Financial Decision-Making and Moral Responsibility

Stephen F. Frowen and Francis P. McHugh, Eds.

New York: St. Martin's Press, 1995. ISBN: 0-312-12125-3, $79.95.

One of the more interesting, if not hopeful, signs within the economics discipline in recent years has been the emergence of conversations between economists and moral philosophers. For too long, almost the sole interest that economists had in talking with the philosophers emanated from their concern with methodology and the philosophy of science. And it is doubtful that that has accomplished much, given the fact that the philosophic disciplines have themselves progressed beyond the positivism to which, at least in practice, economics remains substantially committed.

The interchange between economics and moral philosophy is not yet at full flood. But a start has been made. A survey of the field leaves one with the impression, however, that the philosophers who look at economics seriously are making more meaningful contributions than economists who look at philosophy. Economics, in both its analytical and its pragmatic expressions, has been diminished, it can be argued, by virtue of its surrender of its earlier moorings in moral philosophy. Under the impetus of nineteenth century intellectual developments, the misguided conception gained currency that economics was, or could be, or should be, a value-free inquiry. Autonomous individuals came to the marketplace with well-defined utility functions or preference orderings, or, on the other side of the market, with well-specified profit maximization objective functions. And in the context of market behavior those utility and other objective functions were understood to be objectively given and uninfluenced by the swirl of market forces and the passing of real historical time in which transactions were effected. It has taken the discipline too long to realize that not only do transacting agents make markets, but that markets make transacting agents.

The book under review is a report of a conference held at Cambridge, England, and contains papers or discussants' comments by twenty-one economists whose specialism lies predominantly in the monetary field and, on the basis of the statements in the list of contributors, one Catholic priest, one Professor of Religious Studies, and one biologist (whose college

Reviewer

Douglas Vickers is professor emeritus, University of Massachusetts, Amherst.

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hosted the conference). The distribution of professional interests no doubt accounts for the fact that the book does not make very deep contact with its announced target of "Moral Responsibility." But that is as much to do with the failure of the economics profession as with the philosophic naivete of the present writers. The latter, generally, treat us to sensible and well-informed analyses of their chosen topics, at least as those are considered from the point of view of their economic content. Informative discussions of international monetary issues add quality to the volume. But some papers have nothing to say about ethics at all. Those that do reflect on the ethical import of either analytical or applied economics do so in only a tangential fashion. The tone of the volume is largely set by Gordon Pepper (whose paper on the Efficient Market Hypothesis is analytically challenging but innocent of ethical relevance) who asks ethicists to "react to my practical common sense." In his comment on Pepper's paper, Dennis McCann, the Professor of Religious Studies, makes apposite observations on commutative and distributive justice.

The unfortunate state of affairs that exists between the disciplines represented is evidenced by the comment on the final paper, which itself, having been contributed by the Catholic priest who co-edited the volume, did get down to some serious questions of moral philosophy. That comment recognized that the issues and the behavior problems that motivated the conference had to do with both "economic rationality as epitomized in the utility maximization theory of consumer behavior and profit maximization theory of the firm" and "the abstract nature and general style of ethical thinking which does not appear realistic to practical business people." That is a fair statement of the tensions that exist, and which this volume confirms exist, between the respective intellectual disciplines. But the attitude of the economics profession in general is summed up by the commentator's stated excuse at that point, "Being an economist, I will concentrate my comments on the first factor." And he then goes on to say that the ethical problem will be substantially solved merely by getting back to "perfectly competitive markets." In a not completely clear or relevant appeal to the contemporary growth industry in theoretical economics, he concludes that "a game theoretic approach may be very useful for an analysis of business ethics," apparently unaware of the questionable knowledge assumptions in game theoretic analysis or the irrelevance of its appeal to the probability calculus in the context of real economic time. Such comments all too clearly point in the direction of the economists, as a profession, excusing themselves for their escape from the moral responsibility to be concerned with moral responsibility.

It would be a mistake to conclude that this volume exhibits no awareness at all of ethical issues on the part of the economists. As we might expect on the basis of his previous significant scholarship, A.B. Cramp reveals a commendable sensitivity in that direction. He "reject(s) the implicit claim to ethical neutrality [of] the apparatus of competitive market theory" and the "allegedly value-neutral analytical framework" within which it proceeds. Scattered throughout the economists' arguments also are what appear as random observations on the ethical content of income distribution and inequality, the competing policy targets of price stability and full employment, excessive bank lending that contributes to unsustainable debt overhang, exploitation of asymmetric information and of the weak by the strong, moral hazard, and insider trading. Loose arguments are made for the need for honesty, fairness, and justice in economic behavior.

But two deeper requirements in the debates that will hopefully develop between economists and moral philosophers are not sufficiently clearly present in this volume. First, it needs to be recognized that economic practice and outcomes are what they are because the economy is shot through with tendencies to disequilibrium, concentrations of power and its exploitation, and the disruptions and shocks that come with the realities of historical economic time. Too great a faith in the extremum-seeking, rational, omniscient economic man has misdirected our discipline for too long. That means that ethical considerations inhere in the structures of institutions and policies that exist or are implemented. It means also that the visions that determine the form of economic theorizing are not without moral philosophic import.

Second, a more serious attempt needs to be made by economists to come abreast of the thought forms and categories of moral philosophy. Stephen Frowen (whose paper exhibits both an ethical sensitivity and judicious comments on the scope and potential of monetary, fiscal, and incomes policies) does, to his credit, at least recognize that the debate should proceed in terms of alternative teleological-utilitarian and deontological categories. Ian Morrison touches on the same distinction. But it is left to the Catholic priest in his final and perceptive essay to raise such meaningful and necessary philosophic conceptions. The unfortunate conclusion is that the economists and moral philosophers do not yet possess a usable common vocabulary or conceptual framework that encourages communication. ■

Safe and Sound: Why You Can Stand Secure on the Future of the U.S. Economy

Bruce Howard

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When I was doing regional economic forecasts at a previous employer a number of years ago, a colleague advised me to predict doom and gloom for the local economy. If the forecast turned out to be right, he said, I would be well-known and respected in my field. (And, besides, unemployment rates were more than twenty percent in the area at the time!) If, on the other hand, the forecast turned out to be wrong, no one would remember the error. This line of reasoning may be appealing if one's objective is to be "remembered" but it is clearly not being honest with those who will read the work. Bruce Howard's book, in fact, was inspired by the confusion and fear created by similar predictions of doom and gloom for the U. S. economy, some by Christian writers. Some have felt compelled to put their own fears and frustrations into print even though they may have had an incomplete understanding of how

Reviewer

Evert Van Der Heide is professor of economics, Calvin College (MI).