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# Moral Reasoning in Economics

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## 4. Moral reasoning in economics\*

**Jonathan B. Wight**

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The Teagle discussion analyzes why economics teachers have become overly narrow in their pedagogical perspectives, thus pulling back from fully supporting the liberal arts agenda. In Chapter 1, Colander and McGoldrick (p. 6) observe that the generalist approach that excites students by asking “big think” questions across disciplinary boundaries fails to generate new knowledge, while the narrow “little think” questions that *can* be answered often fail to develop the critical thinking skills necessary for liberal education. As one example, the authors cite the decline of moral reasoning in economics, which was once center stage in Adam Smith’s analysis of society. Since the rise of positivism in the late nineteenth century, moral reasoning has become an intellectual casualty.

Virtually all major public policy problems cross disciplinary boundaries however, and raise substantial normative questions. If a key goal of the liberal arts is to prepare students to make reasoned judgments about complex issues, economics educators cannot sit on the sidelines and expect that this will happen magically. Teachers play an important role in defining the questions and discerning the methods for arriving at answers. A liberal arts focus in economics would ensure that students grapple with ethical dilemmas informed by a variety of approaches and competing ethical frameworks. Moral discourse is an important way for students to scrutinize their own unstated beliefs and to develop a deeper appreciation for the benefits (and the limitations) of economic theory. Without it, we may be training technocrats skilled in techniques but not prepared to be business or community leaders – who will certainly have to navigate moral minefields.

The contribution of this discussion is to point out that a liberal education requires critical thinking skills that are only partially addressed by traditional methods in economics. What it means to “think like an economist” contains a hefty dose of implicit ethical judgment – which in a liberal arts setting should be examined and debated as a way of integrating economics with its sister disciplines in philosophy, political science, and other fields. This comment deals with two areas of potential controversy – welfare analysis and alternative moral frameworks.

## WELFARE ANALYSIS IS NOT PURE SCIENCE

If economics is a science, why should economists and their students know or care about ethics? The answer has three parts: first, students are implicitly using ethical frameworks and theories in carrying out positive research whether they are conscious of it or not. To progress, science requires shared moral norms and positive economics entails acceptance of these ethical ideals. Second, having students pursue the “little think” questions in research often involves an uncritical acceptance of the ethical assumptions and worldview upon which the research is built (Colander and McGoldrick, Chapter 1, this volume, p. 6; Kuhn, 1962). Third, many students (and faculty) are unaware that efficiency and Pareto optimality are ethical constructs. Critical thinking about cost/benefit requires going outside this comfort zone. This last point is the most troubling, because if “efficiency” is viewed simply as a “fact” instead of an evaluative concept, this creates intellectual blinders for students attempting to cross disciplinary boundaries (as we hope they would do in a liberal arts setting). I note below, for example, that economics students and public health students will likely have opposing views of what is meant by efficiency – which is understandable only if the concept is properly understood as part of normative discourse.

Economic efficiency is often portrayed as a positive concept however, because “welfare” can be defined and quantitatively measured through consumer and producer triangles. Few principles textbooks adequately address the point that welfare economics was developed as a branch of normative economics and that its offspring of economic efficiency is equally an ethical proposition: it is constructed on the basis of choosing a worthy normative goal. As the history of thought fades from graduate school requirements, fewer teachers understand the evolution of welfare theory and the issues that arise for public policy analysis.

Here is a quick thought experiment to bring out the normative character of economic efficiency. Assign students the role of doctors engaged in an emergency medical triage (the ranking of patients for treatment based on medical severity and/or survivability). Tell the student-doctors that each patient needs an antibiotic to survive and that there are more patients than doses of antibiotic available. In this short-run emergency, the supply of antibiotic is perfectly inelastic. Some gravely ill patients will likely die even if given the antibiotic. Ask the student-doctors: “How would you decide to allocate the scarce antibiotic?” (Answer: doctors would probably want to allocate serum so as to be efficient at “saving the most lives,” which means giving doses of antibiotic to those whose survivability is most enhanced.) Next ask the student-doctors, “What would you do if many of the patients

most likely to die without antibiotics were children?” (Answer: many doctors would now change their allocation so as to be efficient at “saving the most life-years-extended,” which means factoring in not only expected survival but expected years lived after survival.) Finally, ask the student-doctors to consider what would happen if antibiotics were allocated not by triage, but rather sold to the highest bidder so as to satisfy individual consumer preferences in the market. (Answer: economic efficiency is achieved, but probably fewer lives would be saved since triage was ignored.)

This exercise makes clear to students that there are a multitude of notions of “efficiency,” and each serves a different normative master. Economists use a particular ethical norm as their implicit “baggage” – the definition and choice of dominant goal (“economic welfare”) – by which the economic system is evaluated. The economic view is most certainly defensible, but not on positive grounds; it relies upon a series of restrictive normative arguments. This economic baggage should be subject to scrutiny and discussion in the classroom. You would not let someone on a plane without checking the contents of their carry-on, and economics education should be no different. We should unpack and examine the ethical framework that informs the standard economic approach. For a complete discussion of these issues, see Hausman and McPherson (2006).

Textbooks set the context for much classroom discussion, and most textbook authors have followed the trend of preparing students for narrow specialization rather than liberal learning. In the most recent edition of Frank and Bernanke (2009), the authors illustrate some of the problems relating to the discussion of efficiency. First, the authors carefully note that “efficiency is not the only goal” of an economic system and that an efficient outcome is not the same thing as a “good” outcome. But they go on to state – as if it were a scientific fact rather than a normative argument – that, “efficiency should be the first goal.” The authors base this claim on the assertion that being economically efficient “enables us to achieve all our other goals to the fullest possible extent” (p. 179). This implies that static efficiency in the short run is *in fact* the only “good” outcome because there is an alchemic process that can best turn it into any other desirable outcome. As we demonstrated in the triage case, however, this is not always possible. Achieving economic efficiency often comes at the expense of other measures of efficiency, such as saving the most lives or life-years extended.

Even if the economic welfare approach (satisfying consumer preferences) does not save the most lives in the short run, students should discern that allowing patients to bid up the price of antibiotics could lead to more serum (and better serum) being produced in the long run. Hence, more lives might be saved over time by allowing competitive markets to

work. This is an insightful point, and students should consider the structure of it: the economic goal has suddenly shifted from *static* efficiency to *dynamic* efficiency. Our attention turns away from satisfying consumer preferences in *this* market, and towards satisfying preferences in some undefined *future* time period. Do future consumers have moral standing (for example, should their preferences count)? What is the correct time horizon for making this analysis? And how should we discount future lives gained versus the present lives lost? One distinction between classical and Austrian economists on the one hand, and modern neo-classical economists on the other, is the differing attention provided to dynamic versus static efficiency (Blaug, 2001). These are thorny ethical issues in addition to scientific questions, and students will confront similar problems in a variety of policy areas and classes.

In summary, economics teachers can make a strong case for appraising policies on the basis of static efficiency, but this requires an evaluative framework that is substantially different from classical economics and from other consequentialist approaches (such as classical utilitarian or rule-utilitarian approaches). *Non-consequentialist* modes of analysis might also be helpful in some cases (Frank, 2000). We turn briefly to this topic.

## ALTERNATIVE ETHICAL FRAMEWORKS

The analysis of public policy goes deeper than simply choosing normative goals within a consequentialist framework. The reason for this is that sometimes *process* matters, and “the ends do not justify the means” as exemplified in Kantian and religious ethics. My experience is that many students adopt duty-, rights-, and religious-based arguments either consciously or unconsciously. Students encounter Kantian ethics in a variety of non-economics classes, and they are taught the categorical imperative that no person should be used as a means to another’s end. Students thus justify the Living Wage movement based on a belief in the inherent dignity and equality of every person, rather than an analysis of outcomes produced by such a policy. Religious rules and duties (such as the Ten Commandments) also shape the social landscape and their “rightness” is said to derive from divine law. Some students support market interventions like price controls because of intrinsic religious or other norms against price gouging and usury.

In addition to rules and duties, virtue ethics is an increasingly popular moral theory that students will encounter in philosophy and business ethics classes. Virtue ethics deals with understanding and shaping the

intentions and preferences of the economic agent. Students are thoroughly familiar with this approach because proper socialization usually entailed parents and other mentors highlighting virtuous conducts and enforcing habits they would like their children to internalize. For most economists, intentions and preferences are exogenous to our models and not within the scope of public policy choices. Yet current policy debates may raise notions of personal responsibility, self-control, and civic virtues (for example, in welfare reform, in tax compliance, in voting, and ultimatum game behaviors).

Rather than dismissing non-economic perspectives, teachers should engage students in critical thinking exercises about non-consequentialist ethical approaches. This creates openings for discussion between classes in economics and political science, philosophy, religion, and other areas where rights, duties, and virtue ethics often dominate the discourse. It is also important that faculties in those disciplines abandon the caricature of *Homo economicus* and develop a deeper appreciation for consequentialist thinking in economics and the ethical justification for markets that derive from it. To promote these ends, I briefly outline in class and in a handout the three main ethical approaches (consequences, duties/rules, and virtues). I tell students that economics can contribute important insights to the analysis of consequences, but that some public policy situations may require them to analyze and judge alternative ethical frameworks supported with relevant arguments. While economists are not experts in moral theory, that in itself is an insufficient reason for ignoring the topic. Critical thinking would require grappling with alternative ethical frameworks because they are ubiquitously intertwined with public policy choices and with the lives our students lead outside of economics classes.

## CONCLUSION

Preparing students for complex decision-making may require reintegrating a basic understanding of how economists construct measures of welfare, how moral agents actually behave in markets, and how science relies upon virtuous norms and normative arguments. The Teagle report rightly laments the neglect of moral reasoning in economics because its absence in the classroom limits critical thinking and ultimately debases the liberal arts experience. If economic concepts were successfully integrated into a liberal arts setting, students “would not think that the economic way of thinking is the only right way of thinking” and they would be knowledgeable about alternative ways of thinking (Colander and McGoldrick, Chapter 1, this volume, p. 19). A liberal arts education would reveal the

economic way of thinking in its historical and ethical context, providing linkages to other disciplines. It is always challenging for teachers to take on something new, and moral discourse may be a particularly troubling add-on for economists. My own experience is that the marginal costs of introducing ethics are quite low when normative discourse is addressed in small doses over many days (examples can be found in Wight and Morton, 2007). Like most teaching, repetition is needed for students to develop competency. The marginal benefits of addressing moral inquiry are quite large, however, because the study of economics adds more to the students' liberal arts experience when its practice is synergistic with, and complementary to, other social sciences and humanities.

## NOTE

- \* Erik Craft, KimMarie McGoldrick, Robert Frank, and Justin Weiss provided valuable comments; conclusions remain the author's. This discussion draws on a forthcoming essay (Wight, 2009).