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THE MORAL ECONOMY: RECONSTRUCTING BUSINESS ETHICS THROUGH PHILOSOPHY AND ECONOMICS

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Abstract:

The moral foundation of economic life remains one of the most pressing concerns in contemporary society. The global pursuit of profit, efficiency, and economic growth has often been defended through the rhetoric of market freedom and self-interest. Yet when detached from ethical reasoning, this logic produces alienation, inequality, and ecological degradation. This paper reconstructs business ethics as a discipline rooted in both philosophical reflection and economic reasoning. Drawing from Aristotle's virtue ethics, Kant's deontological moral law, and Amartya Sen's capability approach, it proposes a moral economy in which profitability is integrated with human flourishing, justice, and sustainability. Through an interdisciplinary lens, business ethics emerges not as corporate compliance but as a philosophical inquiry into the moral purpose of economic life.

Keywords: Business Ethics, Moral Economy, Virtue Ethics, Deontology, Capability Approach, Justice, Sustainability, Human Flourishing.

1. The Philosophical Roots of Economic Life

The relationship between philosophy and economics reveals a deep tension between efficiency and moral purpose. Economics studies how resources are allocated, while philosophy examines the ethical implications of those choices. Business ethics stands at this intersection, questioning whether profit and virtue can coexist meaningfully.

Adam Smith, often portrayed as the champion of self-interest, was fundamentally a moral philosopher. In *The Theory of Moral Sentiments*, he emphasized sympathy and justice as the basis of social order, preceding his *Wealth of Nations* (Smith, 1759/2002; 1776/1976). Smith understood that markets thrive only within moral communities that respect human dignity. Similarly, Aristotle viewed economic life as inseparable from ethical life. In his conception of *eudaimonia*, the good life lived in community, both ethics and economics aimed toward the flourishing of the *polis* (Aristotle, 2009).

The Enlightenment redefined morality through reason and autonomy. Immanuel Kant (1996) argued that morality rests not on desire or utility but on the rational recognition of duty. Over time, modern economics gradually severed itself from these moral foundations, favoring abstraction and instrumental rationality. In this process, moral reasoning was reduced to preference satisfaction and market equilibrium (Hausman & McPherson, 2006). A corrective emerged in the late twentieth century through Amartya Sen's (1999) and Martha Nussbaum's (2011) capability approach, which re-centered well-being on human freedom and moral development rather than on income or consumption.

A moral economy, therefore, seeks to reunite efficiency with ethical purpose. It asks a fundamental question: What is the true goal of economic life, profit, power, or the good life? And how can business institutions embody moral purpose amid inequality and ecological risk.

2. Philosophical Foundations of Business Ethics

Business ethics brings together moral philosophy and economic reasoning. Three major traditions form its conceptual backbone: virtue ethics, deontology, and the capability approach.

2.1 Aristotle's Virtue Ethics: Character and the Purpose of Wealth

Virtue ethics begins with Aristotle's conviction that moral excellence arises through the cultivation of arete (virtue) and *phronesis* (practical wisdom). In the *Nicomachean Ethics*, he argues that all human activity aims at *eudaimonia*, which is flourishing achieved through rational and virtuous action (Aristotle, 2009). Economic conduct, therefore, cannot be morally neutral, for it shapes the moral life of the community.



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In *Politics* (1256b–1258a), Aristotle distinguishes *oikonomia*, the management of resources for communal well-being, from *chrēmatistikē*, the pursuit of wealth as an end in itself (Aristotle, 2013). When accumulation becomes the supreme goal, virtue erodes and means detach from ends. Modern capitalism, in many respects, risks enthroning *chrēmatistikē* as its guiding principle, measuring success by accumulation alone.

Within organizations, virtue ethics emphasizes moral character such as honesty, courage, temperance, and justice as essential traits of leadership. A virtuous leader integrates competence with judgment and humility. Solomon (1992) describes business as a “practice of excellence,” sustained not by external regulation but by integrity and trust. Economic virtue transforms commerce into a shared pursuit of the common good.

2.2 Kant’s Deontological Ethics: Duty, Autonomy, and Respect

Where Aristotle emphasizes character, Kant focuses on principle. Moral worth, he insists, lies in acting from duty under the categorical imperative: one must act only according to a maxim that could be willed as universal law (Kant 1996). Applied to business, this principle demands that all stakeholders (employees, customers, and communities) be treated never merely as means but always as ends in themselves.

A company that pays fair wages because it respects human dignity acts morally, whereas one that does so only to preserve reputation does not. Deontological ethics thus grounds corporate integrity in respect for persons and moral autonomy. Norman Bowie’s (1999) idea of “Kantian capitalism” institutionalizes this framework through transparent governance, truthful communication, and nondiscriminatory practice. Within such institutions, freedom is not opposed to responsibility but depends on it. Employees must be able to act conscientiously, not merely efficiently. Exploitation and deceit remain wrong regardless of outcome.

2.3 Sen’s Capability Approach: Freedom as the Measure of Development

Amartya Sen (1999) redefines development as the expansion of substantive freedoms. In other words, what people are able to be and do. Economic growth measured only by Gross Domestic Product (GDP) is morally incomplete. Genuine progress enlarges human capabilities such as health, education, and participation. Sen’s framework unites Aristotelian teleology and Kantian autonomy by viewing justice as enabling human agency and choice.

In business ethics, firms act justly when they expand capabilities rather than exploit vulnerabilities. Ethical corporations invest in worker well-being, education, and democratic participation. Nussbaum (2011) complements this with a list of central capabilities, that of life, bodily integrity, practical reason, and affiliation that organizations can strengthen through fair policies and community engagement. Profitability and human development need not be adversaries but can be aligned with goals of a morally grounded economy.

2.4 The Efficiency Challenge

Proponents of shareholder primacy, such as Friedman (1970), argue that profit maximization within the “rules of the game” best serves society. Hayek (1945) further claims that decentralized markets coordinate knowledge more effectively than moral or bureaucratic systems. From this view, moralizing markets risks inefficiency and paternalism.

Yet recurring externalities such as environmental degradation, monopolies, and social inequality show that markets often fail. Coase (1960) framed these as transaction-cost problems, and Heath (2014) expanded the insight, portraying business ethics as a system for correcting market failures. Ethical norms, rather than hindering efficiency, sustain it by internalizing social costs and preserving trust. Virtue and duty, therefore, safeguard the moral and functional conditions that allow markets to operate justly.

3. Economic Rationality and the Moral Limits of the Market

Enlightenment rationality celebrates efficiency and self-interest, but when these dominate all domains of value, society risks moral impoverishment. Sandel (2012) warns that when everything, from education to organ donation, becomes commodified, human dignity suffers. Polanyi (1944/2001) similarly showed that treating land, labor, and money as “fictitious commodities” tears apart the social fabric.

3.1 Human Dignity

Every individual possesses intrinsic worth. De George (2010) emphasizes that ethical business begins by recognizing persons not as instruments but as moral agents. Practices such as exploitative labor, data manipulation, or disregard for safety are not only strategic errors but moral wrongs that diminish both individuals and institutions.



3.2 Ecological Responsibility

Economic growth that ignores ecological limits undermines intergenerational justice. Sustainability is not simply a technical goal but a moral obligation. Herman Daly (1996) argues that unbounded economic expansion on a finite planet is both irrational and unethical. True progress must respect ecological limits and preserve the integrity of natural systems for future generations. Translating prudence into practice requires policies such as carbon pricing, cap-and-trade, or Pigouvian taxation (Pigou, 1920; Coase, 1960), aligning incentives with stewardship rather than exploitation.

3.3 Justice and Inequality

Markets often reward privilege and deepen structural inequality. Sen's (1999) capabilities framework reframes justice in terms of what people are free to achieve. True equality demands more than formal opportunity; it requires conditions that make freedom real. Efficiency without ethics reduces people to instruments, while freedom without responsibility leads to domination.

4. The Moral Economy: Virtue, Justice, and Sustainability

David Graeber (2011) revisits the moral foundations of economic life through an anthropological lens, showing that systems of exchange have always been rooted in moral obligations, reciprocity, and social trust. Long before modern markets, societies sustained themselves through relationships of mutual aid rather than competition. Reviving this moral dimension today means restoring ethical reasoning to economic practice. Similarly, James C. Scott (1976/1977) demonstrates that in Southeast Asia, subsistence ethics reflected shared norms of fairness and cooperation. Drawing on such perspectives reminds us that the economy is a moral and relational institution, not an autonomous mechanism. A moral economy therefore integrates virtue, justice, and sustainability as its central principles, grounding commerce in human dignity and community well-being.

4.1 Virtue and Trust

Virtue is the invisible infrastructure of markets. Integrity, honesty, and goodwill sustain cooperation more effectively than coercion (Solomon, 1999). A virtuous organization develops internal goods such as excellence, professionalism, and fairness over external goods like status or profit (MacIntyre, 1981). When external goods dominate, corruption follows. Ethical leadership therefore cultivates virtues through habituation, embedding integrity in institutional culture.

4.2 Justice and Fair Distribution

Rawls (1971) defines justice as fairness, holding that inequalities are just only if they benefit the least advantaged. In business, distributive justice requires fair wages, safe workplaces, and transparent opportunities. Institutional justice demands ethical market rules that prevent corruption, collusion, and misinformation. A just economy protects the cooperative conditions necessary for all participants.

4.3 Sustainability and Intergenerational Duty

The Brundtland Report (World Commission on Environment and Development, 1987) defined sustainable development as meeting present needs without compromising future generations. Philosophically, sustainability expresses prudence and moral responsibility. Firms that internalize social and ecological costs demonstrate ethical maturity (Crane & Matten, 2021). Empirical evidence supports this alignment: a meta-analysis of over 2,000 studies found a generally positive link between ESG (Environmental, Social and Governance) practices and financial performance (Friede, Busch, & Bassen, 2015). Ethical practice, far from hindering profit, secures its legitimacy.

4.4 Operationalizing Capabilities in Corporate Practice

A capability-oriented firm advances human freedom through concrete policies (Sen, 1999; Nussbaum, 2011):

Core Capability	Corporate Lever	Illustrative KPI
Bodily integrity	Occupational safety, healthcare access	Lost-time injury rate reduced
Practical reason	Paid learning hours, internal mobility	Average training hours per employee increased
Affiliation	Diversity, grievance protection	Percentage of resolved grievances on time



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Control over environment	Democratic participation, works councils	Employee participation index increased
Life and community	Local capability investments	Community capability projects per year

Such measures translate philosophical justice into organizational design, aligning profitability with empowerment and social purpose.

5. Business, Society, and the Ethics of Global Capitalism

Global capitalism generates both prosperity and peril. Financial globalization and digital automation have created vast wealth disparities (Stiglitz, 2019). MacIntyre (1981) observes that institutions now prize external goods such as money, prestige, and power over internal goods like virtue and excellence. This inversion produces moral incoherence within economic life.

5.1 From Corporate Social Responsibility to Corporate Moral Responsibility

Many CSR programs rely on image management rather than conviction. Genuine responsibility arises from stakeholder obligation (Freeman, 1984) and shared-value creation (Porter & Kramer, 2011). Ethical firms act not to appear moral but to be moral. Corporate moral responsibility demands that justice and sustainability become integral to strategy, not appended as marketing.

5.2 Cultural Pluralism and Embedded Economy

A global moral economy must engage diverse moral traditions. Gudeman (2001) demonstrates that in many indigenous worldviews, economy is relational and wealth is measured by reciprocity rather than accumulation. Integrating such perspectives enriches philosophical anthropology and reminds capitalism that markets remain embedded in social and ecological relationships.

Philosophy thus invites economics to rediscover its *telos*, the pursuit of the good life within just institutions. Business, in this light, becomes a cooperative practice oriented toward shared prosperity and moral coherence.

6. Toward a Humanized Economy

Philosophy and economics together explore the conditions of human flourishing. When markets lose their moral compass, they cease to serve humanity. Business ethics must therefore shape not only behavior but also character and institutional culture.

A humanized economy aligns profit with purpose, efficiency with justice, and innovation with sustainability. Aristotle teaches that virtue is cultivated through practice; Kant reminds us that morality requires universal respect; and Sen shows that justice consists in expanding human freedom. Together, they form the moral architecture of economic life, anchored in character, duty, and capability.

The moral economy is not a utopian dream but a form of practical humanism, a framework in which ethical business and sustainable prosperity reinforce one another. By reuniting philosophy and economics, we recover the classical insight that economics is a branch of ethics concerned with living well together. In a time of global inequality and ecological crisis, that rediscovery is not merely desirable but essential.

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