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# Teaching the Ethical Foundations of Economics: The Principles Course

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# 5 Teaching the ethical foundations of economics

## The principles course

*Jonathan B. Wight*

*Plagiarize!*

Let no one else's work evade your eyes.

Remember why the Good Lord made your eyes.

So don't shade your eyes but

Plagiarize, plagiarize, plagiarize!

(Only be sure to always call it please, "research.")

(Lehrer 1997)

When we analyze the source of humor, one ingredient is surely incongruity, the juxtaposition of opposites. So when Tom Lehrer, the consummate Harvard mathematician, openly calls for plagiarism, this is *funny* because it is exactly the opposite of what we expect – it is absurd. And yet, from the viewpoint of modern economics, is plagiarism really so absurd? We teach our students to maximize short-term profits (in a moral vacuum). We drill them that producers minimize private costs of production (without reference to ethical codes of conduct). We expect economic agents to operate with atomistic selfishness, assuring them that this will magically produce the greatest good for society (ignoring Adam Smith's ethical foundations for the invisible hand). Why should we doubt that these messages, communicated over the decades, would not take root?

It is personally efficient for students to plagiarize. Time is scarce, and filching allows term paper production costs to be minimized and the potential output of a grade to be maximized. Professors, incidentally, are better off when students plagiarize because they will enjoy reading superior papers than otherwise.<sup>1</sup> Future employers may be none the worse, since much of what is relevant to a worker's future productivity will be learned on the job. And what manager would not be thrilled with employees who know how to develop shortcuts in production? The student who plagiarizes is merely playing the part economists have written: she has become *homo economicus*.<sup>2</sup> What then, is so bad about plagiarism?

This chapter attempts to resurrect economics from this dismal portrayal. Modern economists understand intuitively (even if they fail to

teach about it) the role of ethical behavior in human endeavors. Two centuries ago Adam Smith likened human society to an “immense machine,” in which virtue supplies “the fine polish” on the wheels (1982 [1759]: 316). In business, as in academia, honesty promotes dynamic efficiency gains. Cheating and fraud do the opposite. Smith called vice the “rust” that causes the wheels of society to “jar and grate upon one another.”

Beyond the instrumental benefits of observing and modeling ethical conduct, there is another, perhaps more compelling, reason for instructors to address ethical concerns in the economics classroom. While many courses in economics impart a high level of technical training, the development of critical thinking ultimately requires the cultivation of individual moral judgment (Fels and Buckles 1981; Nelson 1989; Stapleford 2000). The exploration of moral questions in various realms of life is at the core of the liberal arts experience. One such question concerns the merits or demerits of a global economic system. There is good reason not to leave this analysis to the arts, anthropology, or philosophy alone. Economists have a comparative advantage in understanding economic trade-offs and in framing choices upon which human decisions are made. Yet a narrow economic efficiency argument for trade by itself is insufficient to resolve any debate about globalization. Economists must recognize and confront alternative goals and ethical approaches if they are to contribute to this discussion. It is noteworthy that, when Milton Friedman made his famous declaration that the social responsibility of a business was to make as much money for its stockholders as possible, his argument is couched in terms of efficiency, equity, and morality. A key assumption was that businesses would operate within a social system in which “Some key [moral] institutions must be accepted as ‘absolutes,’ not simply as instrumental” (1962: 167).

This chapter thus argues that economics instructors should engage their students in critical thinking exercises which entail aspects of moral inquiry. The objective is not to teach students what is “right” and “wrong” but to sensitize them to ethical questions that arise in carrying out both positive and normative economic analyses.<sup>3</sup> The chapter concludes with examples of short teaching modules that can achieve some of these objectives.

## Historical roots

The usual starting point for discussing the ethics of globalization is with Adam Smith, who as professor of moral philosophy studied the principles of economic activity and the humans engaged in it within a broad political, social, and ethical landscape (Pack 1991; Young 1997). *The Wealth of Nations* (1776), for example, can be read at two levels: as a scientific text on wealth creation and the distribution of income resulting from specialized production and international market trading; and as moral inquiry into these outcomes and the ethics of self-interest. Smith’s earlier volume,

*The Theory of Moral Sentiments* (1759), is a study not just of self-interest but of social interests broadly conceived, including the motivations for altruism, loyalty, trust, and most importantly, self-restraint based on ethical considerations and commitments. In other words, it is a treatise on the deliberations of a moral agent. In a *Journal of Economic Literature* survey, Keith Tribe concludes that:

The Smithian conception of self-interest is not an injunction to act egoistically and without moral scruple, safe in the knowledge that by doing so the public good would somehow or other result: it is embedded within a framework of social reciprocity that allows for the formation of moral judgment.

(1999: 621)

Central to Smith's moral judgment about globalization is his concern for justice. In *The Wealth of Nations*, for example, Smith refers to this subject on average about once in every seven pages; in *Moral Sentiments* he addresses it on average once every other page or so.<sup>4</sup> Smith's system cannot function without this normative foundation. Smith notes that "Justice ... is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society ... must in a moment crumble into atoms" (1982: 86). Smith's concept of justice mainly refers to the prevention of unwarranted violence against others and the widespread adoption of a set of fair rules governing interaction (e.g., trade). Commutative justice is thus the critical issue for Smith's economic and social system, although at times he does advocate public policies for distributive justice (Young and Gordon 1996; Verburg 2000).

It is thus hardly surprising that the rise of interest in ethics in economics is paralleled by a surge of articles and citations on Adam Smith. Citations to Smith's *The Theory of Moral Sentiments*, the book addressing the moral foundations for micro behavior, grew from under ten per year in the early 1970s to roughly four times that by the late 1990s (Wight 2002a). While justice is central to Smith's conception of markets and wealth, it is a rare economics professor who spends much time on this. In the twentieth century, the rise of positivism led economists to press for scientific objectivity – subsuming moral problems under a "normative" label which could be walled off from pure economics. To many modern authors, however, including several Nobel Laureates, ethical matters infuse economics and cannot be surgically extracted without killing the patient (see, for example, Boulding 1969; Hayek 1974; Wilber and Hoksbergen 1986; Etzioni 1988; Evensky 1993; Piderit 1993; Buchanan 1994; Young 1997; Vickers 1997; and others). Amartya Sen argues in *On Ethics and Economics* (1987) that any sanitized separation of positive and normative analysis is impossible and undesirable. It is impossible because the process of science requires making investigative decisions which are value-laden. It is desirable to

have investigators who are conscious of their ethical steps and alert to implications that arise from them. Hausman and McPherson (1993) produced a survey on this subject in the *Journal of Economic Literature*, "Taking Ethics Seriously: Economics and Contemporary Moral Philosophy," followed by a book, *Economic Analysis and Moral Philosophy* (1996). Deirdre McCloskey summarizes the critique of dogmatic positivism in *The Rhetoric of Economics* when she writes: "Modernism promises knowledge free from doubt, free from metaphysics, morals, and personal conviction. . . . What it is able to deliver is . . . the metaphysics, morals, and personal convictions of the scientists" (1998: 152).

To summarize these arguments, moral concerns infuse the study of economics. Having a greater ethical awareness could make students better economists, both in terms of becoming self-conscious of their own values brought to the investigation and in terms of understanding and modeling the economic behavior of moral agents. Beyond this, as will be elaborated below, ethical judgments are an essential component of critical thinking.

### Issues for teaching

The consideration of ethics is central to a liberal arts education (Wilber 1999) and vital for those students pursuing careers in business (Wight 1999). Simply knowing the so-called positive economics of a situation is inadequate for decision-making. Requiring students to take a final position on public issues is essential for increasing awareness about the ethical implications (Emami 1999). The importance of this can be illustrated by the wrongful death judgment against General Motors (GM) in 2000. A jury levied \$4.9 billion in punitive damages against the company for a faulty fuel-tank design on the Chevy Malibu (later lowered to \$1 billion). Compared to alternatives, the chosen design put the occupants at greater risk from fire or explosions in a rear-end collision. The "smoking gun" that outraged the jury was an internal memorandum detailing that GM engineers had advance knowledge of the problem. Engineers noted it would cost \$8.49 per car to fix the problem, but that wrongful death lawsuits could be settled for only \$2.40 per car. Following standard cost/benefit analysis, they adopted the "efficient" private solution, the defect was *not* corrected, and the buying public was left uninformed of these details.

Real economic choices (like this one) frequently entail trade-offs between intersecting and conflicting moral demands. Simple rules for short-run profit maximization fail to serve us unless they are encapsulated within a wider context of ethical claims (some of which are certainly economical). Ethical literacy can enhance the way economic theory is used for analyzing private and public problems – and economic theory can add depth to ethical discussions. As an example of the latter point, the enormity of the award in the Malibu case may reflect the jury's uninformed consideration of the economic trade-offs (e.g., between safety and afford-

ability) that do in fact exist when building cars. This is why both economic and ethical literacy must combine to clarify economic choices.

In the 1970s, Rendigs Fels (joined later by Stephen Buckles) produced a useful text for introducing students to such critical-thinking exercises. The *Casebook of Economic Problems and Policies: Practice in Thinking* (5th edn, 1981) provides a delineated and standard process through which public policy questions may be analyzed. These are: (1) to state the problem; (2) to list all the competing goals and policy options which may be relevant; (3) to analyze each policy option in light of the stated goals; (4) to evaluate (rank) the policy options based on the student's own value judgments about the worth of the goals achieved; and (5) to reach a decision based on these ethical, as well as economic, findings.

Fels and Buckles do not stress enough, it seems to me, the obvious ethical judgments which also arise in steps 1-to-3 of a public policy analysis, but this is a minor drawback. A benefit of the public policy approach to teaching economics is that efficiency is always viewed as one of several competing virtues in the public policy sphere. A well-rounded decision-maker would never stop analyzing a problem simply because Option A was found to be the most efficient. Such an analysis would be incomplete if it failed to consider implications for fairness, equity, freedom, and other values relevant to the issue under discussion. This requires ethical analysis and a moral decision.

Regrettably, many teachers think their job is done once they have used economic analysis to uncover the most "efficient" outcome – apparently unaware of (or unconcerned about) the normative basis for how "efficiency" is defined in the first place. As Fels and Buckles note, "values cannot be science-free and science cannot be value-free" (1981: 112). The overriding but unconscious bias economists give to efficiency is itself a moral value (Viner 1984: 119; Hausman and McPherson 1993: 675).

Many conventional teachers would no doubt defend their actions by arguing that economists can do little to enhance ethical training, and classroom time is better spent on an analysis of efficiency since that is the economist's area of comparative advantage. By analogy, a medical student should not be burdened with discussions of medical ethics: class time would be better spent teaching the future surgeon a new and better technique for removing the appendix. Such criticism might be valid if the diminishing returns to specialization were not so pervasive from an undergraduate's perspective. In the liberal arts, as in business schools, excessive technical training and the absence of normative inquiry is cause for concern.

In *The Wealth of Nations*, for example, Smith notes that the person "whose whole life is spent performing a few simple operations . . . has no occasion to exert his understanding." Such a person becomes, over the years, "as stupid and ignorant as it is possible for a human creature to become" (1981: 782). Smith quite pointedly decries the worker's productivity gain

the deontological system of duties (Kantian); and the Aristotelian system of virtuous character. In most courses there is not time to do each justice, but even a brief outline can provoke great insight for students who previously may have assumed that only the consequentialist approach was acceptable in economics. The issue of alternative ethical approaches can be brought alive by asking students to put themselves in the shoes of a doctor working in a for-profit HMO. I ask them whether the doctor should act so as to maximize the company's profits? If so, could the interests of the patients and doctors at times be in conflict? How are such conflicts resolved? At this point I hand out a copy of the Hippocratic Oath, in which doctors swear to place the patient's interests first (ahead of profit). Such duty-based notions of ethics resonate strongly with students, who, as noted earlier, have a strong bias towards behaviors that adhere to principles which are "fair" and can be justified as such. On the other hand, the consequentialist approach of cost/benefit analyses can make students appreciate other ethical dimensions of HMO's decisions, especially when large costs or benefits are hidden or unintended.

The brief elaboration of ethical systems provides students with some handholds for understanding their own ethical approaches which they utilize in other essays. Another possible public policy essay on health care concerns the shortage of human kidneys for transplant, caused by a government price ceiling. Should a free market be allowed? Again, students are expected to carefully discuss the anticipated effects of a market on technical and allocative efficiency, as well as ramifications for equity, freedom, public safety, and other goals. They then must utilize an ethical system to reach their own decision.

### *Films*

Using the arts to teach garners student interest and there is also a compelling pedagogical rationale for their use (see Wight 2006). Films provide a vehicle in which economic choices and policies can be studied within a social, political, and ethical framework. *The Grapes of Wrath*, *Wall Street*, *Erin Brockovich*, and *Mr. Smith Goes to Washington* are engaging films that address economic concepts while questioning "right" and "wrong" behavior. To avoid using up class time, students review selected movies outside of class and earn extra credit points by providing a one- to two-page analysis of each. As with the public policy papers, movie analyses include not only the economic issues of efficiency and equity, but also an evaluation of other values (e.g., morality, freedom, and so on). The point here is to arouse the students' "moral imaginations" (to use Adam Smith's phrase) in thinking about issues in economics. The purpose is not to teach students the "correct" ethical response, but to provoke them to consider alternatives and to reach a conclusion for themselves.

### **A novel**

Finally, over fall or spring break students read my own short academic novel, *Saving Adam Smith: A Tale of Wealth, Transformation, and Virtue* (Wight 2002c). This book addresses the formation of individual moral conscience within a global market system. The adventure story makes for easy reading, as Adam Smith comes back to life and travels across America; Smith's own writing provides much of the dialogue. The novel can be used to explore various ethical concerns such as: the moral foundations for global capitalism, the role of moral agency in enhancing economic efficiency through social relations and trust, and the role of self-actualization in the operation of business. The book provides links between *The Wealth of Nations* and *The Theory of Moral Sentiments*.

Students read the book outside of class (it takes an afternoon) and write a short essay on it. One essay asks them to examine the "greed is good" philosophy of Bernard Mandeville and others in the context of what Smith wrote on this subject. They compare and contrast Smith's views with those of the character Gordon Gecko in the movie *Wall Street*. Students apply this debate to recent financial scandals and are asked to identify the role that moral agency plays in the "invisible hand." Students thus come to understand that the founder of economics saw moral institutions as part of the structure in which businesses operate and moral imagination as an instigator of social and economic evolution.

### **Conclusion**

The aforementioned techniques for introducing ethical issues into the economics classroom can be undertaken with a fairly small opportunity cost of time. Ethical modules can be interwoven into class materials, and students quickly become adept at thinking about both positive and normative dimensions of these issues. It should be clear that this approach is merely an introduction to some of the ethical dimensions of economics, and an even wider and deeper coverage of ethics would be highly desirable in an advanced course, such as the one described by Wilber (1999). In particular, one area I do not devote adequate time to is the discussion of how ethics permeates positive economics. My reason for holding back is not just the time constraint; I also do not want to spend the semester contradicting the textbook. Hence, I prefer to add ethical modules that supplement, rather than directly challenge, the traditional paradigm. My purpose at this juncture is to legitimize moral inquiry as a subject in economics and to give students the opportunity to practice their critical thinking on several issues of importance.

Social economics is a method of analyzing economic issues within the context of complex social systems. Economic agents are also human persons. Using the pedagogical exercises (or similar techniques) consistent with social economics presented here, I would hypothesize that students

will be better prepared for business – and life – having analyzed issues of scarcity and choice within a holistic framework that includes ethical considerations.

## Notes

- 1 Some plagiarized papers are *too* polished, which is how teachers become suspicious of them.
- 2 This account of things is surely too harsh, since *implicitly* profit maximization is meant to happen through legal and ethical means. Yet how many professors take the time to emphasize this point? Later in the paper I record the number of times Adam Smith refers to “justice” in *The Wealth of Nations* – surely far more often than principles instructors do.
- 3 As discussed below, it is impossible to carry out “positive” economics without making “normative” judgments. Hence, these terms are ambiguous and misleading. I continue to use them because this is the way textbooks approach the field, and students need to understand their traditional meanings, even if outdated. There are additional merits to this approach (Weston 1994).
- 4 The data come from a word search for “justice” on the Liberty Fund Library website (<http://www.econlib.org>), which maintains searchable electronic versions of Smith’s two books.
- 5 The Association for Social Economics addresses this issue through conference sessions and published proceedings. Instructors may also wish to consult the collection of articles in O’Boyle (1999) and Wilber (1998).
- 6 By contrast, faculty who unquestioningly preach the standard *homo economicus* model in isolation of other considerations may unconsciously alter the entering values of their students (Frank *et al.* 1993; Frank 1996).
- 7 Details of the Robinson Crusoe game are found in Wight (2002b).

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