2019

Introduction to "The Oxford Handbook of Ethics and Economics"

Mark D. White
CUNY College of Staten Island

How does access to this work benefit you? Let us know!
Follow this and additional works at: https://academicworks.cuny.edu/si_pubs
Part of the Economics Commons, and the Philosophy Commons

Recommended Citation

This Book Chapter or Section is brought to you for free and open access by the College of Staten Island at CUNY Academic Works. It has been accepted for inclusion in Publications and Research by an authorized administrator of CUNY Academic Works. For more information, please contact AcademicWorks@cuny.edu.

Please quote and cite the original source.

The birth of modern economics is credited to a moral philosopher who wrote of both sympathy and self-interest, but nearly 250 years later the connection between ethics and economics has worn thin. In the last century especially, economics has adopted a scientific, positivistic, and empirical sheen, and its ethical foundations have been more difficult to discern, although they are still there. As long as it studies the choices, interactions, and welfare of human beings, economics cannot deny its roots in moral philosophy. At the most basic level, choice and well-being matter for a reason—and more to the point, human beings matter for a reason. Economists may take these things for granted when they go about their work, much as chemists take the existence of matter for granted. Unlike chemists, though, economists’ attitudes toward the persons they study help determine the methods, results, and interpretations of their research, as well as the recommendations they make to business and governments based on it.

This handbook, and the chapters that comprise it, do not attempt to restore ethics to economics, for it was never truly gone. When buyers and sellers meet in markets to trade money
for good and services, they are seeking their own self-interest—but they are also behaving honestly and honorably, although standard economic models make it difficult to explain why.

Policies, regulations, and laws are typically designed to maximize aggregate welfare, and this is certainly an ethical goal—but not the only one, and economics needs to make room for other possibilities. The contributors to this volume highlight the ethical concepts inherent in economic analysis, extend the ethical foundations of economics into new areas of moral philosophy, and apply these techniques to a wide range of economic topics.

If “ethics and economics” or “economics and ethics” can be considered a field unto itself, it is a bifurcated one at best. The most visible part is methodological and critical, with economists, philosophers, and other scholars challenging mainstream economics for its narrow focus on the maximization of utility or welfare to the neglect of concepts such as virtue, rights, dignity, or justice. For example, Amartya Sen introduced the concept of commitment into economics to challenge the singular pursuit of preference-satisfaction (1977) and questioned the priority of values with respect to the Pareto criterion (1970). Amitai Etzioni (1987, 1988) asked if simple preference-satisfaction was sufficient to explain altruistic behavior and introduced concepts inspired by Kantian ethics to give the standard economic model more depth. Deirdre McCloskey emphasized the importance of virtue, not only in the history of economic thought (2008) but also the history of commerce and trade (2006, 2010, 2016). Given the critical stance of this kind of work, it is natural that heterodox economists have taken the lead in questioning the ethical presuppositions of mainstream economics, chief among them being social economists (Davis and Dolfisma 2015), feminist economists (Ferber and Nelson 2003), and Austrian economists (Boettke and Coyne 2015). Many of the participants in this volume have made
substantial contributions of their own in this area, and their chapters herein advance their integral work.

The other part of the field is not as revolutionary and has therefore been less recognized, but is no less valuable. It consists of the wealth of research into ethical behavior on the part of mainstream economists using more modest revisions or reinterpretations of economic theory. A prime example is the voluminous research, both theoretical and empirical, on the economics of altruism, in which economists study and explain the incidence of charitable behavior by either expanding models to include other-regarding preferences or utilities without violating any of the axioms of choice theory (Bergstrom 1999; Fehr and Schmidt 1999) or positing different types or sources of utility to motivate self-regarding and altruistic behavior, a modest modification to the standard model (Margolis 1984; Etzioni 1988). Copious experimental evidence confirms that people often do not behave as the simplistic models of self-interest predict (Fehr and Schmidt 2006), and behavioral economists, who recommend more significant changes to the constrained preference-satisfaction model (while leaving its core intact), also work to explain this behavior with more elaborate and psychologically realistic models of choice (Dhami 2016: Part II). Evolutionary economists work to explain how the psychological foundations of economic behavior allowed early human beings to adapt to their environment, which reinforces the foundations of both mainstream and behavioral conceptions of choice (Bowles and Gintis 2011). Again, many of the chapters in this volume are written by pioneers in this area of economics and ethics, providing background, extensions, and applications of their seminal work.

These two parts of economics and ethics overlap, of course; commentary on technique need not be separate from application of it. Even the relatively mainstream work on altruism requires some changes to the standard economic model of choice, however modest. The more
significant methodological critiques of economic technique and theory can—and should—be applied to topics of economic interest such as consumption and production theory and policymaking. Gary Becker (1976) famously expanded the domain of economics to topics previously thought to be sociological or legal—such as marriage, discrimination, and crime—but he did so strictly within the neoclassical framework, which neglects their inherent ethical dimensions. An expansion of the ethical foundation of economic theory is necessary to explain all the relevant facets of these phenomena and to predict behavior accurately. This goes for more “normal” economic activity as well, such as consumption and production, which have important ethical aspects that are taken for granted at best (and ignored at worst). Also, heterodox and political economists who urge more attention given to inequality and injustice are often reformers at heart—like Jeremy Bentham, the implicit inspiration behind mainstream political economy—urging changes to economics to produce positive change in the real world.

Ethics is essential not only to economic theory, policy, and practice, but perhaps even more so to education. Very few economics students are exposed to ethics in any explicit manner, and the implicit ethical foundations of the economics they are taught are rarely brought into the light. Excellent resources exist, including books useful as texts for beginning students (Wight 2015) and advanced ones (Hausman, McPherson, and Satz 2016; Dutt and Wilber 2010), as well as handbooks for practicing scholars (Peil and van Staveren 2009, and the present volume), but the importance of ethics to economics must be recognized by the institutions responsible for education. To this end, movements on part of students and scholars, such as Rethinking Economics (Fischer et al. 2017), are prompting reconsideration of economics education around the globe (particularly since the Great Recession), and ethics needs to part of this in order for economics to reach its full potential. (The ethical behavior of economists themselves has also
attracted increased attention in recent years; see DeMartino 2011 and DeMartino and McCloskey 2016.)

Neglect of ethics means ruling out possible explanations of behavior, unexamined topics of study, and crucial perspectives on policy issues. Economics cannot claim to speak to all aspects of life and still maintain an insufficiently broad perspective that obscures important aspects of the world. It can be a worthy heuristic experiment to see how much an assumption can explain—and the mainstream paradigm certainly explains a lot—but when it is clear the assumption fails, there is no virtue in defending it as if it had intrinsic rather than instrumental value. The methods and approaches of economics are means to explain and predict human behavior, design institutions, and recommend policy, and economists should be willing to modify, extend, or reject them when sufficient evidence indicates. For example, in recent years mainstream economists have increasingly acknowledged the innovations of behavioral economics, which are now being absorbed into the mainstream, leading some to proclaim that behavioral economics simply is economics. Let’s hope that sometime in the near future, we can say that ethics-and-economics simply is economics—which would certainly be a better economics, both practically and morally speaking.

Although the phrase “ethics and economics” would suggest a two-way exchange of ideas—which would be ideal—this has not been the pattern in the field, which, as described above, has dealt primarily with economists attempting to incorporate more elaborate conceptions of ethics into their work to better explain behavior or influence policy. For the most part, this handbook follows suit, with the chapters herein presenting various ways that ethics can contribute to economics. The volume is divided into two broad areas, foundations and applications, with a
concluding chapter explaining what economics can contribute to ethics in turn, pointing the way to a true bilateral cooperation between the two fields in the future.

The first half of the book looks at foundational issues of ethics in economics. The first section surveys five significant ethical thinkers or schools of thought and explores their actual or potential influence on economics. Appropriately, the first chapter, by Stefanie Haeffele and Virgil Henry Storr, deals with Adam Smith, the moral philosopher cited at the beginning of this introduction, explaining how he established a more complete social science that emphasized sociality and sympathy, especially in markets (which are looked at in more depth in the second part of the volume). The second chapter, by Jennifer A. Baker, explores the contributions that a rich conception of virtue, based on ancient philosophers such as Aristotle and the Stoics (as well as Smith), can make to economics, presented in the context of business ethics—and a notorious character from the work of Charles Dickens. In the third chapter, Mark D. White surveys his work integrating the deontological ethics of Immanuel Kant into economic theory and practice, and argues that economists need to acknowledge concepts such as principles, rights, and duties in order to capture the richness of human choice, as well as the true impact of utilitarian policy that wrongfully harms some for the benefit of others. In the fourth chapter, Jonathan B. Wight argues for a pluralist approach to ethics in economics, writing that no single school of ethics can capture every relevant moral aspect of economic phenomena. He recommends combining and balancing the perspectives of virtue, duty, and welfare, and responds to criticisms of a pluralistic approach to ethics in economics. In the final chapter of this section, Constanze Binder and Ingrid Robeyns present the capabilities approach of modern philosophers Amartya Sen and Martha Nussbaum in relation to economics. As Binder and Robeyns argue, the capabilities approach balances the two concerns of freedom and well-being in a way that makes it
particularly useful for the evaluation of institutions and economic systems, but not without limits, which they are also careful to identify.

The second section of the foundations half of the book looks at the evolutionary roots of morality in the context of economic theory and thought. The first chapter, by Geoffrey M. Hodgson, addresses the issue of sympathy versus self-interest highlighted by Adam Smith and others, but in the context of the work of Charles Darwin, who emphasized the same themes in his work, and also explored how language and deliberation were essential to the development of morality. On this basis, Hodgson explains how moral sentiments important to economic behavior may have evolved, and questions whether the assumption of other-regarding preferences is sufficient for economic models to explain altruistic behavior. In the second chapter, Gerald Gaus presents the work of Friedrich von Hayek, who used the concept of spontaneous order to offer an explanation of the evolution of morality that aligns with current science while avoiding the utopianism of many current political philosophers. Gaus challenges, however, Hayek’s focus on group selection, arguing instead that a Smithian “invisible hand” can maintain social cooperation. In the final chapter of this section, David C. Rose surveys classical economic ideas about decision-making and introduces the visual metaphor of a bookshelf with books of different colors to represent choices of different degrees of social conformity. He then uses this to explain how the style of economic thinking that Deirdre McCloskey terms “Max-U” could have evolved in tandem with the development of the market economy.

The contributors to the third section of this half of the book explore various schools of thought within economics and how each incorporates ethics to better explain economic behavior. The first chapter, by Sanjit Dhami and Ali al-Nowaihi, surveys the work done by behavioral and experimental economists in studying ethical and unethical behavior—particularly lying—
and argues that behavioral economics provides a more inclusive framework that results in more accurate and useful predictions of economic behavior, especially when ethical factors are present. The second chapter, by John B. Davis, examines the interrelationship between ethics and economics on a more methodological level, exploring the nature of the relationship between the disciplines using a complex systems approach. Davis argues that social economics, which assumes that market processes are embedded in social processes, offers a better context for dealing with ethics and economics than mainstream economics does. In the third chapter, Peter Boettke and Kaitlyn Woltz look at the connection between economics and ethics in the Austrian school of economics, with particular attention to the separation between ethical assumptions and economic analysis in the context of twentieth-century Austrian economists’ support of free markets and capitalism (which are addressed further in the second half of the book). In the next chapter, Ulrike Knobloch explores the ethics of feminist economics, or what she calls feminist economic ethics (which also takes queer and postcolonial ethics into account). In this framework, she critically examines various topics such as the androcentric point of view of economics, the ethics and economics of gender norms, and the nature of ethics, justice, and provisioning, all from the point of view of care. Finally, the chapter by Arlo Klamer introduces a value-based approach to economics based on cultural economics, using a novel five-spheres model of the economy to explore the many ways that culture is essential to economics and emphasize that sense-making is an integral aspect of the economic process.

The second half of the book focuses on applications of ethics to important topics within economics, whether from a mainstream or expanded perspective. The first section is devoted to the ethics of commerce and markets, a topic mentioned in several of the chapters in the first half of the book. In his opening chapter, James R. Otteson discusses the ethical approaches of...
contributors to classical political economy, especially David Hume and Adam Smith, as well as their critics, including Jean-Jacques Rousseau and Karl Marx. He describes how Hume and Smith saw markets as not only moral but truly humane, helping to ensure for a broad prosperity, give special assistance to the poor, and enhance sociality in general. Julian Reiss takes a similar approach in his chapter, looking at the relationship between capitalism and democracy through the work of Alexis de Tocqueville, Joseph Schumpeter, and Karl Polanyi, as well as Marx and Hayek. Reiss then extends their perspectives into the current literature, in the end questioning which type of capitalism that exists today, if any, can co-exist with democracy. In the third chapter, Joseph Heath focuses on profit, pointing out its counterintuitive role as the motivation for competition, which ideally drives profit to zero. Because morality is normally understood to make people more cooperative, Heath asks if profit can truly be moral if it encourages competition, even as a means to overall beneficial end. Next, Joakim Sandberg examines the ethics of money and finance, starting with their existence per se and then questioning the ethics of financial practices, suggesting ways to make them more honest or fair. He also considers arguments that agents within financial systems have social responsibilities beyond their own self-interest, a common question in discussions of commerce in general. Finally, Michael S. McPherson and Debra Satz look at labor markets, perhaps the most human aspect of commerce if not always the most humane. Recognizing that markets for labor have unique properties that distinguish them from other markets for inputs or output, they survey a number of perennial issues, including unemployment, the minimum wage, and the organization of work in a just society, as well as ethical implications of the rise of the gig economy.

The second section of this half of the book deals with the difficult problem of policymaking in an ethical fashion, both within welfare economics itself—especially in the
context of risk—as well as in conjunction with fairness and equality. In the first chapter, Matthew D. Adler provides a comprehensive review of cost-benefit analysis and social welfare functions, the two most widely used approaches to welfare economics and policymaking, and makes a case that the social welfare function approach is preferable in the context of a number of important ethical principles that complement basic welfarism (including prioritarianism, which gives additional weight to the well-being of the worse-off). Next, Marc Fleurbaey focuses on risk and uncertainty, and examines several ethical questions with making social decisions involving risk to various parties, such as whether social decisions be more or less risk-averse than those individuals make for themselves; how policymakers should respond to large but unlikely catastrophes compared to smaller but more frequent harms; and how these questions relate to egalitarianism, both ex ante and ex post. The third chapter, by Luc Bovens, looks at similar ethical issues of risk using examples such as drug allocations, charitable giving, breast-cancer screening, and Caesarian sections. He explains how each example has its own unique characteristics that make a utilitarian approach unpalatable, and questions the sufficiency of formal modeling alone to solve these difficult issues. Finally, George F. DeMartino looks at what he calls econogenic harm, harm done by economists in the process of trying to do good, which arises because of the uneven impact of economic interventions (especially those justified by cost-benefit analysis) and the epistemic problems that plague much work in economics. Because econogenic harm is inevitable to some degree, DeMartino proposes an “economy harm profile analysis” to help economists analyze it, reduce it, and identify opportunities to rectify it when possible.

The final section of this half of the book looks at four major applied fields of economics with significant ethical aspects. In the first chapter, Daniel M. Hausman tackles the fraught
issues of health care and health insurance, explaining the difficulty of designing health policy and law to deal with asymmetric information, adverse selection, and moral hazard. He then complements the typical economic concern of efficiency with the equally important values of compassion, choice, efficiency, fairness, and solidarity, arguing that, in the end, health care markets must be both economically sound and morally defensible. Next, Eyal Zamir and Barak Medina consider deontological morality within the context of the economic approach to law (or law and economics) as a way to counterbalance and improve upon the standard utilitarian approach to the discipline. Specifically, they propose using threshold deontology, which limits the enforcement of deontological rules when their cost reaches a particularly high level, as a way to integrate rules and standards within a legal decision-making framework without abandoning concern with outcomes altogether. In the third chapter, David Schmditz investigates the concept of justice within discussions of ecology and the environment, arguing that an economic approach is integral to arriving at realistic solutions. After asking what it means for justice to be realistically ecological, he discusses the evolution of justice along early humans and how it makes compromise possible in a world of political conflict, especially with regard to environmental issues. In the last chapter of the section, Brendan O’Flaherty looks at the justification for civil rights in terms of both ethics and economics, explaining why they rightfully apply only to those subject to discrimination, and critically examines their effectiveness in light of their rationale, finishing with some suggestions for reform.

The volume concludes with a chapter by John Broome that turns the focus away from what ethics can contribute to economics, and points instead to lessons that economics can teach ethics, such as the right and (especially) wrong way to use the word “utility,” as well as the usefulness of mathematical methods, which he illustrates with an overview of the discussions of
prioritarianism in both economics and philosophy (moral and political). More generally, Broome’s chapter suggests an avenue for the field of economics and ethics to be a truly interdisciplinary venture in which each part contributes to the other, possibly even leading to a new collaborative entity in which both ethics and economics work together toward their common goals of human prosperity and flourishing, however those might be defined or expressed.

References


