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Ethical crises in the international political economy

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ABSTRACT

The Icelandic banking crisis provides a useful example of how the global economic downturn transformed into a domestic crisis and then transformed again into an international conflict. Rather than a strict economic analysis, discussion around the economic causes and potential cures surrounding the Icelandic banking crisis have been framed in terms of ethics. The analysis shows that ethical paradigms based on consequences, in line with Kant's hypothetical imperative, do not align well with categorical imperatives based on duty when considering international political conflicts. It is unclear that any accounting would have the potential to achieve reconciliation.

1. Introduction

During the recent global economic downturn, several localized crises have emerged. The risk of sovereign debt default has arisen in Greece and other parts of Europe, bank failures have struck the United States and Ireland among others and civil unrest has been seen in Europe, Asia and other parts of the world. Many aspects of these crises signal contagion, cross-border spillover and international dispute. The case of Iceland provides a marked example of how the global economic downturn first transformed into a domestic crisis and then into an international conflict.

Iceland's banking crisis centered on the failure of the country's three large commercial banks in late 2008. In spite of the size of Iceland, with just over 300,000 citizens, the crisis there has had significant international consequences. In the words of one analyst, "Iceland experienced the deepest and most rapid financial crisis recorded in peacetime" (Danielsson, 2009, p. 9). The Icelandic crisis has been significant for not only Iceland itself, but as a microcosm of the sources of economic problems elsewhere. As another analysis concludes, "the repercussions on both the country's native Icelanders as well as global financial markets give reason to dedicate serious attention to the causes and cures, of this unfortunate and wholly avoidable event" (Bagus and Howden, 2009, np).

Discussion around the economic causes and potential cures surrounding the Icelandic banking crisis has been framed in terms of ethics. Icelanders facing the costs of repaying depositors, the citizens of other countries who have lost their deposits, politicians across Europe and economists around the globe have reacted to the crisis from an ethical stance. Exploring the variance among these reactions can help build an understanding of how ethical paradigms and international political economy interrelate.

The purpose of this paper is twofold. The first aim is to understand better the broad role of ethics in international economic affairs and the challenges faced when bringing ethical discussions into international political economy. The second aim is to more narrowly analyze how ethical paradigms helped to shape national and international reactions to the Icelandic banking crisis. From the Icelandic banking crisis, the international conflict that resulted was roundly pitted in terms of ethical standards, but the two broad camps in this dispute each used different rubrics. In this international banking dispute, the rubrics lead to vastly different ethical conclusions. The analysis shows that ethical paradigms based on *consequences*, in line with Kant's hypothetical imperative, do not align well with categorical imperatives based on *duty* when considering international political conflicts. It is unclear that any accounting would have the potential to achieve reconciliation.

The remainder of this paper will first review the Kantian framework of ethics. The following section considers the model of *homo economicus*. The third section outlines the Icelandic banking crisis within an international political economy context. Fourth is a consideration of reactions to the crisis, followed by a section that offers a comparison of the ethical frameworks that can be found in the reactions to the crisis. Finally, some conclusions are offered.

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2. The Kantian framework

Understanding the bases of ethical behavior is, of course, part of a rich philosophical tradition. It is not the intent of this paper to provide a review of that literature—the purpose is not to contribute to the philosophical debate on ethics. Rather this paper focuses on one particular ethical philosophy, that of Immanuel Kant. Kant offers guidance on "the rule of behavior in regard to free choice" (*Lectures*, 27:243). In *Groundwork of the Metaphysic of Morals* (1785), *Critique of Practical Reason* (1788), *Metaphysics of Morals* (1797), and the collected *Lectures on Ethics* (1997), Kant outlines a philosophy of ethics that distinguishes "inclination" from "duty."

As Balleta and Bazin, 2005 note, references to Kant are not new in economics. Kant's theories play a role in economic analysis from Laffont (1975), Sen (1977), Elster (1998) and Wolfelsperger (1999), among others. However, as Ballet and Jolivet (2003) point out, these types of references to Kant do not typically fully consider Kantian ethics, especially the theory of the categorical imperative.

Kant argues that acting morally only occurs when one suppresses his or her "inclination and instead acts according to duty" (*Lectures*, 27:672). Moral acts are those that are done "out of respect for the moral law" (*Lectures*, 27:727). An act is moral if it is done *because* it is a duty to do so (Kelly, 2006). This is in contrast to any acts done simply *in accordance* with duty.

The distinction here is not among the acts themselves, but whether the motivation for those acts is from inclination or from duty. Kant expresses this in terms of "good will":

> A good will is good not because of what it performs or effects, not by its aptness for the attainment of some proposed end, but simply by virtue of the volition; that is, it is good in itself and considered by itself is to be esteemed much higher than all that can be brought about by it in favor of any inclination, nay even of the sum total of all inclinations. (*Groundwork*, 6: 394)

Thus, the dichotomy Kant proposes is between acts that are done because of the morality of the act itself—out of a duty to accord with moral law—and those that are done because of the consequences or the effects of the act.

Inclination should not be conflated with desire (Wood, 2002). One can desire to act out of duty for moral law. "So when Kant says that the man acts without inclination, this does not entail that he acts without desire (which Kant, along with the rest of us, would regard as certainly unappealing and perhaps even impossible)" (Wood, 2002, p. 20).

Kant offers further exposition of this point in terms of what he labels the "categorical imperative" versus the "hypothetical imperative." Categorical imperatives are the basis of moral law derived from human rationality and free will. Categorical imperatives are principles of behavior that are inherently moral. They are not good because of their expected effects or consequences, but because they are good in and of themselves. In the words of another theorist, this ethical system is "based on the moral status of actions themselves, rather than on their consequences, outcomes, or results . . . certain actions are prescribed (or forbidden) as matters of duty, regardless of the consequences of the action (or inaction)" (White, 2004, p. 92).

Further, acts are moral not simply when in accordance with duty, but when done because of duty. Kant explains: "The categorical imperative would be that which represented an action as necessary of itself without reference to another end, i.e., as objectively necessary" (*Groundwork*, 6: 414). Categorical imperatives should be adhered to in all situations, by all people and at all times. Categorical imperatives, in this sense, are universal. Kant explains the universal nature: "I ought never to act except in such a way that I can also will that my maxim should become universal law;" and "act that you use humanity, in your own person as well as in the person of any other, always at the same time as an end, never merely as an end" (*Groundwork*, 4: 402 and 4: 429).

In contrast, hypothetical imperatives are not universal. These imperatives are similarly borne out of human rationality, but only within a specified goal and end one wish to achieve. Hypothetical imperatives can be formed as conditional statements: if you wish to achieve some effect in a particular situation, then perform this act. In this way, hypothetical imperatives, unlike categorical imperatives, are based on the consequences of acts. "If now the action is good only as a means to something else, then the imperative is hypothetical; if it is conceived as good in itself and consequently as being necessarily the principle of a will which of itself conforms to reason, then it is categorical" (*Groundwork*, 4: 414).

3. Homo economicus

In *The Theory of Moral Sentiments* (1759) and in *The Wealth of Nations* (1776) Adam Smith describes how economic behavior and market efficiency are based in human motivation. In particular, for Smith, self-interest is crucial in achieving optimal outcomes for all. Self-interested economic motivation does not work against the common good, in Smith's account, but rather is the keystone of common good. In Smith's words, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest" (Smith, 2010, p. 27).

Building upon this idea, Milton Friedman (1976) stated, "Every individual serves his own private interest. . . The great Saints of history have served their 'private interest' just as the most money grubbing miser has served his interest" (p. 11). Similarly, Ludwig von Mises (1949) stated, "The ultimate end of action is always the satisfaction of some desires of the acting man" (p. 19).

This idea of self-interested human behavior has come to be represented by the term *homo economicus*, representing human decision-making in terms of economic calculations. One set of economic theorists explains, "The standard view of economic decision-making, embodied in the metaphorical figure of homo economicus, is that agents choose options to maximize utility based on stable, given preferences within constraints usually provided by the market" (Montero and White, 2007, p. 144). Homo economicus is thus a model of human behavior, especially of economic behavior, that suggests that humans make decisions according to a utility-maximizing cost benefit calculation from a set of preferences.

This model of human behavior has been a common tool for analysis. White (2004) suggests, "This model has proven extremely useful in helping us understand countless aspects and examples of human behavior, from common business decisions to government policy-making" (p. 89). At the same time, however, many have felt uncomfortable with how well the model mirrors reality. In particular, Amartya Sen (1977) has pointed out the apparent absurdities that can result from the model.

Others have expressed discomfort in the lack of choice that might exist for homo economicus. Montero and White note many economists have expressed that the calculative approach inherent in the model takes much of the sense of choice out of behavior. If one always acts in accordance with the calculated self-interest, what choice of action is there? In this vein, Mark Lutz (1999) has said that "economic choice takes the real choice out of economics" (p. 155). Similarly, G.L.S. Shackle (1961) has argued that "conventional economics is not about choice, but about acting according to necessity" (p. 272).

Ethics has played a major role in these lines of critique. One analyst posed the question directly: can the homo economicus be reconciled with ethical imperatives (White, 2004)? The fundamental question is if calculations based on self-interest suggest that an