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Ethics and Economics

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Economics often asks “what choice makes the most efficient use of resources?” Ethics asks “what choice is fair?” These two questions don’t always give the same answer. A civil servant handling budgets, subsidies, and welfare schemes has to work with both at once.

Efficiency getting the most output from limited resources, with the least waste.

Equity sharing resources and chances fairly, especially with the poor.

Pareto efficiency no one can gain without someone else losing.

Capability a person’s real freedom to live the life they value.

HDI health, schooling and income in one score. India ranked 130 of 193 in 2025.

Cost-benefit analysis puts a rupee value on outcomes, but can miss hard-to-price losses.

Understand the words

1 What is the difference between efficiency and equity?

Efficiency means getting the most output, or benefit, from limited resources, with the least waste. It’s the main goal in most economic thinking.

Equity means fairness. It means making sure resources and chances are shared in a just way. The poor and the disadvantaged matter most here. This is the main concern of ethics in economic policy.

Why do the two clash?

Take a subsidy given only to farmers who already produce the most. That's the most efficient choice. But it isn't always the fairest one. It can leave out the poorest farmers, the ones who need help the most.

Where do ethics enter economics?

Welfare economics is the branch of economics that brings ethical judgments, like fairness and well-being, into economic analysis. It doesn't treat economics as a value-free science.

A common mistake is to think "efficient" means "fair". A plan can waste nothing and still leave the poorest out.

> **Quick check 1.** An efficient policy is always a fair policy. *(True or False?)* See answer ↓

2 What is the efficiency-equity trade-off?

It is the idea that more equality can cost some efficiency. A trade-off means giving up some of one thing to get more of another.

Who called it "the big tradeoff"?

The economist **Arthur Okun** did. His book **Equality and Efficiency: The Big Tradeoff** came out in **1975**. It grew from lectures he gave at Harvard in **April 1974**.

Okun saw a split inside society.

- **Politics:** institutions give every citizen equal rights.

- **Economics:** institutions are guided by efficiency, and they create gaps in living standards.

Okun looked at what happens when a society tries to cut inequality. That effort can harm economic efficiency. He called this clash “the big tradeoff”.

What does a real dilemma look like?

A government has limited health money. Should it spend on a treatment that saves the most total lives? That’s the efficient choice. Or should it spend on a treatment that helps the sickest and poorest patients first? That’s the fair choice.

This is a clash between two ideas. **Utilitarianism** looks for the greatest total good. A **priority** view puts the worst-off first.

> **Quick check 2.** Arthur Okun's 1975 book called the clash between equality and efficiency "the big tradeoff". *(True or False?)* See answer ↓

Sources: brookings.edu

3 What is Pareto efficiency, and why is it not the same as fairness?

Pareto efficiency means no one can be made better off without making someone else worse off. It sounds fair. But it says nothing about how resources were shared in the first place.

Can an unequal split be Pareto efficient?

Yes. A very unequal starting point can still be “Pareto efficient”. It only needs one thing: no further swap helps one person without hurting another.

Picture one family that owns all the land in a village. Taking any land away hurts that family. So the split passes the Pareto test. Yet most people would not call it fair.

Does the Pareto test settle the health-money dilemma?

No. In card 2’s choice, someone loses either way. Some patients go without treatment under each plan. So the Pareto rule cannot pick between them. Another value has to decide, such as fairness or the greatest total good.

> **Quick check 3.** The Pareto rule can choose between two health plans when each plan leaves some patients worse off. *(True or False?)* See answer ↓

Sen and human development

4 What does Amartya Sen's capability approach say?

It says development should be judged by people’s real freedom to live the life they value. Income or GDP growth alone is not enough. Health, education and dignity count too.

Who is Amartya Sen?

Sen won the **1998** Nobel Memorial Prize in Economic Sciences. Its official name is the Bank of Sweden Prize in Economic Sciences in Memory of Alfred Nobel.

The Royal Swedish Academy of Sciences gave it “for his contributions to welfare economics”. The prize citation lists him as a citizen of India.



Amartya Sen in São Paulo, 2012. Photo: Fronteiras do Pensamento, CC BY-SA 2.0, via Wikimedia Commons (resized).

What is a capability?

A **capability** is what a person is really able to be and to do.

- **Beings:** being well fed, sheltered and healthy.
- **Doings:** work, education, voting and taking part in community life.

Why does choice matter so much?

Freedom of choice is central to the idea. Think of two hungry people. One is fasting by choice, for a religious reason. The other cannot afford to buy food.

Both are hungry. But only the second person lacks the freedom to eat. So the capability approach treats them very differently.

> **Quick check 4.** A person fasting by choice and a person who cannot afford food lack the same capability. *(True or False?)* See answer ↓

Sources: nobelprize.org; hdr.undp.org

5 Which works and honours of Sen should you know?

Three books and one national honour are worth knowing. Each one links ethics to economics.

Collective Choice and Social Welfare (1970)

Social choice asks how a society can turn many people's views into one decision. **Kenneth Arrow** showed a hard result. No rule for combining people's preferences meets five reasonable conditions together.

This “impossibility” result made the field gloomy for a long time. Sen’s work from the mid-1960s onward helped ease that gloom. His 1970 book **Collective Choice and Social Welfare** was especially influential.

Poverty and Famines (1981)

The full title is **Poverty and Famines: An Essay on Entitlement and Deprivation**. It challenges a common view. That view says a shortage of food is the most important cause of famine. Sen tested it by studying real famines.

Development as Freedom (1999)

This book links freedom and development. Card 9 explains its main idea.

The Bharat Ratna (1999)

The President conferred the **Bharat Ratna** on Sen by a notification dated **16 February 1999**. Three others were named in the same notification.

- Jayaprakash Narayan
- Gopinath Bordoloi
- Ravi Shankar

A short timeline

Year	Event
1970	Sen’s Collective Choice and Social Welfare

Year	Event
1975	Okun’s Equality and Efficiency: The Big Tradeoff
1981	Sen’s Poverty and Famines
1990	The first Human Development Report
1998	Sen wins the Nobel Memorial Prize in Economic Sciences
1999	Bharat Ratna for Sen; his book Development as Freedom

Sources: nobelprize.org; padmaawards.gov.in; hdr.undp.org

6 How does the Human Development Index (HDI) link to Sen?

The HDI turns Sen’s idea into a number. It judges a country by its people and their capabilities, not by economic growth alone.

Where did the HDI come from?

The first **Human Development Report** came out in **1990**. The economist **Mahbub ul Haq** developed the human development approach. That approach is anchored in Sen’s work on human capabilities.

So the HDI came nine years before Sen’s 1999 book Development as Freedom. The book did not create the index.

What does the HDI measure?

It has three parts, called dimensions.

- **A long and healthy life:** measured by life expectancy at birth.
- **Knowledge:** measured by years of schooling, both for adults and for children starting school.
- **A decent standard of living:** measured by gross national income (GNI) per person.

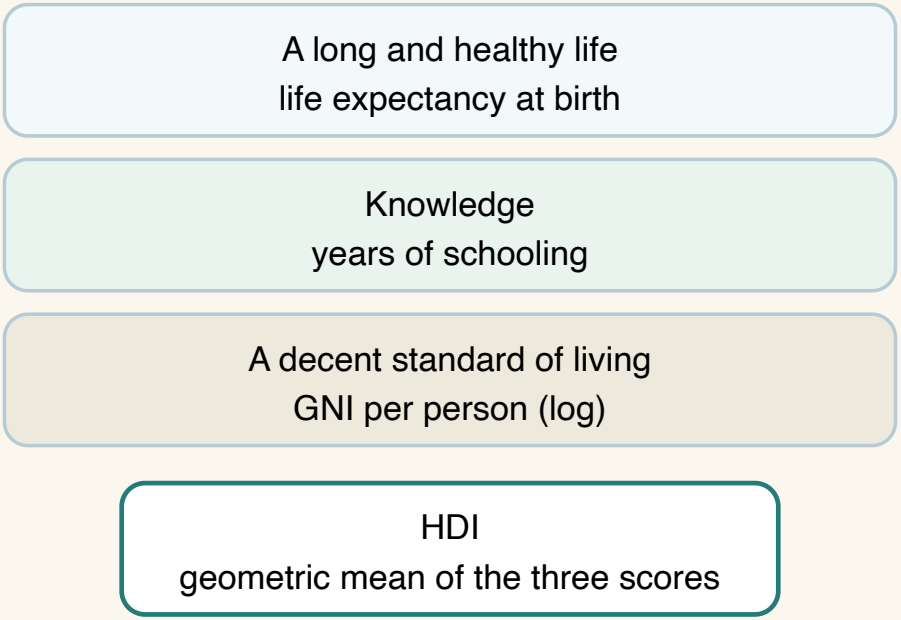


Illustration: The three HDI dimensions from card 6, as UNDP describes them.

The HDI uses the **logarithm** of income. A logarithm shrinks big numbers. It shows a simple idea: each extra rupee matters less as income rises.

The three scores are then joined with a **geometric mean**. This is a kind of average that multiplies the scores, so a very low score in one part pulls the whole index down.

Where does India stand?

The Human Development Report 2025 ranks India **130th of 193** countries. India's HDI value is **0.685**, based on 2023 data. The 2025 report was still the latest in October 2026.

- **Life expectancy:** 72.0 years.
- **Expected schooling:** 13.0 years.
- **Mean schooling:** 6.9 years.
- **GNI per person:** 9,047 dollars at 2021 purchasing power parity (PPP).
- **Rank on 2022 data:** 133.

PPP adjusts money for what it can really buy in each country. India sits in the "medium human development" group. That group's average HDI is 0.656.

What does the HDI leave out?

The HDI covers only part of human development. It does not reflect inequality, poverty, human security or empowerment.

The HDI can also start a useful debate. Two countries with the same income per person can end up with different results. That gap raises questions about policy choices.

The HDI rank is national, so it says nothing about single states. For India's states, see Human Development in India: State Disparities and the Kerala Model.

Quick check 5. The HDI was created after Sen's 1999 book Development as Freedom. *(True or False?)* See answer ↓

Sources: hdr.undp.org

7 How is human capital different from human development?

Both care about education and health. They differ on why these things matter.

Question	Human capital	Human development
Why invest in education and health?	To raise labour productivity	They are part of human well-being
How are people seen?	As a means to an end	As ends in themselves
Is the spending worth it if output does not rise?	No, it is seen as unproductive	Yes, welfare should still rise

This is a neat example of efficiency versus ethics. The human capital view counts output. The human development view says people matter for their own sake. So basic education and basic health are important in themselves.

Sources: ncert.nic.in

Policy in practice

8 What is cost-benefit analysis, and what can it miss?

Cost-benefit analysis is a common tool in government decision-making. It puts a rupee value on outcomes, including things like a life saved or an illness avoided. It then compares policies.

Critics say this can undervalue things that are hard to price, like dignity, culture, or the environment.

Is there a real example?

A dam or highway project appraisal often uses cost-benefit analysis to justify displacement of a village. The analysis can show a positive net benefit on paper. It still may not capture the real cost of lost homes, farmland, and community ties.

How does Indian law respond?

The **Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013** answers part of this worry. It replaced the **Land Acquisition Act, 1894**.

- **Social Impact Assessment:** the process includes this survey before land is taken.
- **Rehabilitation and resettlement:** every acquisition must provide for affected people.

These steps look beyond the money figure on paper.

Sources: prsindia.org

9 How do India's own policies show the trade-off?

Each big welfare policy weighs efficiency against fairness. Three Indian examples show this well: crop prices, cash transfers and reservation.

What does Development as Freedom add?

Amartya Sen's 1999 book **Development as Freedom** argues that removing "unfreedoms" is both an economic and an ethical goal. Unfreedoms include poverty, poor healthcare and lack of political rights. It's not two separate goals.

Are markets ethically neutral?

Some economists argue that markets, left alone, are ethically neutral tools. They simply reflect what people are willing to pay.

Critics respond that a "neutral" market still reflects existing unfairness, like unequal starting wealth. So pure market outcomes can't be assumed to be ethically fair by default.

Minimum support price (MSP)

An MSP is a floor price at which the government buys a crop.

- **13 May 2026:** the Cabinet Committee on Economic Affairs approved MSPs for **14 Kharif crops** for 2026-27.
- **Paddy:** common paddy MSP is **₹2,441** a quintal, up from ₹2,369 in 2025-26.
- **The rule:** the rise follows the Budget 2018-19 promise of MSP at least **1.5 times** the all-India weighted average cost of production.
- **Margins:** the expected margin over cost is highest for moong, at 61%. Bajra and maize follow at 56%.

The ethics angle: a price floor helps farmers, which serves equity. But it can also change what is grown and bought, which affects efficiency.

Direct Benefit Transfer (DBT)

DBT sends welfare money straight to people's bank accounts.

- **How it works:** it uses the **JAM trinity**, which means Jan Dhan bank accounts, Aadhaar numbers and mobile phones.
- **Savings:** a BlueKraft Digital Foundation assessment credits DBT with **₹3.48 lakh crore** in savings from plugging leakages.
- **Subsidies:** the same study says subsidies fell from 16% to 9% of total government spending.
- **Data and date:** it looks at data from 2009 to 2024. The Finance Ministry released its findings in April 2025.

The ethics angle: targeting saves money, which serves efficiency. But a poor person wrongly left off the list loses support, which hurts equity.

Reservation for the Economically Weaker Sections (EWS)

- **The law:** the **103rd Constitutional Amendment** of January 2019 added **Articles 15(6) and 16(6)**.
- **The idea:** it allows reservation on economic criteria alone.
- **The ruling:** in **Janhit Abhiyan v Union of India**, a five-judge bench upheld it **3:2** on **7 November 2022**.
- **The 50% question:** one key issue was whether EWS reservation can breach the 50% ceiling set in **Indra Sawhney (1992)**.

> **Quick check 6.** In November 2022, the Supreme Court upheld EWS reservation by a 3:2 majority. *(True or False?)* See answer ↓

Sources: hdr.undp.org; pib.gov.in

Sources: scobserver.in

10 What did Gandhi say about wealth and commerce?

Gandhi named **seven social sins**. The list appeared in Young India on **22 October 1925**. Two of the seven touch on economics.

- **Wealth without work**
- **Commerce without morality**

The other five are politics without principle, pleasure without conscience and knowledge without character. Science without humanity and worship without sacrifice complete the list.

For a civil servant, the two economic sins make a quick test. Is this gain earned? Is this trade honest?

Sources: mkgandhi.org

Exam practice

11 What has UPSC asked on ethics and economics?

UPSC Mains General Studies Paper IV keeps coming back to this topic. Here are eight questions, newest first.

How can this lesson help you answer them?

- **Funds and leakages (2025, 2019):** use DBT, the JAM trinity and the ₹3.48 lakh crore savings estimate.
- **Welfare schemes (2025):** use the efficiency-equity trade-off and the capability approach.
- **Corporate ethics (2023, 2022):** use Gandhi's "commerce without morality".
- **Unequal growth (2017):** use the HDI, which judges people, not growth alone.

- **Shared values and markets (2017):** use the debate on whether markets are neutral.
- **Land and displacement (2016):** use the limits of cost-benefit analysis and the 2013 land law.

12 Which facts are easy to mix up?

Years, ranks and names are the usual traps. Check each one against this list.

1. **1998 vs 1999.** Sen won the Nobel prize in 1998. He got the Bharat Ratna in 1999.
2. **1990 vs 1999.** The first Human Development Report came in 1990. Development as Freedom came in 1999.
3. **130 vs 133.** India ranked 130th in the 2025 report. Its rank on 2022 data was 133.
4. **0.685 vs 0.656.** India's HDI is 0.685. The medium-group average is 0.656.
5. **Haq vs Sen.** Mahbub ul Haq developed the human development approach. Sen's capability work is its base.
6. **Okun vs Arrow.** Okun named "the big tradeoff". Arrow proved that no voting rule meets five fair conditions together.
7. **Pareto vs fair.** A Pareto-efficient split can still be very unequal.

Sources: hdr.undp.org; brookings.edu

Sources: nobelprize.org; padmaawards.gov.in

Review your 6 understanding checks

Review the feedback after each answer. The score lasts only for this page session.

Reset the checks when you want another try. This score is separate from the practice MCQs below.

Questions to think through

Why is GDP growth alone a weak test of development?

Two countries with the same income per person can end up with different health and schooling. The HDI counts those outcomes too.

Why does the HDI use the logarithm of income?

Each extra rupee matters less as income rises. The logarithm builds that idea into the score.

Why is DBT both an efficiency and an equity question?

Sending money straight to accounts plugs leakages and saves money. But anyone wrongly left off the list loses support.

Why did Sen's famine book matter for policy?

It challenged the view that famine is mainly a food shortage. So famine policy cannot look at food supply alone.

Sources: hdr.undp.org; pib.gov.in; nobelprize.org

Practice MCQs

1. What does Amartya Sen's capability approach say development should be judged by?

A. Total government spending on welfare

B. The efficiency of market prices

C. A country's GDP growth rate alone

D. A person's real freedom to live the life they value

See answer ↓

2. In which years did Amartya Sen receive the Nobel Memorial Prize in Economic Sciences and the Bharat Ratna?

A. 1998 and 1999

B. 1999 and 1998

C. 1998 and 2001

D. 1990 and 1999

See answer ↓

3. Which of the following is NOT one of the three dimensions of the Human Development Index (HDI)?

A. Income inequality

B. A decent standard of living

C. Knowledge

D. A long and healthy life

See answer ↓

4. According to the Human Development Report 2025, what are India's HDI rank and HDI value?

A. 130th, 0.656

B. 133rd, 0.685

C. 132nd, 0.678

D. 130th, 0.685

See answer ↓

5. In which view of education and health are human beings treated as ends in themselves?

A. Pareto efficiency

B. Cost-benefit analysis

C. Human development

D. Human capital

See answer ↓

6. Which of the following books is correctly matched with its author?

A. Equality and Efficiency: The Big Tradeoff - Arthur Okun

B. Poverty and Famines - Kenneth Arrow

C. Collective Choice and Social Welfare - Mahbub ul Haq

D. Equality and Efficiency: The Big Tradeoff - Amartya Sen

See answer ↓

Answer Key

1. **D.** The correct answer is **a person's real freedom to live the life they value**. Sen's capability approach looks at what people are really able to be and do, such as being well fed or voting. GDP growth and welfare spending are only means, not the goal. Market efficiency is not the test in this approach. Memory hook: capability means real freedom, not just income. ↑ Q1
2. **A.** The correct answer is **1998 and 1999**. The Nobel citation of 14 October 1998 honoured his contributions to welfare economics. The Bharat Ratna notification is dated 16 February 1999. 1990 is the year of the first Human Development Report, not an award. The reversed pair is a common trap. ↑ Q2
3. **A.** The correct answer is **income inequality**. The HDI has three dimensions: a long and healthy life, knowledge, and a decent standard of living. They are measured by life expectancy, years of schooling and GNI per person. UNDP says the HDI does not reflect inequality, poverty, human security or empowerment. ↑ Q3
4. **D.** The correct answer is **130th, with an HDI of 0.685**, out of 193 countries, based on 2023 data. 133 was India's rank on 2022 data. 0.656 is the average for the medium human development group. 132nd and 0.678 belong to El Salvador in the same table. ↑ Q4
5. **C.** The correct answer is **human development**. It sees education and health as part of well-being itself. Human capital treats people as a means to raise productivity. Pareto efficiency and cost-benefit analysis are tools for judging choices, not views of people. Memory hook: capital counts output, development counts people. ↑ Q5
6. **A.** The correct answer is **Equality and Efficiency: The Big Tradeoff, by Arthur Okun**. It came out in 1975. Poverty and Famines (1981) and Collective Choice and Social Welfare (1970) are both by Amartya Sen. Kenneth Arrow is known for the impossibility result on combining preferences. ↑ Q6

Quick-check answers

1. **False.** Efficiency is about avoiding waste. Equity is about fair sharing. A subsidy only for the biggest farmers can be efficient but unfair. ↑ 1
2. **True.** His book Equality and Efficiency: The Big Tradeoff came out in 1975. It grew from his Harvard lectures of April 1974. ↑ 2

3. **False.** Under either plan someone is worse off, so the Pareto rule says nothing. Another value, such as fairness or total good, must decide. ↑ 3
4. **False.** Both are hungry, but only the second person lacks the freedom to eat. Freedom of choice is central to the capability approach. ↑ 4
5. **False.** The first Human Development Report came out in 1990, nine years earlier. Its approach is anchored in Sen's earlier work on capabilities. ↑ 5
6. **True.** In Janhit Abhiyan v Union of India, a five-judge bench upheld the 103rd Amendment 3:2 on 7 November 2022. ↑ 6

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