Economics and Ethics

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At first glance, the disciplines of ethics and economics seem to be two ships passing in the night -- or if not "passing", then perhaps on collision course. One might wonder whether, if the ships did actually collide, many in either discipline would notice or even care. But what seems indisputable is that economics and ethics relate (where they do) under a cloak of darkness. They pass, or collide, mostly "at night"! Our aim here is to bring their relations into the light of common day!

There are at least three points of intersection between economics and ethics:

1. The ethics *of* economics;
2. Ethics *in* economics;
3. Ethics *out of* economics.

In offering this categorization, it will help to draw a distinction between two ways of understanding what economics is – one by reference to its *method;* the other to its *subject matter*. For example, much space in the best journals is concerned with the "economics of …" where the blank can be filled in with a variety of possibilities: the economics of crime; of politics; of sport; of religious observance; of identity; and so on. Mainstream economists will recognize all these applications as economics in the "method" sense to the extent that: they attend to the pattern of interactions among putatively rational individuals; they appeal in some way to differential incentives as a means of coordinating behaviour and/or to changes in those incentives in explaining behavioural changes; they employ abstract models and certain standard analytic techniques (e.g., maximization subject to constraint) to derive hypotheses and/or subject such hypotheses to empirical testing in some relevant domain.

However, as is evident from the list, none of these applications deals directly with topics that most would think of as "economic" in the subject matter sense.

At the same time, it would be possible to analyse what is recognizably economic subject matter by employing modes of thinking that are not economic in the foregoing sense -- as when, for example, sociologists or anthropologists might examine specific instances of market exchange, or when political scientists might analyse trade flows in terms of political leaders' personalities. Very few economists would recognize such efforts as "proper" economics – a fact that reveals the significance of method in economists' understanding of their own turf.

In terms of our own three categories, the first -- "the ethics *of* economics" -- interprets economics predominantly in terms of subject matter. Under this rubric, "economic" phenomena in the subject-matter sense are evaluated in terms of familiar ethical theories (say, consequentialism, deontology, or VIRTUE ETHICS.) The second and third categories, "ethics *in* economics" and "ethics *out of* economics", interpret the "economics" component much more in terms of method.

The Ethics of Economics

Challenging substantive moral questions emerge immediately when one considers central pieces of the economic landscape – things like *markets*, *incentives*, *prices*, *money*, *globalization,* and *wealth distribution*. What is the nature and moral significance of market exchange? What kinds of incentives are allowed for such exchange? When the actions of economic agents serve the common good, would it matter if those agents were motivated significantly by greed? Do market institutions undermine the moral virtue of individuals that participate in them? Are there some things that money should not buy? What is the appropriate moral attitude to GLOBALIZATION? Are there moral limits to the distribution of wealth that emerges from market interactions?

There is a litany of moral/political theories that can be deployed to address these questions: utilitarianism, CONTRACTUALISM, NATURAL LAW theory, LIBERTARIANISM, and COMMUNITARIANISM, to name a few. These theories are also commonly applied to a range of economics-related topics that fall under the rubrics of "BUSINESS ETHICS" or "PROFESSIONAL ETHICS." Milton Friedman, for example, famously declared that "The Social Responsibility of Business is to Increase its Profits." This declaration sparked a lively debate concerning the moral, social and political obligations of businesses. Do businesses have obligations to protect the environment and future generations? Should businesses participate in the democratic processes of states? What are the ethical limitations of marketing and creating desires? In addition to considering the obligations of business to institutions and individuals that are *external* to it, there is also a range of questions about the nature and scope of the moral, social and political obligations of businesses to the individuals and groups that are *internal* to them. What obligations do businesses have to their employees? Should there be moral restrictions on their hiring policies (e.g., affirmative action) and/or their compensation standards (CEO salaries)? What are the ethical limitations on conditions of employment: including policies regarding whistle-blowing, the provision of healthcare, the privacy of employees, or the content of corporate mission statements?

In addition to these micro-level economic issues, there are also important ethical considerations regarding macro-level economic issues. What kinds of indicators best identify economic well-being? What are the ethical limitations of outsourcing, or of negotiation strategies in international business? What kinds of international institutional arrangements (if any) could (or should) prohibit fraud, theft and EXPLOITATION in the conduct of international business? What should individuals do about global poverty -- or about medical research that focuses on diseases predominant only in wealthy nations?

Obviously here is not the place to tackle these issues. But it is worth noting the length of the list and to make several general observations about differences in the way philosophers and economists tend to deal with the various aspects. For a start, economists properly insist that dealing with all such questions involves “getting the economics right”. The more general claim is that proper normative analysis in the social sciences requires an ineradicable “positive” component. In this sense, economists are generally more attentive than moral philosophers to the challenge of feasibility considerations in ethics. [Many philosophers ignore the relevance of feasibility considerations in ethics and political philosophy for principled reasons. The classic argument for this position is presented by IMMANUEL KANT in “On the Common Saying: that May be True in Theory but it is of No Use in Practice.” Kant’s influence in this regard is apparent in JOHN RAWLS’s method of *ideal theory* in *A Theory of Justice*.] By and large, economists construe ethical issues as problems of *optimization* (i.e., the confrontation of the ethically desirable with the feasible) rather than as an exercise in seeking the ideal. In this last respect, economists enter as resolute partisans on the “non-ideal” side in the debates between ideal and non-ideal theorizing.

Economists commonly assume that agents are motivated primarily by self-interest; whereas moral philosophers often assume that agents are primarily motivated by moral considerations. Relatedly, economists think that the major lever by which behaviour can be changed is through changed incentives (e.g., monetary sticks and carrots); philosophers emphasize (rational) persuasion. Economists typically treat PREFERENCES as authoritative; moral philosophers typically regard preferences as highly questionable.

Economists tend to be resolutely behaviourist: they not only see human behaviour as the central object of *explanation;* they also think that, for normative purposes, only behaviour matters. Philosophers are inclined to assign independent significance to motives, normative beliefs, and attitudes.

Many economists like to characterize their profession as a science and in the spirit of that self-characterization, if they see any role at all for "normative considerations" in their discipline, the significance of those considerations is minimal. To the extent that economists do employ ethical claims, the norms they appeal to tend to be grounded in UTILITARIANISM. Even apparently "contractarian" notions (like the Pareto criterion) have a utilitarian (or more broadly consequentialist) cast. DEONTOLOGICAL approaches are much less common. Philosophers commonly insist that applications need to be addressed within a more appropriately nuanced normative framework – and tend to think that the sort of rather "thuggish" utilitarianism that economists typically employ is inadequate for this goal.

In all of this, the obvious conclusion is that, in engaging the large catalogue of applied ethical issues in which economic subject matter is also implicated, philosophers and economists *need each other* -- and this, despite the fact that common disciplinary practice seems to involve trying to "go at it alone"!

Ethics in Economics

The second point of intersection, ethics *in* economics, concerns the motivational assumptions that economists make about the actors that inhabit economic models. As noted earlier, the tradition in economic analysis is to assume that social actors are predominantly -- often exclusively -- motivated by narrow self-interest. Indeed, in some economistic circles, it tends to be regarded as a kind of intellectual accomplishment to demonstrate that a phenomenon apparently most naturally explained by people's BENEVOLENCE or moral convictions can actually be explained by their self-interest (narrowly construed).

Sometimes, the notion of basic economic egoism is softened to that of "non-tuism" (a term coined by the early twentieth century economist, Philip Wicksteed). Wicksteed's thought is that it is not necessary to assume that agents are entirely bereft of all personal and moral feeling – but simply that they do not carry such personal and moral feelings into their *economic transactions*. The butcher may be altruistically inclined towards his own family and a loyal supporter of his local chapel, while his relations with his customers are totally governed by self-interest. In at least some cases, "non-tuism" seems utterly plausible. Economic transactions can be almost entirely anonymous. The Ohio farmer may simply have no idea who the ultimate consumers of the bread made from his corn are – and it is not necessarily the worse for either party that that is so. As ADAM SMITH emphasizes, the gains from exchange do not depend on their being mediated by such psychological factors as a spirit of cooperativeness. However, the assumption of non-tuism may be implausible in other settings: the benevolence abroad in particular social relationships may spread to commercial ones -- and in some specific kinds of markets (say, the market for aged care, or for teachers, or for priests) certain kinds of benevolent dispositions may be a highly valued asset. Equally, in some cases, agents may be "other-regarding" in a negative way: Gary Becker's famous "economic analysis" of racial discrimination depends on just such an assumption.

More to the point, Wicksteed's concern to partition human relations into commercial "non-tuistic" and non-commercial "tuistic" ones may give the impression that the standard apparatus of economics cannot accommodate exchanges in which any element of the personal or the moral obtrudes. No such conclusion seems at all justified. An agent can be fully 'rational' in the sense used by economists, and still desire to act in accordance with social norms, or to behave “morally” (however exactly that term is construed). An employer may be benevolently inclined towards his employees; a butcher may be benevolently disposed towards (some of) his customers. Within the logic of rational action, the relevant actor’s “utility function” or “preferences” may include pretty much anything at all: what is properly to be included is largely an empirical question. [We say “largely” here because what it is proper to include may also depend on the purposes of the exercise. For example, if one wanted to work out whether the market (or perhaps electoral) competition serves to constrain certain actors to operate in the interests of certain others, it might be desirable to abstract from any natural benevolence on the part of the former -- simply in order to focus the analytic issue.] In any event, it seems quite clear that such desires -- the desire to “do the right thing”, and/or to promote the interests of at least some others in at least *some* commercial settings -- *are* a part of most agents’ desires (though perhaps with varying degrees of strength for different agents). Of course, there is no suggestion in what we have said so far that such “moral” desires occupy a privileged position in influencing action: they must muck along with other desires jostling for attention and will be reflected in behaviour only to the extent that they do not involve too great a sacrifice in terms of the satisfaction of other desires forgone. Nevertheless, it seems important to recognize that these broadly “moral desires” are indeed in play: it seems to be a simple empirical mistake to set them aside systematically as irrelevant.

In its limiting form, the assumption that all agents are totally self-interested effectively rules out the possibility that normative considerations might have any traction in the social system! Public choice economists have quite properly criticized much mainstream economic policy analysis for implicitly assuming that government acts as a kind of “benevolent despot”. [Sometimes the assumption is explicit, as in the interesting work of Tim Besley].

The force of that critique lies in two observations. First, the mainstream assumption that governments act benignly as a matter of course leaves the systematic analysis of political processes entirely out of account (perhaps assuming what is to be proven – namely, that democratic electoral constraints do compel political candidates/parties to pursue the public interest as best they can perceive it). Second, the assumption attributes to political agents what it routinely denies to the other actors in the underlying economic models -- namely, public-interest motivations. Mainstream public choice analysis has taken these observations to demand an analysis of political process in which all political actors are to be modelled as exclusively self-interested, in the same manner as standard models take individuals to be in their market roles. An alternative response, however -- and one arguably more faithful to reality -- would attribute to all agents *some* moral dispositions and allow for some heterogeneity in this respect. In this way, voting processes might be seen less as an ordered scramble over rival interests, where self-interested candidates buy support from self-interested voters, and more as a matter of public interested voters selecting the candidate who seems to them to be the most reliable pursuer of the public interest. When we say "more as", we do not mean to be endorsing here an absurdly heroic view of democratic politics. We are instead seeking to make two points: first, that all political actors -- both candidates and voters -- are morally motivated to varying extents; and second, that this mixed motivational picture looks to us to be the right kind of basis on which to develop more fine-grained positive analysis of political processes and policy choice.

The "expressive voting" school in rational actor political theory make a stronger point. Their argument is that, since individual voter action is very unlikely to be decisive over electoral outcome, the link between voter behaviour and voter interests is greatly weakened. MORAL JUDGMENTS are likely to play a larger role at the ballot box than in the marketplace, because the terms of trade between interests and moral desires are different in the two arenas of choice. This logic provides a possible rationale for a "two-hats" thesis about voters: the same individuals are likely to behave more "morally" as voters than as consumers because at the ballot-box the cost of so behaving is lower in terms of interests forgone.

Note that this expressive argument does not involve postulating any change in the *basic motivations* that agents have. Within rational actor theory, there is a critical distinction between behaviour and motivation. The same set of desires can produce very different modes of behaviour depending on the circumstances of choice. On the expressive view, the "two-hats" view is simply an application of relative price logic. So, while it may be acceptable to abstract from moral considerations in the context of most market exchanges, this abstraction may be highly misleading when confronting the very different circumstances of voter choice.

In insisting that the underlying model of human motivation should include an ethical element, we have in mind a psychological/behavioural rather than a philosophical point. The "ethics" that are relevant for any such exercise are the moral norms that people actually endorse -- not the ones that they *ought* to endorse. Conceivably, folk morality may be so deeply flawed that the arguments of moral philosophers about the "right way to think about ethical issues" might have little traction among ordinary citizen/agents. In this sense, the question of the content of the "moral", in relation to the moral considerations that actually figure in agent *behaviour*, is essentially an empirical question.

Ethics Out of Economics

In the preceding section we asked questions – in the first instance, essentially descriptive questions -- about the motives of individuals and the role that moral motivations should be seen as playing in explaining human behaviour. In this section, we change tack entirely. We want to ask how the abstract modes of thought that economists use and the analytic techniques they have found to be profitable in their own domain might be deployed, more or less directly, in ethics.

Choice

Economics, on one fairly standard view, is the analysis (sometimes the "science", sometimes the "logic") of choice. All action is conceived in economics as arising out of agent choice. Ethics too, one might think, is about choices, so understood: on one widespread view, ethics is and ought to be "action guiding." Whether the domain of choice consists of individual actions, policies, institutional arrangements, or principles, the necessity of choosing remains. You can have one option or another, but not both (all) simultaneously. There is always an opportunity cost. In that sense, choice is intrinsically comparative. So if ethics is about choice, then ethics must also be comparative.

Ethics might also be understood in terms not of actions but of developing proper attitudes – and specifically the proper attribution of praise and blame for actions viewed retrospectively. The distinction between these two roles – one forward-looking the other backward-looking -- may not always be drawn sharply; but as we have already hinted, economists focus exclusively on the forward-looking, action-guiding aspect.

Comparative vs Categorical Thinking

This idea -- that ethics is essentially comparative -- is strongly associated with John Broome. Extrapolating from the concept of preference, Broome insists that the relevant basic conceptual language for ethics is not 'goodness/badness' but 'betterness' – and presumably, by extension, not 'rightness/wrongness' but 'more right/less wrong'. This insistence goes with the observation that in many circumstances of choice there will be many options that justify the goodness/rightness ascription. Alternatively, there may be none that are right/good. But the necessity of choice will remain.

One might, of course, respond that in such cases we ought properly to be morally indifferent between the options. Perhaps in some cases this is so. But in lots of cases, this indifference claim seems implausible. For example, many people in the world are dying of starvation. This is a bad thing: it is wrong that this is so. Plausibly, it is less bad if fewer starve. But if the vocabulary of ethics is limited to the claim that it is impermissible that *any* starve, then no, more finely grained, comparative claim is strictly admissible. That anyone starves is impermissible and that is that! If an essential role of ethics is to provide action-guiding advice in relation to choice (whether over policy or institution or individual action) then it seems implausible that the measure of desirability will have just two values: we will very often have need of a more finely grained measure.

Non-Ideal Theory

One approach to this demand is to specify the ideal of complete justice (or some other moral ideal), and then devise a metric of "closeness to the ideal". That is one approach. But the specification of the "ideal" is neither necessary nor sufficient for a metric of "more and less". We need have no notion of ideal height, for example, to be able to determine which of two people is taller. Conceivably we need not have any notion of what system would be totally just, as long as we have a 'principle' that reveals the dimensions of justice and the measures and weights of the various dimensions. Analogously with liberty, or well-being, or whatever precisely the 'betterness-makers' are. In this sense, the economistic approach is sceptical of any theory that is preoccupied with specifying what the ideal would be.

But "ideal theory" has a special connotation in ethical circles. Among the many constraints that might be in play, one class involves the motivations of the agents whose behaviour is taken to be governed by the theory. Neither specifying the ideal of justice nor developing a metric of closeness to that ideal (or any other approach to developing a metric of greater justice) requires any assumption about the actions of agents in relation to the theory. But any application of the metric of justice so derived – the choice between institutions or policies or actions -- will require just such assumptions: the actual motivation of relevant agents is an operative constraint, just like constraints of limited resources. Indeed, since the supply of resources depends on the motivations of the agents involved in their supply (how hard they work, their incentives to acquire human capital and so on) it is hard to see how resource constraints could ever be entirely beyond the reach of moral requirements.

If ideal theory is committed to the assumption that the agents subject to the normative theory themselves behave entirely in accord with that theory's requirements, then economists will be inclined to think that a central element in defining the feasible set has been assumed away.

Optimization vs Idealization

At the core of the economic approach to ethics is the conception of ethics as an exercise in optimization. In that optimization exercise, a specification both of the various dimensions of desirability (in appropriately comparative terms) and of (all) the operative constraints is indispensable. Typically, the notion of desirability will itself be pluralist: trade-offs between equality and liberty and well-being will be required. The relevant "terms of trade" between say equality and liberty will be given by the constraints that are currently operative: the question of how much more equality one can achieve by giving up a little bit of liberty (or vice versa) and whether that bit more equality is worth more than the liberty forgone, are necessarily part of the whole normative exercise. One extreme possibility is to set aside such trade-offs by the assumption of lexical ordering in the relevant "indifference curves" -- so that one of the dimensions of normative desirability trumps all others. But economists tend to be uncomfortable with infinite prices -- for good reason.

The economic approach cannot of course say much about the terms of the relevant trade-offs, but economists have a prejudice in favour of broad ‘convexity’ -- specifically, the idea that it is more likely to be desirable to give up a little bit of liberty to achieve a given amount of additional equality if the circumstances are such that there is a lot of liberty and only a little equality. That is, whatever the precise metrics of equality and liberty are in play, as the amount of liberty relative to equality in the status quo increases, the relative marginal value of liberty in terms of equality forgone diminishes. This kind of convexity assumption is not of course an a priori truth. But extrapolation from other arenas in which competing objects of desirability have to be traded off suggests that convexity is a plausible requirement. (In other words, ethical desirability ought to be broadly PRIORITARIAN in relation to the various plural elements of which overall desirability is composed. This consideration does not necessarily involve a commitment to prioritarianism in relation to the distribution of goods among persons -- though there remains the same general prejudice in its favour.)

Trade-offs between broad abstract principles like equality or well-being or liberty are easier to conceptualise in more limited cases – such as when considering trade-offs between aggregate well-being and equality in its distribution, or between freedom of choice and well-being in cases involving paternalism. But economists will be inclined to the view that feasibility constraints will require trade-offs at all levels, including those relating to the most inclusive, abstract ideals.

Certain absolutist moral theories (e.g., traditional divine command theory and certain strong deontological elements of Kant's moral philosophy) will reject the comparative thinking exemplified by economists. Absolutist deontological theories require their practitioners to construe moral philosophy as a hermetically sealed discipline. Strong deontological theories are committed to the extreme view that a particular understanding of moral value is supreme and uncompromising. The fanatical nature of these theories is one reason that most respectable deontological theories (e.g., the "weak deontology" of Thomas Nagel) acknowledge that there are trade-offs to make within the moral domain of value and between moral values and other types of values. The comparative approach to moral thinking is congenial with garden variety forms of utilitarianism but it is also agreeable with deontological theories which acknowledge that it is a messy job to weigh moral values. Comparative thinking in ethics is consistent with utilitarian and certain deontological moral theories.

Conclusion

Our general picture is one in which Economics and Moral Philosophy (and perhaps Moral Anthropology) constitute respectable specializations in the division of intellectual labour, the ultimate object of which is a more or less coherent body of mutually intelligible knowledge. The underlying conviction is that economists and ethicists need each other and do so more than the predilections of the disciplines (reinforced by respective professional incentives) tend to acknowledge.

Here, we have attempted to suggest three main ways in which economics and ethics might intersect -- three kinds of conversations in which economists and moral philosophers might usefully engage. The three conversations, though conceptually quite different, tend to be mutually reinforcing. Applied ethics in the economic domain is likely to confront economists' prejudices about how ethics ought to be done and about what a notion of ethical desirability ought to deliver. Economists are likely to confront a conviction on the part of philosophers that the 'crooked timber of humanity' is a good bit less crooked than most economists are prone to assume, or else find that philosophers have a different understanding of the form such 'crookedness' takes.

<u>SEE ALSO</u>
BENEVOLENCE, BUSINESS ETHICS, CONTRACTUALISM, DEONTOLOGY, EXPLOITATION, GLOBALIZATION, IMMANUEL KANT, LIBERTARIANISM, MORAL JUDGMENTS, NATURAL LAW, PREFERENCES, PRIORITARIANISM, PROFESSIONAL ETHICS, JOHN RAWLS, ADAM SMITH, UTILITARIANISM, VIRTUE ETHICS

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