Book Reviews

Reckoning with Markets: Moral Reflection in Economics

James Halteman and Edd Noell. 2012. New York: Oxford University Press.
ISBN 978-0-19-976370-2, $35.00.

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The moral poverty of an economics of rational choice and *homo economicus* as its paradigmatic agent is not a new theme. One need only think of the work of contemporary economists such as Amartya Sen, Deirdre McCloskey, and Benjamin Friedman, or Kenneth Boulding in the previous generation, to realize that there is a moral conscience among economists who are actively engaging in the kind of moral reflection Halteman and Noell call for in this short, well-written book. Indeed, Sen and McCloskey are cited as exemplars of the kind of integration of economic analysis and moral reflection the authors wish to promote.

What makes this book uniquely valuable is that it aims specifically at undergraduate liberal arts students of economics. Given the academic affiliations of the authors, it is no surprise that the book is best suited to a course in the history of economic thought at Christian liberal arts colleges and universities. However, the authors take no specific moral or theological stance. It is purposely designed to raise questions and spark discussion, not to answer them. As such it should appeal to anyone who wants to engage undergraduate economics students in the discussion of issues which require moral reasoning in some form.

The underlying motivation for the book is found in the deceptively simple realization that markets require trust to operate efficiently, and that we cannot rely on the operation of self-interest in markets to generate trust. (p. xiii) The consequence of this is that we cannot assume away the fact that humans are moral creatures as well as selfish ones, and that a whole range of methodological problems opens up as we realize that, "The wall between positive and normative economic thinking is structurally damaged" (p. xvi). Hence the quest for the legacy of moral reflection in economics.

The central story line of the book is that moral reflection went from being the main discourse in which economic matters were thought about to being completely pushed off the table with the emergence of three inter-related developments. First, there was the conception of a rational pleasure maximizer in Bentham's utilitarianism. The idea of a human "telos" or transcendent purpose disappears with the construction of *homo economicus*. Second, there was the methodological commitment to positive "science" as opposed to normative "art," which culminated in the strict fact/value dichotomy with the rise of positivism in the 1920s. The upshot of this movement was that nothing rational, testable, or corrigible could be said about values. They were relegated to being of the same sort of thing as preferences about which there is no disputing. And, third, there was the mathematization of the discipline, which lent it the appearance of a hard science.

This story of the fall from grace of economics is told in the first seven chapters, although one chapter notes the presence of the heterodox critics, Marx, Veblen, and Hayek who did not buy into the *homo economicus*, mathematical modeling paradigm. The last two chapters provide hope for redemption as such modern developments as new institutional economics, behavioral and neurological economics are introduced as examples of ways in which research is moving away from the narrow confines of rational choice modeling. In the ninth, and last chapter, the authors provide a brief outline of how they would reconstruct economics as a "social-political economy" (p.187). The approach called for would be interdisciplinary and holistic in nature. It would complement rational choice theory, not replace it.

In addition, each chapter ends with a short vignette, of which there are eleven total. These relate the ideas of the chapter to some contemporary issue, and they end with a set of discussion questions. The book is well suited for classroom use.

The central figure in both the fall and the redemption of economics is Adam Smith. *The Theory of Moral Sentiments* (TMS) receives greater attention than any other single work. The fall occurred when the next generation built on the *Wealth of Nations* (WN), while the TMS was essentially neglected. As I have argued elsewhere Smith's economics were embedded in the moral philosophical roots of TMS and the works of the Protestant natural law theorists (Young, 2008). However, we now have a better understanding of the holistic nature of Smith's research agenda and the place of WN. The generation of English and French economists who developed classical political economy did not have that. Benthamite utilitarianism superseded previous ethical systems, and economic theory became a separate autonomous discipline. If the loss of Smith's intended legacy accounts for the fall, redemption is to be found in bringing some of the central themes of the TMS back into the picture. This is indeed what the authors are proposing in the final chapter of the book, and I agree whole-heartedly that going back to Smith's original program is indeed the way to bring together in symbiosis moral reflection and analytical rigor.

I consider myself a fellow traveler with Halteman and Noell in the task of reconstructing economics as a moral science. Nevertheless, I would raise a few points of friendly criticism. First, I would argue that there is much more moral reflection going on among the classical economists than they give credit for. J.S. Mill is recognized as one who wanted to go beyond *homo economicus* and introduce moral reflection in his distinction between the laws of production and the laws of distribution (p.106).

However, recent research in the history of economic thought has uncovered a significant moral discourse and debate over such issues as slavery, women's rights, and fertility (see, for example, Peart and Levy, 2005, and Waterman, 1991). Peart and Levy have persuasively argued that pre-Darwin classical economists held to a fundamental ethical position they call "analytical egalitarianism," which asserts the fundamental equality of all people regardless of race, class, or gender (Peart and Levy, pp 2-3). This is reflected, for example, in Smith's assertion that the philosopher and the street porter are essentially the same at birth (WN I.ii.4).

I would add, it is also reflected in Malthus's belief that any human being is capable of exercising foresight in deciding to have children:

> Impelled to the increase of his species by an equally powerful instinct, *reason* interrupts his career, and asks him whether he may not bring beings into the world, for whom he cannot provide the means of subsistence. In a state of equality, this would be the simple question (2008, p.18, emphasis added).

Such moral commitments led Malthus to advocate public provision of education for the poor, and Smith and Mill to oppose slavery.

Post-Darwin, with the rise of eugenic "science," ideas of difference and differential competence along racial, ethnic, and gender lines became widely accepted among economists. For example, Peart and Levy conclude that, "In Edgeworth's account, individuals differ in approaching perfection; evolutionary fitness maps to the capacity for pleasure" (p.152). Following World War II and the total discrediting of eugenics, the profound influence Darwinian theories of fitness and eugenics played in neoclassical economics had been completely airbrushed out of the history of our discipline. We teach the Edgeworth Box without any awareness of Edgeworth's belief that superior people were more competent maximizers and even more capable of experiencing pleasure than the inferior races. The model of rational choice is much more loaded with ethical commitments than even Halteman and Noell seem to realize, and the loss of innocence, then, seems to have occurred after Mill, not after Smith.

This brings me to a second point. While I believe it is true that Benthamite utilitarianism represents a distinctly different ethical theory from that of Smith's TMS, I do not believe it is the case that classical utilitarianism as an ethical theory rests on *homo economicus* as its model of the individual moral agent. Utilitarianism accords a vital role for sympathy between agents in evaluating social states and social policies. Thus, actions that harm some for the benefit of others can be socially approved if the agents harmed have sympathy for the ones who gain: "For classical economists, the majority—like all others—are bound by sympathy so that policies that benefit the majority are also 'just' actions, rather than a form of taking" (Peart and Levy, p. 181). Mill (1985), for example, argued that the moral imperative of utilitarian ethics is the same as it is in Christianity:

> As between his own happiness and that of others, utilitarianism requires him to be as strictly impartial as a disinterested and benevolent spectator. In the golden rule of Jesus of Nazareth, we read the complete spirit of the ethics of utility. To do as one would be done by, and to love one's neighbour as one self, constitute the ideal perfection of utilitarian morality.

One result of the transition to neoclassical economics was the loss of sympathy as important to moral reflection. While the concept of *homo economicus* has regained the classical view of equality (no one today holds that members of some groups are better maximizers than others or have more worthy preferences), he has not regained sympathy, which is another way of viewing the moral impoverishment of modern economics.

A third, and final point, I would raise with the authors is that I found myself confused about exactly how moral reflection should enter the picture. The fraudulent and predatory behaviors we have seen when the sub-prime mortgage crisis plunged the US economy into the Great Recession of 2007-2009 are singled out as an area where the moral categories of Scholastic economics might be reintroduced into moral discussion. The lack of moral inquiry also seems to bear at least part of the blame for why economists could not predict the recession, and failure to incorporate moral commitments into models of behavior are shown to explain why, for example, the model of rational choice fails in laboratory experiments.

While, rejecting the fact/value dichotomy, it seems to me that the positive/normative distinction might nonetheless be helpful in thinking about where moral reflection belongs. Much of the text and many of the discussion questions are really addressing questions of positive economics. The problem from this perspective is that the model of *homo economicus* is not wrong, but incomplete. Economic agents really do have ethical commitments, they really do care if outcomes seem unfair, and these beliefs really do affect their behavior. Anti-ethical commitments may also be important, and so agents really do lie, steal, and seek power and excessive riches. There is moral degeneracy in the world as well as moral excellence. A positive economics without the full range of human passions would be inadequate.

However, moral reflection is inherently normative. We need a normative perspective from which to condemn greed and fraud and to decide we should live as individuals and as economists, but we also need a normative perspective, which has long been recognized, to evaluate social states and human well-being at a point in time as well as over time. The great disservice of the fact/value dichotomy was to lead economists down the dead end of formulating a value-free welfare theory. As the authors note, Amartya Sen and others are redressing this error.

The reintroduction of moral reflection, then, has the potential to enrich positive economics by expanding the range of passions and motives, which human beings possess beyond self-interested rational choice. Jettisoning the fact/value dichotomy allows the development of a rich debate over the ends of human economic activity and the evaluation of ourselves as individuals made in the image of God and as societies engaged in certain collective pursuits. These are certainly the kinds of issues with which Christian economists would want to engage their students. This book will help students begin the discussion. It could be used as a supplemental reading in a wide variety of courses, including introductory economics.

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