1. Whatever Happened to the Ethics in Economics?

I have taught university students about ethics and economics for about twenty-five years. I tell people most of my energy goes into explaining the use of the word "and" in that last sentence. Inevitably I have students in every class who tell me they know nothing about economics. (I have yet to find a student who tells me they know nothing about ethics!) I ask them: do they have a bank account, do they have to budget their monthly income, do they pay rent or make payments on a mortgage? Invariably they engage in all or most of those activities. The obvious conclusion is they actually know quite a lot about economics, they just think they don't. I then tell them there is a reason why they think this way, and it's a political reason. There are people who benefit from this state of affairs, and it is in their interest that you believe you don't have the power to change the way things are. They speak a different language, using concepts they don't explain, and ask you to trust them to speak to the policy gods on your behalf. Economics is the new theology, and economists are the new priestly class. I guess it takes one to know one.

On the other side of the coin, many people believe that businesspeople don't have ethics. Even businesspeople believe that sometimes. Listen to the jokes we all make about business transactions.

For many of us, the more successful you are in business, the more likely

How Bailouts Work

Young Chuck in Montana bought a horse from a farmer for $100. The farmer agreed to deliver the horse the next day. The following morning he drove up and said, "Sorry son, but I have some bad news, the horse died." Chuck replied, "Well, then just give me my money back."

The farmer said, "Can't do that. I went and spent it already." Chuck said, "Okay, then, just bring me the dead horse." The farmer asked, "What ya gonna do with him?" Chuck said, "I'm going to raffle him off." The farmer said, "You can't raffle off a dead horse!"

Chuck said, "Sure I can, Watch me. I just won't tell anybody he's dead."

A month later, the farmer met up with Chuck and asked, "What happened with that dead horse?" Chuck said, "I raffled him off. I sold 500 tickets at two dollars a piece and made a profit of $998." The farmer said, "Didn't anyone complain?" Chuck said, "Just the guy who won. So I gave him his two dollars back." Chuck eventually grew up and now works for the government. He was the one who figured out how to "bail us out."

it is that you have had to confine your morality to your personal life because, after all, business is business. The price is the price and a contract is a trump card—*caveat emptor* (let the buyer beware).

My father was in the insurance business. He was with the same international company for over forty years—old school, you might say. I remember going with him one Saturday to an automobile repair shop (he expected to work at least part of every Saturday). One of his adjusters had sent a car there for repairs and he was suspicious about the quality of the work being done. Sure enough, he discovered the auto body shop was using secondhand parts but billing for new ones. He could see that the replacement door had come from a salvage yard. There were some stern words and raised voices from behind a closed door, and then we went home. When I asked what happened he replied that his suspicions had been confirmed and so he confronted the shop owner. In my most knowledgeable twelve-year-old voice I said, "I guess that's the last time you'll use that shop!" "Actually," he responded, "I will use them again. I'm pretty sure they won't do that in the future, now that they know I know. I don't want to put them out of business. We need them to stay in business but we also need them to be honest. I'm helping them do that."

My father was a businessman typical of his age. He had a strongly developed personal morality. He also had a strongly developed commercial ethic. Today we call that business ethics, but in the sixteenth century it was called "commutative ethics" because it referred to the ethics of transactions or exchange.

Ancient Attitudes Towards Commerce

That commerce is by its nature unethical is an ancient idea. The North African St. Augustine (354–430) captured the sentiment well when he wrote, "just as art cannot exist without imposture, neither can business exist without fraud" (Baldwin 1959). St. Augustine was merely continuing the biblical tradition of preferring the work of heaven to the work of this world. The Gospel of St. Matthew records Jesus teaching thus:

> Lay not up for yourselves treasures upon earth, where moth and rust doth corrupt, and where thieves break through and steal; but lay up for yourselves treasures in heaven, where neither moth nor rust doth corrupt, and where thieves do not break through nor steal. For where your treasure is, there will your heart be also. (Matthew 6:19–21)

The biblical tradition is full of instruction on fair dealing in commerce.[1]

"You shall not lend them your money at interest taken in advance." — Leviticus 25: 35–37

However, some of its most strident condemnations are reserved for "usury"—lending money at interest. Take for example the book of Leviticus, where we read the following instruction:

> Do not take interest in advance or otherwise make a profit from [your kin], but fear your God; let them live with you. You shall not lend them your money at interest taken in advance, or provide them food at a profit. (Leviticus 25:35–37)

In the book of the Prophet Ezekiel, disobedient Israelites are described as those who "take both advance interest and accrued interest, and make gain of your neighbours by extortion; you have forgotten me, says the Lord God" (Ezekiel 22:12).

These attitudes are not confined to the biblical tradition, but were present in Western culture until very recent times. In the Muslim world, prohibitions against usury are still understood by many to be prohibitions against lending money at interest. These prohibitions trace their origins to the same historical and cultural root. In the medieval period successful men of trade and commerce, at the end of their lives, would often make a moral inventory of their transgressions and attempt to make amends through their wills. Sometimes they would attempt to make restitution to those from whom they had wrested interest payments. At other times they would make charitable contributions as a kind of recompense. Codicils to their wills record entreaties for their sons not to follow their paths into trade (Heilbroner 1972: 48; Thrupp 1942: 177, quoted in Owen 2007). In the early seventeenth century we find Shakespeare putting these words into the mouth of Hamlet's future father-in-law Polonius: "Neither a borrower nor a lender be; For loan oft loses both itself and friend, And borrowing dulls the edge of husbandry" (Hamlet, Act I, Scene iii).

One of the best analyses of the transition from this long-standing attitude to money lending to the more modern approach to banking and credit is found in the English historian R.H. Tawney's *Religion and the Rise of Capitalism*. In it, Tawney describes how Christianity condemned "the unbridled indulgence of the acquisitive appetite." This was the dominant attitude until the birth of modernity in the nineteenth century and the rise of a new principle that separated commerce from religion. The Protestant Reformation was the bloody midwife, and it was Martin Luther's doctrine of two separate and distinct kingdoms, the religious and the secular, each with its own laws, which gave this development a language. It was the sixteenth-century French reformer John Calvin who gave it its method.[2] As one English cleric wrote

> "Neither a borrower nor a lender be." — Hamlet, Act I, Scene iii

a generation later, "Calvin deals with usurie as the apothecarie doth with poyson" (Tawney 1937: 114). In Tawney's words:

> The claim that religion should keep its hands off business encountered, when first formulated, a great body of antithetic doctrine, embodied not only in literature and teaching, but in custom and law. It was only gradually, and after a warfare not confined to paper, that it affected the transition from the status of an odious paradox to that of an unquestioned truth. (Tawney 1937: viii)

As we shall explore more fully in the next chapter, it was in the eighteenth and nineteenth centuries that the separation of trade from religion was transmuted into a separation of economics from ethics.[3] What is obvious here is that this change was in sharp contrast to religious tradition and only succeeded after a mighty struggle. Tawney recounts how in the Netherlands, at a time when it was the centre of European commerce and finance, a bitter controversy erupted over whether usurers should be admitted to holy communion and whether universities might confer degrees upon them. "It was only after a storm of pamphleteering," Tawney wrote, "in which the theological faculty of the University of Utrecht performed prodigies of zeal and ingenuity, that the States of Holland and West Friesland closed the agitation by declaring that the Church had no concern with questions of banking" (Tawney 1937: 237).

By the nineteenth century in England, the battle was over. Yet the ancient attitudes persist in the archeological layers that culture preserves. Tawney described four basic attitudes that religion may have towards social institutions and economic relations. The first attitude is an ascetic one: the world is fallen and the only path to holiness is one of escape. The second is one of indifference: the material world simply has no spiritual relevance. The third is one of revolution: the world may be fallen, but it can be rescued—but only through some gigantic and perhaps violent cataclysm. The fourth is one of constant reform. This attitude requires constant effort but also criticism, tolerance and adaptation (Tawney 1937: 30). All of these attitudes can still be observed in the present day.

The Rise of Economics as a Separate Discipline

Classical economists like Adam Smith argued for a market economy on moral grounds. That is, they argued that the freeing of individual initiatives within market arrangements would cumulatively operate in such a way as to serve the common good (through the mechanism of the "invisible hand"). In the late nineteenth century there was what some economists call the "marginalist revolution" in economics, through which the discipline took a decidedly more "scientific" turn, increasingly incorporating mathematical tools. The inheritors of the marginalist revolution were called "neo-classical economists."

Adam Smith thought of himself as a moral philosopher, and only much later did people start referring to him as an economist. A hundred years later Alfred Marshall taught political economy at Cambridge as part of the Moral Sciences. Although his early ambition was to become ordained, his early training was in mathematics. It was this background that helped shift the focus of his work away from relations between states ("polities"—hence political economy) and toward dimensions of purely economizing behaviour like "marginal utility." The distinction between political economy and economics still strikes some ears as a curious and unhelpful anachronism. Up until the late medieval period in Europe, discussions of commerce and economic behaviour happened within the context of discourse about justice. That means it was a part of broader discussions within moral theology and philosophy. This is why it would make sense that Adam Smith would be trained as a moral philosopher and Alfred Marshall would teach within the moral sciences. In his 1974 review of the term "political economy," Paresh Chattopadhyay traced the origin of this phrase to the early seventeenth century, noting that the modern tendency to use the unmodified word "economics" can be traced to the late nineteenth-century work of Alfred Marshall. Chattopadhyay goes on to say that while the phrase "political economy" can have several different meanings, "it is being set up [in the late twentieth century] mostly as a standard of revolt against 'orthodox' economics" (Chattopadhyay 1974: 23).

In 1890 John Neville Keynes (John Maynard's father, who was an early student of Marshall) published his *Scope and Method of Political Economy*. In that work he distinguished three types of political economy: positive science, normative science and art. While he allows for the connection of political economy with social and moral sciences, he stresses repeatedly the sharp distinction between positive economics (positive science) as the proper field of the professional economist on the one hand, and all other forms of political economy on the other. His argument was with economists trained in a historicist approach, dominant at that time in Germany. In terms of influence, the ascendancy of the neo-classical school of economics meant that

> the historical school was politely relegated to a sort of interdisciplinary no-man's land, as being more concerned with ethics and policy precepts (i.e., with the second and third concepts of political economy) than with pure, universally valid (rather than historically relative) economic science. (Deane 1978: 103)

There are two different trajectories that can be observed here. The first is the development of a discipline—from moral theology to moral philosophy to political economy to economics. The second is the development of a method—from theology to philosophy to history to mathematics. If Marshall's training in the nineteenth century was in mathematics, his explanations still used the discourse of history. By the time Paul Samuelson published his famous *Foundations of Economic Analysis* in 1947, even the explanations were in the language of mathematics, and that is what so impressed readers of the book.[4]

This latest shift within economics, from a dialogue with history to a dialogue with mathematics, came at the cost of putting ethics in the closet. The sharp distinction between "positive science" (things as they are) and "normative science" (things as they ought to be) defined questions of moral value as out of the conversation. Joan Robinson, an economist who wrote after Keynes and in his tradition, complained:

> In all this kind of analysis, the notion of ethical judgement purports to be excluded and the whole exercise is put forward as a piece of pure logic. The very idea of moral implications is abhorrent to practitioners in this field. All the same, even economists are human beings, and cannot divest themselves of human habits of thought. Their system is saturated with moral feeling. Those within it, who have grown used to breathing its balmy air, have lost the power to smell it. To those approaching from outside who complain that the scent is sickly, the insiders indignantly reply "The smell is in your own noses. Our aim is completely odourless, scientific, logical and free from value judgements." (Robinson 1963: 57)

Well into the twentieth century, history was still considered an essential part of the economist's toolkit. In the earlier years there was a prominent school of economic thought known as "institutionalism." Traditional institutionalists believe that economic behaviour is shaped by the institutions that all humans inhabit and therefore economics cannot be separated from the political and social systems in which the economy is embedded. These institutions may be formal, like political states, corporations and laws, or they may be customary, like cultures and families. Thorsten Veblen, Clarence Ayres and Harold Innis all represent this tradition, which lasted the longest among agricultural economists (John Kenneth Galbraith started out with these views). One of the last centres of institutionalist thought was found at Texas A&M University, the old Agricultural and Mechanical School, from which Clarence Ayres retired. In the 1930s there was a debate on the question of science, history and morality between Clarence Ayres and Frank Knight. Frank Knight was a friend of Ayres and a dominant force at the University of Chicago from the 1920s until the 1940s. He was also notoriously disputatious and after the third article of the exchange was published in the *International Journal of Ethics* (when was the last time two distinguished economists engaged with each other in an ethics journal?) Ayres moved quickly to claim victory:

> I have ventured the opinion that a theory of history is of crucial importance for economic theory of whatever persuasion, and that the dominant role in orthodox historical theory… was played by capital; and I am delighted to have such weighty support as professor Knight's on both these points. (Ayres 1935a: 357; see also Ayres 1935b and Knight 1935)

Since that time, some of the inheritors of the old institutionalist tradition have coalesced again around the term "new institutional economics," though with a more conservative political impact,[5] and the inheritors of Harold Innis formed themselves into a movement known as the "new political economy."[6]

The Suppression of the Ethical

It is controversial to assert that formal economic methodology suppresses ethical disagreement. The defenders of economics would argue that the positive/normative distinction properly separates ethical (normative) concern from scientific (positive) analysis.[7] The argument is not seamless, however. Even such an articulate exponent of this position as T.W. Hutchinson has acknowledged that value judgements have been suppressed, and it is extremely dangerous when that happens:

> It could be argued that through this authoritatively proposed rule regarding the separation of value-judgements about the objectives of policies, from "positive" theorizing, obtained a considerable measure of observance, it brought with it the disadvantage (as, for example with Prohibition laws) that value-judgements were not always removed or distinguished, but were driven underground or remained disguised, which could be much more dangerous and confusing than their uninhibited expression. (Hutchinson 1964: 38)

Gunnar Myrdal, the Swedish economist and Nobel Prize winner, worked in the areas of development economics and welfare economics, fields that are still concerned with normative questions. He was also critical of the positive/normative distinction because he thought it led to self-deception on the part of positivist economists. He wrote:

> By insisting on the necessity of value premises in all research, the social sciences should be opened more effectively to moral criticism. It

> would then be impossible to classify economics as a "dismal science" in the sense of its being closed to moral considerations. Economists working in the conventional mode, attempting to conceal valuations basic to their research can, however, often be rightly censured in this way, and on logical grounds. (Myrdal 1969: 73)

The American economist Dierdre McCloskey has analyzed this problem from a different angle. From her point of view, the issue is not only that economists are operating on the basis of an "early 20th century understanding of certain pieces of 19th century physics" (McCloskey 1983: 484; see also McCloskey 1985), but also that economists do not actually operate on the basis of the methodology they defend. McCloskey analyzes economic arguments on the basis of their rhetoric. Following the work of the American literary critic Wayne Booth and others, she examines the metaphors and analogies economists use to explain their reasoning (Booth 1974).

Her main target here is the author of the primary textbook in most American departments of economics—Paul Samuelson—and in particular, his use of mathematics. McCloskey argues that

> the mathematics [in Samuelson's text] is presented in an offhand way, with an assumption that we all can read off partitioned matrices at a glance, inconsistent with the level of mathematics in other passages. The air of easy mathematical mastery was important to the influence of the book, by contrast with the embarrassed modesty with which most British writers at the time (Hicks most notably) pushed mathematics off into appendices. (McCloskey 1983: 500)

Hicks was following a British cultural tradition exemplified by Marshall. Mathematics is necessary, but it is not the basis of persuasion. Samuelson, by contrast, was using mathematics as a rhetorical device. Even when its use was not strictly necessary, it demonstrated his mastery of a difficult language and technique and so conveyed authority. Since Samuelson, this approach has become routine. I have personally attended public economics lectures that consisted solely of an uninterrupted series of mathematical equations. With the last equation, the argument is over. "Yet analogy and metaphor, like most of the other pieces of Samuelson's rhetoric, have no standing in the official canon" (McCloskey 1983: 501). It is no "mere rhetoric" if it is so powerful; its use becomes invisible.

Since ancient times, metaphor has been thought of as an ornament of language. Literary critics long desired to strip away the ornamentation in order to get underneath and view the plain meaning. And yet the very ideas of "stripping away," "ornamentation," "getting underneath," "revealing" and "plain" are themselves metaphorical:

> The question is whether economic thought is metaphorical in some non-ornamental sense. The more obvious metaphors in economics are those used to convey novel thoughts, one sort of novelty being to compare economic with non-economic matters. "Elasticity" was once a mind-stretching fancy; "depression" was depressing; "equilibrium" compared an economy to an apple in a bowl, a settling idea; "competition" once induced thoughts of horse races; money's 'velocity' thoughts of swirling bits of paper. Much of the vocabulary of economics consists of dead metaphors taken from non-economic spheres…. Among the least bizarre of [economist Gary Becker's[8]] many metaphors, for instance, is that children are durable goods. (McCloskey 1983: 503)

McCloskey does not propose getting rid of metaphor and analogy. She just doesn't want to confuse the power of rhetorical argument with the power of thought, examination and evidence. Her target is what is sometimes known as the "Scientific Method." At other times it is known as the "Received View":

> [It] is an amalgam of logical positivism, behaviourism, operationalism, and the hypothetico-deductive model of science…. It is best labeled simply "modernism," that is, the notion… that we know only what we cannot doubt and cannot really know what we can merely assent to.

She argues that modernism has not been carefully examined from the ground up, rather it has been accepted whole as if it were a revealed religion (McCloskey 1983: 486). "Modernism promises knowledge free from doubt, metaphysics, morals, and personal convictions; what it delivers merely renames as Scientific Method the scientist's and especially the economic scientist's metaphysics, morals, and personal convictions" (McCloskey 1983: 488). She calls the Received View arrogant because it determines worldly affairs based on epistemological convictions held independent of available evidence. For example, she argues, no study has shown convincingly that Americans were hurt by high tariffs on trade in the nineteenth century. And yet economists routinely argue that it must be true, both then and now, because that is what the theory (the Received View) says should be the case (McCloskey 1983: 493).

Economists, argues McCloskey, have uncritically absorbed the idea that concepts are stronger if they can be made measurable ("operationalism"). If they are challenged on the basis of this approach they assume their challenger is either ideologically misguided, self-interested or stupid.

"Among the precepts of modernism are:

1. Prediction (and control) is the goal of science.
2. Only the observable implications (or predictions) of a theory matter to its truth.
3. Observability entails objective, reproducible experiments.
4. If (and only if) an experimental implication of a theory proves false is the theory proved false.
5. Objectivity is to be treasured; subjective 'observation' (introspection) is not scientific knowledge.
6. Kelvin's Dictum: 'When you cannot express it in numbers, your knowledge is of a meager and unsatisfactory kind.'
7. Introspection, metaphysical belief, aesthetics, and the like may well figure in the discovery of an hypothesis but cannot figure in its justification.
8. It is the business of methodology to demarcate scientific reasoning from non-scientific, positive from normative.
9. A scientific explanation of an event brings the event under a covering law.
10. Scientists, for instance economic scientists, have nothing to say as scientists about values, whether of morality or art."

— McCloskey 1983: 484

> It fits the naive fact-value split of modernism to attribute all disagreements to political differences, since facts are alleged to be, unlike values, impossible to dispute…. If one cannot reason about values, and if most of what matters is placed in the value half of the fact-value split, then it follows that one will embrace unreason when talking about things that matter. The claims of an overblown methodology of Science merely end conversation. (McCloskey 1983: 514)

The British economist, F.H. Hahn, agrees with McCloskey that "the project of a history-free understanding of the economic world is not self-evidently plausible" (Hahn 1987, 110).

The American Nobel Laureate, Robert Solo, is also keenly aware of the limited usefulness of the language of mathematics. He wrote:

> Mathematics is the appropriate instrument of prediction, but economics and the social sciences cannot be refuted through experimental prediction. And where credibility must be established through a judgement based on the direct observation of function and practice, mathematics is the worst of all possible languages. (Solow 2001: 355)

Solo also suspects that the real function of mathematics in economics is to serve as a secret language monopolized by a technical elite, effectively shielding economics from outside observation and critical evaluation (ibid.).