

Ethics and Economic Theory

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Kurt W. Rothschild, *Ethics and Economic Theory: Ideas - Models - Dilemmas*
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In 1893, Alfred Marshall could still describe ethics as "mistress" and "Abigail" of economics, but ethics found no room in the index of his *Principles of Economics* and the relationship between economics and ethics was only briefly explicitly explored in that book (Marshall, 1920, pp.16-18 and esp. p. 17 n.1; and see Coats, 1990). Yet for the greater part of his academic life, Marshall taught economics as part of the moral sciences and the moral purpose of his endeavour is difficult to miss when reading the pages of his great text. He also successfully bequeathed his moral fervour and purpose to his successor to the Cambridge Chair, Pigou. Marshall's Cambridge colleague, John Neville Keynes explained the relationship between economics and ethics by indicating that even though "positive economics" may have to take account of moral motives (a matter also stressed by Marshall), it was independent of ethics; only applied economics was necessarily involved with ethics and in fact could not be isolated from it (Keynes, 1890, 1917, pp. 60-63). Keynes's position heralded what was to come in the twentieth century and to a surprising extent resembles that put forward in a recent survey on ethics and economics in the *Journal of Economic Literature* (Hausman and McPherson, 1993). This study of ethics and economic theory is therefore timely, and given the credentials of its author as a producer of theory, also a most welcome and interesting contribution on the complex interrelationship between economics, scientific objectivity and ethics.

Given the orientation of this journal, it should be declared at the outset that this book cannot be seen as a work with much direct relationship to the history of economic thought, except for more recent times. This is despite the fact that Rothschild draws attention (pp. 15-17) to the long past of an inter-mingling of economics and ethics, which he sees as only ending during the nineteenth century (the "scientification of economics visible in Ricardo"). By the mid-nineteenth century this had evolved into distinctions between the science and the art of political economy, positive and normative economics, though plenty of ethical elements remained within the "pure science" and the real borderline between positive and normative was difficult to establish with much precision. Myrdal's (1929, 1953) classical study of the political element in economic theory is used (pp. 16-17) as an illustration of how difficult it is for economists to strive for *wertfreiheit* in practice and the fields on which the Swede concentrated in his classic text, welfare economics and public finance, are an important source of material for this book. However, Rothschild's purpose is to expose the conceptual issues in the ethics-economics inter-face and not to discover its history.

The first of these inter-faces relates to ethics and economics research. This is part of the ethical issue confronting all those engaged in scientific labour, and in research in the social sciences in particular. When social responsibility and social accountability are so prominently in the public eye this is an increasingly important issue. The need for avoiding conscious falsification in research results, the naming of all relevant sources including collaborators, and the confidentiality or privacy requirements of particular information are obvious aspects of the ethics

of research. The issue of falsification of outcomes is of particular relevance to those involved in experimental or econometric analysis, where the scope for such practice is greater, but the hiding of adverse opinion or evidence can occur in all economic research publications. Social responsibility of the economist is an even more important issue, though Rothschild unfortunately does not address this question in any detail (pp. 12-13). What is the social responsibility of policy advisors and economic consultants uncertain of the long term consequences of the actions they propose, whether in the field of privatisation, tax policy, employment policy or deregulation? Rothschild's plea that such consequences cannot be ignored by the economist is a cogent reminder of the need for professional ethics in a subject where uncertainty as to conclusions and consequences abounds, particularly when such conclusions are to be presented in a quantified form. Likewise, sponsorship of research carries strong dangers for the objectivity of the researchers. Economists are here increasingly open to the temptation of departing from the side of moral rectitude.

Scientific objectivity is in fact the first subject of the ethics-economics inter-face broached more fully by Rothschild (Chapter 3). Realising the difficulties of reaching a *werthfrei* ideal, ideal in the sense that scientific objectivity is an important quality to strive for; Rothschild opts for the full disclosure method where all values underlying the analysis, and the policy advice if and when derived therefrom, are honestly and openly declared. This requirement avoids giving the impression, which many lay persons entertain about expert opinion, that there are necessarily *true* and *correct* answers to particular problems. Rothschild then isolates two areas in economics where statements and findings are particularly prone to ethical underpinnings and misunderstandings on the nature of the conclusions. These relate to the treatment of the individual as economic agent and the role of the market as a central institution in the economic process (p. 29). The first is tackled in a chapter contrasting *homo economicus* with *homo sociologicus*, in a manner of which Marshall would have very much approved given his own predilections on the subject. This is of particular importance for evaluating the objectivity of advice incorporating assumptions about economic incentives. The interesting aspect of Rothschild's treatment of this subject is his overriding concern with how to raise the degree of objectivity in the statements economists can make about such issues. He does not bother to cast stones at those in the literature who have provided insufficient disclosure. Moral aspects of markets are equally important to contemporary policy debates (Chapter 5). Dangers identified by Rothschild are dogmatic fixation on market processes in grappling with particular problems, over-idealising market solutions to specific issues; and inadvertent slippage between theoretical market results and actual economic efficiency outcomes. Here again, Marshall would have approved, since he likewise criticised both his contemporaries and some predecessors like Bastiat who drew unwarranted conclusions from competitive market equilibrium positions. Idealisation of the market can go beyond economic theory by incorporating political goals of individual freedom into its alleged benefits, invariably in combination with the associated limitation of government intervention. Hayek, Friedman and more generally the Chicago school, serve as Rothschild's examples. Rothschild however, warns that this consequential approach to the ethics of free markets is quite distinct from the essentially non-economic approach by Nozick, which elevates preservation of rights, including property rights, as the ultimate moral principle in society. Rothschild's conclusions on this subject are equally pragmatic: markets clearly have useful consequences for society, but they also give rise to problems with negative effects for which government intervention often has an answer. Excessive simplification about the individual and the market can hide important moral dilemmas in the conclusions derived from such models and negate the general value of the policy advice they may generate.

The greater part of the book deals with ethical aspects of economic theory. This is salutary stuff, well worth reading and absorbing, particularly by teachers of 'principles' courses who wish to give their students a more correct perspective on the findings of the economic science of applied welfare economics contained in discussions of cost/benefit analysis, most distributive issues, and evaluations of tax policy. At the outset Rothschild clearly distinguishes the old welfare

economics (especially that associated with Pigou) and the sanitised new welfare economics shorn of interpersonal comparisons of utility and the taints of cardinal utility positions. However, this new welfare economics remains imbued with the elegance of perfect competition and the inconclusiveness of Pareto optima. All this is superbly discussed by Rothschild, bringing back many personal memories of my honours classes at Sydney in the 1950s when such issues were all the rage. Rothschild does not mention the political element in this post-Robbinsian cleansing: the wish to remove the implications for steeply progressive income tax from inferences drawn from utility analysis, inferences, which in the words of Wicksell (1934, p. 4), associated the "very concept of political economy [with] a thoroughly revolutionary programme". Rothschild's preferences are clearly for the thrust of the old welfare economics with its desire for applicability and once again in his chapters on these issues he attempts constructively to extend the domain of the subject beyond the boundaries imposed by the practical sterility of Pareto optimality with, or without, the addenda of compensation. His successive chapters on welfare economics, the interpersonal comparison of utility problem, cost-benefit analysis (depicted as a useful device for attempting full disclosure and a vehicle for discussing the tricky ethical implications of trying to estimate the value of human life in such exercises) and concluding with a discussion of income distribution, are all worth studying to show that "ethical" issues permeate these almost universal stocks of trade of the applied economist.

The book unfortunately offers no conclusions or even a resumé of the basic thrust of its argument. For example, it would be interesting to have had Rothschild's views on whether economists as a profession, comparable in many ways to practitioners of medicine and dentistry, need an ethics committee to preserve its moral virtue, as has been suggested in the context of the debate over economic rationalism (King and Lloyd, 1993, p. 13). The book finishes with a regrettably brief list of suggestions for further readings which, interesting as they are, omits two works this reader has found useful. One is Bonar's old, but still very splendid study of *Philosophy and Political Economy* (Bonar, 1893, 1967) and some relevant chapter from the much more recent *Philosophy of Economics* by Roy (1989). These suggestions do not imply a need for economists to become philosophers; they merely stress the imperative for a greater awareness in the economics profession of their ethical responsibilities and the moral foundations of their subject. For those who need such a course of moral consciousness raising, even if it is only a refresher course, this book is highly recommended. As the *Journal of Economic Literature* recently proclaimed, there is a need for the good economist to take ethics seriously.

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