University of North Carolina Asheville
Journal of Undergraduate Research
Asheville, North Carolina
May 2023

Morals Over Money: Arguing for a More Ethical Economy

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Abstract:
The rational choice model and models of utility maximization, as they stand today, hold a quite narrow view of human behavior. The idea that people are solely self-interested, "utility maximizing" creatures leaves much to be desired as an explanation of why people do what they do. A vast majority of the population, if not its entirety, take more into account when making a decision than only what is best for them, what is maximizing their utility. Instead, whether consciously or not, people also tend to weigh their actions on a moral scale, asking internal questions like; Is this the right thing to do? Does this benefit someone other than myself? This research aims to show not only why, but also how the rational choice model and basic utility functions can be improved upon through a critical analysis to better define why people make the choices they make, by helping explain and introduce moralistic and altruistic behavior into the models. While the source of these moral considerations (e.g. society, evolution, education, or God) may vary, the fact remains that they are present in all of us. Critically studying the importance of morals in everyday life, decisions and society will assist in reinforcing the notion of a flawed model and help to better understand how adding a moral constraint could bring about a clearer, more accurate depiction of human behavior.

Rational choice theory (RCT) has made its way from economics into numerous other fields of study, including psychology, philosophy, political science, and even areas such as evolutionary theory and warfare (Amadae, 2021). It can be used to help explain everything from consumer behavior, political decision-making, to criminal and social behaviors. The purpose of the theory is to explain human behavior and help predict future outcomes by assuming that people are self-serving maximizers, rationally allocating to maximize their utility (the usefulness of a given action) or what brings them the most net benefit. In economics, this model of decision-making assumes that individuals have stable preferences across all situations, and they have full information on the choices they make.

The model of utility maximization is a formal theory of this rationale, and puts forward a utility function that measures an individual's actions in the context of their goals, and shows that the rationally acting individual chooses the actions that maximize utility in reaching their goal. For example: if an individual's goal is to buy peanut butter and crackers, they will pick the optimal number of each product that will bring them the greatest utility. This can be visualized in a utility function:

$$\text{MAX } U(x_1,...,x_n)$$

Where maximum utility (U) is a function of the goods bought and actions performed (x) that contribute utility towards the individual's goals, for example, crackers and peanut butter as two goods that an individual is considering purchasing.

I argue, although I am certainly not the first, that this model of behavior and choice is far too narrow to explain the complex and nuanced behavior that humans exhibit in the real world. Simply choosing actions and items that maximize one's utility is a basic, and at times, a fairly inaccurate way to define choice. Richard Posner, a law and economics scholar, said: “rats are at least as rational as human beings when rationality is defined as achieving one's ends” (Posner 1997). There are many ways in which an individual may not act as the model would assume, and even ways in which an individual could go against the model's “rational choice” and do something that would even, according to the model, decrease their utility. Posner's statement challenges the assumption that humans are fundamentally rational actors, and suggests that other factors may also play a role in decision-making.

Take a theoretical example: it is near the end of the semester and students have turned in final exams for grading. Their professor, however, has a newborn child that he is missing at home. If solely looking to maximize the utility of the situation, the professor could have simply given all his students A’s on their exams, raising his welfare by saving the valuable time it would take to grade all those tests and instead spending that time with his child. His students could have their welfare raised as well, with a guaranteed A even if their performance on the test was subpar. This doesn’t happen though. The professor spent the time grading every single test, not because it was in his best interest or because he gained the most utility out of this decision, but because he felt like it was something he *ought* to do, something that was morally required of him. He could have spent his time in a way that would, according to the model, have been more rational and utility maximizing. He didn't though, why? The fact of the matter is that most people are not wholly self-serving utility maximizers only in it for themselves. There is more at play. Whether based on faith, personal beliefs, values one was raised with, or simply the existence of a conscience, many people act based on a sort of moral constraint.

This moral sentiment could be seen as both a preference or a constraint. For the former, people may *prefer* to act a certain way but may also be willing to make tradeoffs. For example, an individual might prefer to always tell the truth, but may decide to tell a small lie in order to avoid hurting someone's feelings. In this case, the moral preference to tell the truth is outweighed by the desire to avoid causing harm. In the case of the latter, a constraint would be seen much like a budget constraint found in economic models. This constraint on an individual's actions would place a fixed limit on their feasible choices. If an individual is committed to reducing their carbon footprint, they may *refuse* to buy a car and only use a bicycle or public transport to go to and from work. This moral sentiment could be seen in multiple ways, such as a preference in one's choices while they try to maximize utility, as a rule that must be followed in a utility function, or shown graphically illustrating how someone can consume while still adhering to the moral rule. The aim of this article is to explain the moral constraint, how it may work and why it's important, and show how economic models might look with this new addition. It will also demonstrate why it could be beneficial in expanding the rational choice and utility models in order to have a more accurate depiction of human behavior, and how this might affect (or go against) the ways that economists think and conduct research.

A Review of Economics and Ethics

There are various perspectives and criticisms on rational choice theory and utility maximization, on the limitations of having self-interest be the sole motivator of decision-making, on the role of social and cultural factors and the influence of heuristics and biases on decision-making. This section aims to analyze these critiques to possibly find a solution to the problem, and suggest the addition of a moral constraint in order to make these models more accurate and descriptive.

Principles such as personal values, cultural norms, or religious beliefs can hold a major influence over how people respond to different situations, and affect how they think about and make their decisions. These models can also be seen as too individualistic, failing to take into account broader institutions that influence decision-making. In his *Economics as Identity*, Gordon Menzies cites work from Akerlof and Kranton (2000), saying that "[their research] point[s] out that branches of psychology, sociology, political science, anthropology, and history have all adopted identity as a central concept and ask why economics could not do the same. They suggest that group identity might have significant explanatory power for economic analysis." People's choices can often be influenced by the choices and actions of other individuals or organizations, which can lead to a sort of ripple effect that is difficult to predict and model.

These models, on the other hand, can also be seen as assuming too much of people, as much of the time people are not nearly as consistent or calculating with their choices as the models would conclude. Tversky and Kahneman maintain that individuals are not always rational decision-makers, and that their behavior is often influenced by heuristics and cognitive biases. In their seminal paper, *"*Judgment under Uncertainty: Heuristics and Biases*"*, they argue that instead of being consistent and calculating like RCT would assume, humans often use heuristics and mental shortcuts to make decisions. Some examples of these that the two put forward are the availability heuristic and the representativeness heuristic. The former involves people basing their decisions off of the ease of recalling examples that are relevant to the situation, such as overestimating the likelihood of something happening if a vivid or recent example comes to mind. The latter involves people estimating the likelihood of an event based off of how closely it coincides with a typical or conventional example. These "shortcuts" can lead to errors in judgment and a lack of analyzing available information.

In the book *Nudge* written by economist Richard Thaler and legal scholar Cass Sunstein, one of their overarching conclusions agrees that people often use rules of thumb, or heuristics, that simplify difficult problems. These heuristics are useful, but they also sometimes lead to severe and systematically biased errors. People also face self-control problems, or weakness of will, and procrastination. They are influenced by emotions and social norms, and they often lack self-awareness. In all these ways and more, people are not nearly as farsighted, calculating, and consistent in their choices as simple models of economic man would suggest. The model of RCT lacks nuance to account for things such as this, however the section below will propose a few methods for how this could be improved.

Samuel Bowles also argues against the consistent decision-making found in these models. In *The Moral Economy*, he argues that people are significantly influenced by social norms and moral values, not solely motivated by self interest, but also by a sense of fairness and reciprocity. He also cites research into the Prisoner's Dilemma, an experiment where two people are given the option to cooperate with each other or defect. If they both cooperate, they receive a reward, however if one cooperates and one defects, the defector receives an even greater reward, and if they both defect they both incur a punishment. Studies have shown that when this thought experiment is played in real life, people often cooperate instead of defecting, regardless of whether defecting makes more strategic sense (Bowles 2017, 25-26).

Mary Hirschfeld, in her book *Aquinas and the Market* (2018), critiques RCT by claiming that it is far too weak to interpret human prosperity. Human flourishing, in her eyes, can be brought about without the self-interested assumption that the model provides, and acting outside of one's self-interest may even be critical to achieving human flourishing. Tatum (2017) puts forward that "Consideration of alternative worldviews, including theological ones, might help economists with blind spots in their thinking and their approaches to economics" (Tatum 2017, 133). He claims that utilizing this use of theology could better improve both positive and normative analysis, providing insights on inequality, rest and debt, while also resulting in "utility maximization models with more sophisticated expressions of human motivations" (Tatum 2017, 135). By incorporating a moral constraint like the one I argue for, economists could gain a better understanding of human motivations beyond self-interest and rational decision-making, resulting in a more nuanced model that takes into account the ethical considerations of economic decisions. Incorporating a moral constraint in economic analysis could enhance the normative side of economics by providing a framework for evaluating economic outcomes beyond just their efficiency or productivity. This constraint could help economists consider the ethical implications of economic decisions, and help define what constitutes a "desirable" outcome.

In his article titled *Failing to Extend the Reach of Economic Rationality*, Gordon Menzies argues against the idea that economic rationality can be applied to all domains of human activity. He believes that these models are most useful when they are applied to specific, narrowly defined domains such as market transactions. By bringing this specific type of model into research in much broader and less well-defined areas such as human behavior and decision-making, economists could very well be helping to create the blind spots that Tatum (2017) mentions. Some may argue that altruistic behavior can still be self-centered, i.e. you hurt when you see someone else hurt, so you help them in order to make yourself feel better. Menzies (Menzies and Hay, 2018) claims this could be reflecting Amartya Sen's concept of "sympathy". In his work *Rational Fools*, Sen puts forward the idea that we must distinguish between the two separate concepts of sympathy and commitment. He says:

> "[sympathy] corresponds to the case in which the concern for others directly affects one's own welfare. If the knowledge of torture of others makes you sick, it is a case of sympathy; if it does not make you feel personally worse off, but you think it is wrong and you are ready to do something to stop it, it is a case of commitment" (Sen 1977, 326).

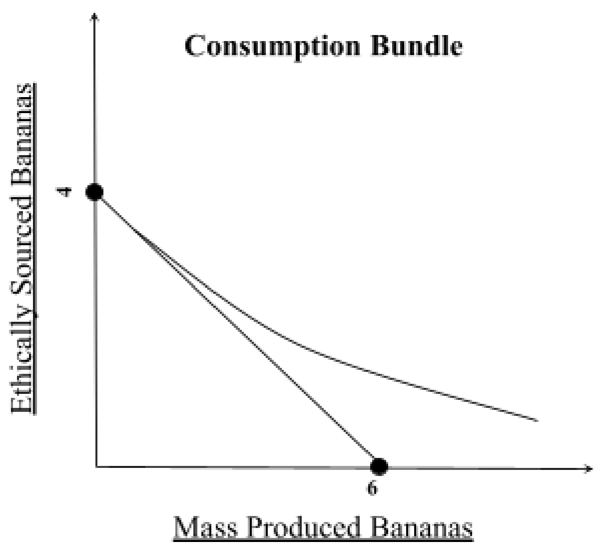
Menzies builds upon this idea by suggesting that Christians have an innate love for their neighbors, and this unconditional love goes above self-serving to a true place of altruism, possibly referring to the same thing as Sen's idea of commitment. Moralistic and altruistic behavior is not, however, solely confined to those that belong to religions. Research from Robert Woodberry discovered that missionary activity led to higher amounts of civic engagement in the countries that the missionaries visited, even when conversion rates to the religion were not high (Woodberry 2012). This could be a result of civic involvement becoming more of a cultural or social norm, with religion not being a main driver for the country's changed behavior. These cultural and social norms can be seen as a sort of "internal" constraint. Stringham (2011) emphasizes the importance of a moral constraint to the assumptions of homo economicus by looking at the implications of internal constraints (morals) in addition to external constraints (laws and policy). He argues that the way that many economists think of influencing behavior, offering incentives for good behavior and punishing the bad, essentially the marginal payoff of their choices, is too narrow and he emphasizes the importance of internal constraints when looking at human behavior, stating "Not everyone behaves morally, but many people do, even in the absence of external constraints"(Stringham 2011, 99). He claims that many economists either outright ignore these internal constraints or underestimate their actual importance.

Morality as a Preference

In traditional economic theory, utility functions are assumed to be purely self-interested based on an individual's preferences for goods, services, experiences and the like. However, many economists recognize that there is much more at play in decision making than purely self-interest, and that most individuals have many more factors influencing their decisions. Therefore, including morality in one's preferences in a utility function is not a new concept, but one that could be useful if done more widely, as it could help paint a more accurate picture of peoples motivations.

Morality, when shown in one's preferences, implies that people may have *competing* priorities that go beyond just self-interest, a much broader and more relevant way that values are seen in most of the general public. This competition can lead to trade-offs in people's decision-making between maximizing their utility and upholding their moral values. This can be illustrated by someone that, given certain circumstances, would break the speed limit. Through rational choice theory and utility maximization, this person should weigh out the potential benefits of making it home in a shorter amount of time and the potential costs of getting a speeding ticket. The decision becomes more complex when morality is added to the mix: while weighing potential costs and benefits of breaking the speed limit, this individual may also consider the potential harm done to others by driving recklessly. In this way, moral considerations can help people to navigate trade-offs between moral values and maximizing their utility. Taking these considerations into account can help people to not only make more ethical decisions, but more informed decisions that take into account the broader implications of their actions. By recognizing the role that moral considerations play in decision-making, policymakers can work to better align policies with individuals preferences and values. For example, policies that promote social justice or environmental protection, as these policies may be more successful if they resonate with people's values.

This morality preference can also be shown in a consumption bundle graph:



In this example, our individual is not explicitly constrained by their moral values, they instead *prefer* to purchase ethically sourced bananas over mass-produced ones, due to their moral preferences. The flat indifference curve in this example shows a low marginal rate of substitution, meaning that our individual is only willing to give up a small amount of ethically-sourced bananas for more mass-produced ones: they have a reluctance, but not a constraint, against the mass-produced ones. They will not always pick the ethically-sourced bananas, for example if the individual needs to cut back on spending, and the mass-produced bananas are cheaper, they could be incentivized to pick those instead. Our individual’s moral preference could be due to numerous factors, such as social norms, personal values, or external pressure. Furthermore, research has shown that moral considerations can play a significant role in consumer decision-making when it comes to ethical or responsible products. Sen and Bhattacharya (2001), in a study focusing on Corporate Social Responsibility (CSR), found that consumers who perceived a strong fit between their personal values and a brand's social responsibility practices were more likely to purchase from that brand. In this vein, the use of moral considerations could not only help to get a more clear, descriptive, and accurate understanding of decision-making, but it could also be used by firms in order to formulate ad campaigns, connect better with their consumers, and possibly attain more ethical business practices.

Morality as a Constraint

On the other hand, many individuals may be *constrained* by their personal beliefs or values, and choose to act in ways that are consistent with these beliefs, even if it means sacrificing personal gain entirely. I propose, in this section, what the morals or values that an individual holds would look like in the equation being an outside constraint, not a preference. With morality being a constraint, it helps to more accurately depict people with strong morals, faith, or beliefs exhibited when they *will not* do something, even if it seemingly increases their welfare, or *will do* something even if it seemingly diminishes their welfare. Examples of this could be a devout catholic giving up something for mass, the businessperson who gives their money to the homeless, the woman that doesn't buy the cheaper of two similar cars because it is made in a country where working conditions and worker treatment are horrible and that's something she feels that she *cannot* support, and many others.

As previously discussed, people often don't have full information on the choices they make, and often make decisions without fully understanding the potential consequences. Individuals also don't always act rationally or in self-interest. Their decisions can be influenced by social norms, religious beliefs, personal values, or a host of other externalities, and I believe that the moral constraint that I am proposing will help to make the models more prudent and accurate.

There are various different ways that this moral constraint could make its way into already existing economic models. One way to visualize this is through a utility function looking something like this:

$$\text{MAX } [U_1(...) + E(U_2(...))]$$

While the ultimate objective of the model remains utility maximization, the argument of this paper is not strictly against that aim. This equation is a useful starting point for moral considerations into economic decision-making models; by including the utility of a second individual, it acknowledges that individuals are not acting in isolation and their decisions have impacts on others. Here the objective from the point of view of individual one, is to maximize the combined utility of themselves (U_1) along with the expected (E) utility of individual two (U_2), with the dots in the parentheses being anything our individuals gain utility from, e.g. consumption of goods or leisure time. The utility for individual two is expected, because individual one does not have a concrete way of knowing if the other's utility has gone up or not, but they are able to estimate. The way this equation is constructed, in trying to maximize the net utility between the two individuals, means that even if individual one's utility goes down by doing something that raises individual two's utility by more than that decrease, maximizing utility would still be achieved, and could still be considered rational and desirable from a moral perspective.

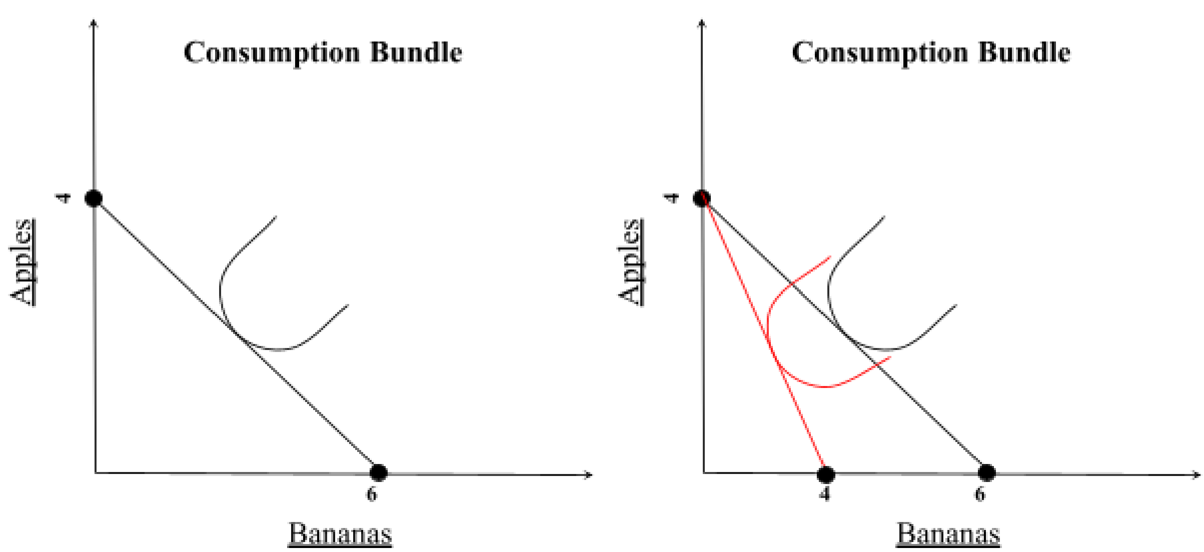
Another way to incorporate these moral considerations into a utility function is through something more consumption based. This goes beyond acknowledging that a decision can have impacts on others, and instead actively encourages individuals to consider the impact of their consumption on others, as shown below:

$$P_1B_{EP} + P_2B_{MP} \leq I$$

In this utility function, an individual is getting utility from purchasing both ethically produced bananas (B_{EP}) and mass produced ones (B_{MP}). Here, the product of the quantity of those bananas and their respective prices (P_1, P_2) must be less than or equal to the individual's income (I) to be a viable purchase that raises their utility. However if the individual has recently learned about Chiquita's poor treatment of indigenous workers, and feels as though she cannot support this business practice, and now only constraints herself to buying locally grown bananas, the ability to gain utility through purchasing mass produced bananas would fall out of the equation entirely:

$$P_1B_{EP} \leq I$$

An additional way this can be made easier to visualize would be in a consumption bundle graph as shown below:



In this example the sloped black line is the budget constraint line that many economists are all too familiar with, showing the maximum of the given bundle a consumer can buy given their current income (budget). In this example, our consumer is able to buy up to six bananas, and up to four apples, with her ideal consumption of these two bundles being somewhere in the middle where her indifference curve is tangent to the budget constraint, let's say two apples and three bananas. When a moral constraint (the red line) is added, she may now only buy locally grown bananas which will be more expensive than Chiquita bananas, and the utility she gains from buying the cheaper mass produced bananas goes down. Due to this, her optimal consumption bundle is on a lower indifference curve, and the total utility she gains from the combination of apples and bananas goes down. This shift in the budget constraint can be modeled to many situations due to any personal beliefs, values, or preferences.

If we constrain ourselves to just one subset of bananas as shown in this example, the model implies that our welfare actually goes down. Many economists may claim that because your optimum consumption is *lower*, one would be better off to do away with any moral sentiments in order to maximize their utility. However this begs the question of whether the way economists view welfare is correct? I believe the answer, at least in this context, is no. Welfare is not defined only by someone's satisfaction or utility as many economists would believe, but also by the impact of their actions on others and the environment around them. For instance the bananas example with the mistreatment of indigenous workers: from an economic perspective an individual’s decision to buy those bananas is considered rational as long as the benefits of their consumption outweigh the costs. This narrow view however, fails to take into account the negative impact of this decision on the welfare of the indigenous workers, so doing away with this moral constraint may raise an individual's welfare, but lower the welfare of society as a whole. In the same vein as what Hirschfeld is arguing, economists' view of welfare focuses on the cost of morality, but many of the implications are not specific to the individual. Reducing the moral constraint may be good on the individual level, but could have negative consequences and effects for the greater population. The addition of this moral constraint into economic analysis that I am arguing for would help acknowledge that there are limits to an individual’s preferences, and that individuals have a responsibility to consider the impact of their actions on others and their environment.

Towards a Morally Conscious Economics

Rational choice theory and utility maximization have been some of the most dominant models in the social sciences, especially economics, for years, and while both of these models can bring valuable insights into human behavior, they also have some significant limitations. RCT especially, assumes that people will act in a wholly self-serving or self-interested manner, in pursuit of increasing their own utility. What this assumption fails to account for however, is that people often do not act in this way, but instead act in ways and make decisions that are not self-interested. They can act in ways that are motivated by moral considerations, values and beliefs. This analysis is suggesting that the addition of these moral considerations into these economic models would acknowledge this oversight, and help to make the models more accurate and in-depth. The addition of these considerations could help to better understand a range of phenomena that RCT and utility maximization currently aren't intrinsically explaining. By adding moral sentiments into economic models of decision-making, companies, consumers, and the environment alike could benefit from the results. If firms were to recognize the importance that many consumers place on ethically sourced goods, or simply overall ethical business practices, they could reach a wider consumer group and likely increase their profits. Likewise, consumers would purchase more goods and services that increase their utility and fall in line with their moral obligations, helping them to feel better and more satisfied with what they are purchasing. By adhering to ethical business practices, firms could furthermore decrease the negative impact that many areas of production have on the environment, becoming more sustainable and negating some negative externalities that come with production, e.g. pollution. This is just a start however, and further research into this subject is crucial in order to continue to develop a more nuanced understanding of human behavior and an improved way of modeling that behavior. Further research would not just be valuable to the economic field, but could help to inform many of the social sciences as well.

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