preferences could thus be used to order these actions based on how preferable their consequences are expected to be. A utility function representing these preferences could then assign a value to each action. The utility is thus calculated from the expected consequence, while the actions, circumstances, and even accidents which led to it may not matter for the value of utility themselves. In contrast to this, deontic morality arises from certain substantive principles concerning what the agent does. For instance, deontic criteria may demand that the truth is always told, property rights are always protected, that one is always loyal to his company, friends, or family, and alike. Importantly, the recommendation for an action may be given regardless of the consequences it is expected to produce.

Is it then possible to have a utility function that represents a set of preferences that satisfy deontic criteria? We would argue that this could be achieved by assigning a certain value of utility to each action, not based on the consequences it could be

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expected to produce, but based on the extent to which the action itself satisfies deontic criteria which may apply to it. Even in cases in which morality is a combination of consequentialist and deontic considerations, as in sentimentalist ethics, representing it using a utility function should not be troublesome: some actions may be judged based on their expected consequences, some based on deontic criteria, and some based on both, depending on which type of considerations is seen as more important in each case. That both consequentialist and deontic criteria for morality can be inculcated into preferences represented by a utility function should however not come as a surprise given that deontic criteria, such as virtue, could also be the goal of consequentialism.

Having argued that preferences based on deontic moral principles, important for virtue ethics, could be represented using utility functions, we also consider to what extent other characteristics of morality important for virtue ethics are in line with neoclassical economics. Another important characteristic of virtue ethics, and a difference from liberal ethics, is its treatment of public and private morality. Liberal ethics insists on a division between private and public morality, where the latter could, or even should, exclude deontic criteria. Virtue ethics instead rejects this division, and sees the members of the elite who hold public office as both managers of aggregate interests and those who provide a moral example and further values. In this virtue ethics moves beyond subjectivism in moral evaluations and requires some assumed consensus of what it means to be a respectable person in society in moral terms (Fishkin, 1984). We argue that the treatment of public and private morality in virtue ethics is not only compatible with neoclassical economics, but that virtue ethics, by using the same morality for both private and public sphere, could for several reasons lead to greater wellbeing, both for the society's aggregate⁷ and for most individuals, than liberal ethics. In the rest of this subchapter, we identify six reasons for why the adherence to the same set of morality for both private and public sphere could lead to greater social wellbeing, as well as greater wellbeing of most individuals, compared to a case in which moralities are separate.

The first two reasons why virtue ethics ought to lead to greater wellbeing compared to liberal ethics are associated to the reign of heteronomy in society. If one's freedom and the experience of life in general are truly limited by the structures and rules of the society, as long as decisions of public officials are affected by their personal preferences, a unified morality will make decisions of state officials that affect daily lives of the citizens more similar to the preferences of the citizens (Nagel, 1979). The examples of such decisions could include priority lists for

⁷ As measured by a social welfare function that applies a weight to each individual's utility in determining what is socially desirable (Pindyck and Rubinfeld, 2001: 576).

infrastructural investment, tax policy, social care policy, as well as the culture prevailing in state institutions which daily interact with citizens. The citizens would thus feel happy about the decisions of the state officials because they would be the same as those they would make themselves if asked to shape the structures of the state and the society that directly affect their daily lives.

There are however other decisions of state officials that also matter for the citizens' happiness. To the extent that other decisions which are in the exclusive jurisdiction of the state but do not affect most people's daily lives, such as foreign or defense policy, are affected by the personal preferences of the public officials which make them, a unified morality will also lead to a lower difference between the choices of state officials and the preference of the citizens. The citizens could thus feel happy about the decisions of the state officials as they could relate to them as if they were their own. One could of course question the extent to which citizens would care about that type of decisions. But, everyday discussions between people in a restaurant, in a taxi, or at a hair dresser's shop, testify that people do care for many such elements of national policy. This may be so because people associate their own prestige with that of their nation, or because their family's memory testifies that even such elements of national policy can occasionally become very important for daily life, especially in periods of great political turbulence and conflict.

Two further reasons result in greater social wellbeing, and that for most individuals, when public and private moralities are the same. A unified morality would namely enable the elite to serve as a role model for the rest of the society. Over time, this could lead to a convergence of values of individual citizens towards the values of the elite. Given that we just established that the decisions of the elite are perceived as important by the citizens and thus matter for their happiness, the sum of individuals' utilities calculated by a social welfare function should rise as the average difference between personal preferences and the choice of public officials declines during the convergence process. While narrowing the gap between the preferences of the citizens and the elite ought to matter for social wellbeing, we argue that the set of values chosen by the elite for the target of this convergence would also matter. In other words, we believe that not all sets of values that could be chosen by the elite would lead to the same level of social wellbeing. To illustrate why this ought to be so, we proceed to use two opposing quotes that represent the sets of values propagated by parts of the Serbian⁸ elite in the beginning and at the end of the twentieth century.

⁸ Serbian in this context refers to the elite of the Serbian people, irrespective of the region or country that it inhabits. We consider its elite as unique, given that communication between the members of the elite that live in different political jurisdictions, and their influence on the people in other jurisdictions, was and to this day remains frequent.

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During the last years of the twentieth century, the singers of popular music gained importance in the Serbian society as role models, not in the least because the mass media allowed them to gain enough popularity to earn sufficiently well so as to be relatively rich compared to large parts of their impoverished society in economic transition. One could qualify the type of lifestyle their songs promoted as that of immediate satisfaction rather than perseverance in work for the achievement of longer term goals. One of the best examples is contained in the words of one of the songs of the singer Violeta Viki Miljković (1974–) (Miljković, 1994):

*“Some people like this, other people like that,
And me and you, young one, [we] always [like] something new.
Some people like books, going for a walk, and loneliness,
While the two of us, my boy, we live during the night.
Coca cola, marlboro, suzuki, discothèques, guitars, bouzouki⁹.
This is [real] life, not an advertisement. Nobody is happier than us.”*

Interestingly, the verses of this song explicitly refer to happiness, or wellbeing, and that not only of the singer herself but everyone else who embraces that type of lifestyle, in this case her and her boyfriend. They thus make a direct connection between a lifestyle that stems from a certain system of values and happiness, and actually compare two sets of preferences by their expected utility outcome. The writer of the verses of Miljković’s song would thus appear to agree with the authors of this paper on that the level of wellbeing should depend on the set of values. An opposing lifestyle and system of values is illustrated by the following quote from the testament of Isidor Dobrović (1841-1914), a Serbian trader from Baranya region, one of the largest benefactors of Privrednik, a society dedicated to the free education of poor Serbian children from all over Austria-Hungary for crafts or trade. In his will Dobrović advises:

“We, the older ones, must help, create foundations, and you, the youth, (should) work, work and make savings, pray to God, seek advice from the more experienced adults, and love your work – the rest shall come by itself (Krestić, 1998)”.

The two world views appear confronted: the first one seems to favor unrestrained experimentation over consulting the adults, night life over day life, and amusement over work. Without looking upon the human drive towards immediate satisfaction celebrated in Miljković’s song, we believe that it could be justified only as an occasional rest aimed at sweetening the effort and occasional bitterness of life, rather than a set a values and goals that should themselves represent the purpose of

⁹ Bouzouki is a type of Greek musical instrument originating from Asia Minor.

life. On the other hand, we believe that a longer term happiness of an individual and success of a society can rather be assured by the set of values proposed by Dobrović in his will. Moreover, we interpret the Serbian social and economic history following the dates of the two quotes as speaking in favor of our view. We thus conclude that the level of utility of each citizen, and therefore the social wellbeing, could depend not only on the difference between his preferred choice and the choice made by public officials, but also on the type of values that inspired the elite's preferred choice. A unified morality would allow the elite not only to unite the citizens around a single set of values, but also to make this set of values the best possible – that which maximizes the social wellbeing.

Finally, we can identify at least two reasons for why the outcomes associated to a common morality between public and private sphere ought to lead to outcomes that are both more humane and improve efficiency; as such, they also result in greater social wellbeing and that of most individuals. Firstly, the creation of cohesive value communities reduces the need for and cost of state intervention – reducing the need for taxation which is associated to inefficiency – since social stigma can play the role that costly legal sanctions play in a liberal society. Note that both a social stigma and its corrective effect on an individual's behavior are possible only in a cohesive value community. This is because only members of a community that share a certain set of values will have the expectation that other members of the same community would adhere to them. Finding legitimacy in these values, encouraged by the fact they are not alone, they would openly express their opinion on the extent to which an individual's actions agree with these values, disregarding the liberal objection that this would be interference with an individual's freedom. Moreover, only if an individual belongs to that community and accepts that he should in principle act in accordance with its values, perhaps because for many needs in his life he is directed towards and dependent on that community, will he feel ashamed if the other members see that his actions defy the shared values. If the members of the community are mean towards the member that rejects its values one could argue that such a cohesive value community may in fact be reducing instead of raising the wellbeing of its members. But, if the corrective pressure is connected with expressions of sincere worry for and love towards community members that in their view err, such a social stigma may be a more humane and more effective way to correct socially problematic types of behavior that in a liberal society would have to be dealt, frequently in a more advanced stage, with some form of, always costly, state intervention.

Another reason for why a common morality between public and private sphere may lead to more humane outcomes that also increase efficiency can be related to acts of solidarity and mutual help. We expect that privately-initiated manifestations of solidarity are more likely to occur in cohesive value communities and that such

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deeds should usually lead to higher wellbeing than state-administered redistribution of goods, property, or income. The origin of most acts of solidarity must be empathy, and one is more likely to feel it towards a person one knows, which should more frequently happen in any type of community than in a society of self-centered individuals. One can feel more empathy when one understands the other person better, and one is able to identify with that person and her difficulty. This is more likely to happen in a community that shares the same values, because these values in part determine the ambitions and circumstances of life of each individual, and one can more easily identify with people who think alike and who are in similar circumstances.

Manifestations of solidarity within cohesive value communities are not only more likely to occur but should also lead to higher wellbeing than state-administered redistribution. The first reason has to do with how the redistribution of income is perceived by both the giving and the receiving side. If the redistributive mechanisms of a welfare state are perceived as the results of a social consensus, as in Western European social market economies after WWII, rather than an expression of solidarity, the taxed ones are deprived of the joy of giving while the beneficiaries do not experience thankfulness for receiving what they instead consider their right, an argument going back to at least to the Serbian bishop Nikolaj Velimirović (Velimirović, 2001). This reduces the immaterial wellbeing of both groups. One way to address this concern would be to keep the redistributive mechanisms of the welfare state, but change the perception of the nature of the transfer by both the giving and the receiving side. As long as the transfer is made compulsory however, there is a danger that the perception would drift back away from a positive mutual predisposition of the different social groups towards an emotionally cold social compromise. If, however, the redistributive mechanisms of a welfare state are at least in part substituted, or complemented¹⁰, by voluntary transfers inspired by solidarity, the joy of giving and the thankfulness for receiving could instead raise the immaterial wellbeing.

Acts of solidarity within cohesive communities could also raise the level of efficiency in how the resources are used to provide aid. This is because cohesive communities may better know who needs aid and how much of it. This could allow that a greater aggregate improvement in welfare is achieved using fewer resources

¹⁰ To the extent that the compulsory redistributive mechanisms are kept, it may be beneficial to substitute the right to aid and the obligation to pay tax, with only the obligation to pay tax in order to help others, and the obligation of the state to help those in need, so as to at least incite the feeling of thankfulness among those that receive aid. In such an arrangement, instead of referring to their right, they could instead refer to the obligation of the state to help.

than in a case of a redistribution administered by the state, whose institutions may be more distant to the receivers of aid than fellow community members. Non-monetary transfers that can reduce the losses during the transfer process can also be easier administered within a community. If, for instance, the aid is needed to replace a roof of a house that belongs to a family with children in which at least one of the adult household members drinks, a monetary transfer from the state may result in at least part of the money being instead spent on alcohol. If a public servant were in charge of managing the process of repair, including buying the construction material and paying the workers, both neglect in choosing the best mix of price and quality and corruption could instead lead to a part of the funds being wasted. But, the money which would be spent on repairing the roof by the neighbors of the less fortunate family would not be wasted on alcohol or corruption: they would know both the needs and the weaknesses of the family, would manage the construction process themselves, and would not waste their own money which they could instead use for themselves or to help even more of those in need.

We would finally like to observe that not all cohesive value communities may have the same potential to lead to acts of solidarity that raise the social wellbeing. For expressions of solidarity within a community to have the most potential to help, it is beneficial that it unites people from different economic strata, allowing the economically better off to help the worse off. Thus, cohesive value communities which are not based on a common economic standing but for instance on religious or national values should have a greater potential to help, especially if the economically well off sub-group is sufficiently large.

5. ECONOMIC THINKING AND BROADER SOCIAL THINKING IN SMALL OPEN ECONOMIES

Thus far we argued that our proposed approach could be very successful in improving social wellbeing and that of most individuals. Building on this, we proceed to give reasons why the beneficial effects could be particularly large in small open economies, and even more so in those that recently experienced economic transition. In our view, the benefits to such countries from policies that reconcile economic thinking and broader social thinking would result in both immediate gains in wellbeing and – through more sustainable economic growth – higher wellbeing in the long run. Among many potential sources of such benefits, we would like to describe a few.

Firstly, notice that small markets are more likely to experience market failure due to the concentration of power of a few large firms; following privatization in transitional economies, these firms would aim to maximize profit and thus raise

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their prices well above their marginal cost of production. While being an economy open to competition from abroad could reduce their market power, the openness itself may not solve the problem. If local knowledge is important for success in the market, if foreign companies are not sufficiently interested to enter the market because of its small size, or if the local product distribution network is also marked by high concentration of ownership, then fewer goods would be produced and consumed and that at higher prices than in a competitive market. This is a typical case of market failure, and no special approach towards integrating broader social thinking in economic decision making should in principle be needed to recommend a government intervention with the aim of breaking monopolies and cartels and regaining output efficiency. But, integrating broader social thinking may in reality be necessary to confront a strong ideological bias against government intervention or ownership – associated to a system of values which, poor in solidarity, considers any market outcome as more equitable – prevalent in transitional elites. Viewing instead all the different economic classes of the society as one community would instead result in different policy recommendations. In case a country is not strong enough to regulate the markets with high concentration of power, government ownership of at least one major market player in an industry, with a clear mandate to follow the price and quality policy with the aim of breaking the cartel rather than taking a part of its profits, could instead correct the market failure and improve social wellbeing and that of most individuals.

Secondly, ignoring the broader social consequences of having an open economy can lead to situations that, depending on the system of values used, could be regarded as market failures. Such a market failure could arise irrespective of whether the changes that created it increased or decreased output or consumption, just as in our example on trade in food and jewelry. For example, typical of small economies that experienced a sudden opening are changes that could endanger the positive aspects of national business culture and, by spreading outside of the companies, culture in general. One way this could ensue is through adoption of aggressive marketing strategies from abroad: methods of customer acquisition that range from impolite insistence to outright lies; this could be regarded as a market failure due to a negative externality. A similar mechanism of uncaredful adoption of knowledge from abroad could make bad translations from English, preserving a foreign syntax and resorting to newly invented Anglicisms, spread a distorted national language from firms' internal documents to media and everyday use. Preservation of national language and business culture in domestically owned enterprises, whether government or privately owned, could work to correct such a market failure. Similarly, the insistence of all stakeholders, from local management to customers, that foreign companies adapt to national culture, could result in its enrichment by selected foreign elements rather than devastation and replacement.

6. CONCLUSION

In periods of economic prosperity relative to own past or to the neighboring countries, most people may be sufficiently satisfied with what they have so as not to be willing to risk it in a social conflict, even if they are hurt by some injustices. In such times, the elites could become careless about preserving the balance between economic and social development, the concern for themselves and their countrymates, or about protecting the environment. But, in spite of the fact that people have a tendency to believe that “this time is different” (Reinhart and Rogoff, 2008) – that due to better experience and policy making skills the current round of prosperity will last forever – financial and economic crises always happen again. Unfortunately, the social strife which frequently accompanies them can have the potential to lead to even greater disasters, the interwar Europe being a telling example.

In this chapter, we argued that it is possible to reconcile economic thinking with broader social thinking by linking the preferences represented by utility functions in neoclassical economics with a desired system of values. We also discussed why relying on virtue ethics instead of liberal ethics to inspire economic policy may be a way to both make historical disasters less likely and to, also in normal times, improve the social wellbeing and that of most individuals. Using a number of examples, we showed that our approach has the potential to consider both economic and non-economic contributions to wellbeing simultaneously. In these examples, many corrections of the financial aspect of inefficiencies result from replacement of costly government intervention with social rules of cohesive value communities and private initiatives. But, we also showed that higher efficiency could also be associated with lower consumption or production, depending on the effects on non-material wellbeing, as well as on material wellbeing in the long run, that a certain allocation may have. Moreover, we argued that even apparently purely non-economic decisions, such as foreign policy of a country, can also be evaluated for their efficiency. For the gains to the non-financial aspect of wellbeing, the influence of the elites on values was found to be of great importance. Considering small open economies, our approach recommends cooperation and solidarity between societies in a similar situation: extending the market size could help to reduce market failures due to market power, while a common insistence on preserving elements of similar national cultures may force international companies to adapt rather than impose their business culture. Finally, we believe that future research on this topic should further develop and refine the concept of efficiency which takes into account individual preferences over more than material goods, the concept which we began to describe in this chapter.

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