

# Understanding Ethics in Economics

## Positive Economics

*Predictions are different if humans have the inclination for moral action.*



Is your doctor a Kantian?

• Hippocratic Oath is a duty to patients.

What is the impact on economic efficiency?



Is your car mechanic an Aristotelian?

\* Virtuous conduct is part of character or identity.

What is the impact on economic efficiency?



Is your local business owner a consequentialist?

\* Honesty is “enlightened” self-interest if it makes more profit.

What is the impact on economic efficiency?

Summary: Honesty in exchange can arise for at least three reasons:

- \* Economic actors think it is their **duty** to obey moral laws.
- \* Economic actors see their **identity** or **character** tied to virtuous behaviors.
- \* Economic actors see their **self-interest** tied to acting honestly.

**QUERY**: Why would economists tell the truth at ASSA meetings?

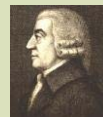
- duty to their peers (lying hurts the profession)
- personal integrity (lying is wrong)
- fear of getting caught (enlightened self interest);
- some mix of the above.

Moral inquiry is critical to both positive and normative economics.

## The Invisible Hand

The invisible hand works within a moral and institutional context.

“He can know better the character and situation of the persons whom he trusts...”  
(Adam Smith, *The Wealth of Nations*, 454).



### Adam Smith's Model of Human Motivation

Humans are social creatures

\* Interest in self \* Interest in others \* Interest in justice

All three passions are important for market development.

Morals further the creation of social capital.

→ Social capital lowers transactions costs.

→ Low transactions costs keep capital at home.

→ Capital at home aids national growth and jobs.

These benefits are ascribed to the invisible hand (WN, 454-5)

A key part of what we teach our students about markets contains ethical presuppositions.

See: Jerry Evensky, “Ethics and the Invisible Hand,” *Journal of Economic Perspectives* 7(2)(1993):197-205.

## Normative Economics

*Moral inquiry is a necessary step in critical thinking.*

Critical thinking relies upon positive economics and the consideration of competing values and ethical approaches.

→ Excessive technical training (and the absence of normative inquiry) is a cause for concern – because students may end up as technocrats rather than as leaders.

Three main normative frameworks:

### A. Analyze Consequences (cost/benefit approach)

Individuals weigh their goals and choose the policy that best achieves the desired outcome.

→ But analyzing outcomes is not the only way of proceeding. Alternative ethical approaches focus on process or on identity.

### B. Analyze Rules and Duties (Kantian)

Individuals ask what rules or duties should guide action. Outcomes should not trump process.

### C. Analyze Virtues (Aristotle/Smith)

Right action conforms to the picture of an ideal human character.

*Economists need to understand competing moral theories if they hope to understand public policy controversies.*

**Moral commitment “drives a wedge between personal choice and personal welfare.”**

**-- Amartya Sen (1977, 329).**