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?

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

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.


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 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."

© Jonathan B. Wight, author of Saving Adam Smith