

Economics and Ethics: An Introduction to Theory, Institutions, and Policy

Douglas Vickers

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The one book I believe that all graduate students in economics should be required to read is Oskar Morgenstern's *On the Accuracy of Economic Observations*. To students indoctrinated to full faith in econometrics as a basis for understanding and decision making, Morgenstern shines the cruel light of day on the warts and imperfections of the raw data which constitutes the base input to the sophisticated quantitative analysis process. Surely, as a matter of professional and individual integrity, no economist wants to overstate the certainty of his or her conclusions.

After reviewing Vickers' *Economics and Ethics* I must say I am sorely tempted to add it to my required list. Professor Emeritus of Economics at the University of Massachusetts, Vickers brings years of solid teaching and exemplary publishing to his current work. His publishing includes two books which consider aspects of the relationship between Christianity and economics. In his latest book Vickers demonstrates that the separation of economic deliberations into positive and normative categories is impossible and that the discipline must be reunited with the field of moral philosophy.

This book is not for the lay person. It requires a solid grasp of micro, macro and welfare economics, a background in the history of economic thought, and a background in ethics. While today's economics graduate students have a solid grasp of micro and macro theory, most spend little time on welfare economics, have little exposure to the history of economic thought, and have no formal training in ethics or moral philosophy. These weaknesses are not seen as deficiencies by most economics departments because the majority of the profession has bought so completely into the assumption that economics can be divorced from ethics. Positive economics can be performed with surgical precision, producing results which clearly point the way toward maximized utility, outputs, profits, income

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or whatever. Technical efficiency is paramount. Economic efficiency is overlooked. Economics is a science.

The book consists of three parts. In Part I, the introduction, Vickers briefly describes the historical process by which economics shed itself of a concern with ethics. Part II includes a more detailed review of the evolution of economic thought, a mini-course in the vocabulary and conceptual frameworks of ethical theory, and Vickers' thoughts as to whether economics can be value-free. In the last part of the book Vickers examines four major areas of economic theory and demonstrates how each is shot through with ethical issues and concerns.

Part I of the book consists of one chapter, entitled "Economics in Ethical Perspective." Vickers uses the chapter to show how the field of economics came to slip from its ethical moorings. The ethical assumptions underlying Adam Smith's *Wealth of Nations* are discussed, together with his earlier philosophical work, *The Theory of Moral Sentiments*. Hume, from whom many of Smith's ideas evolved, was clearly a philosopher for whom success in the marketplace could not occur "where ethics are neglected." However, beginning with Ricardo, then continuing with John Stuart Mill, Walras, and Marshall, ethical considerations were almost completely detached from theoretical considerations by the end of the 19th century. The culmination could be Milton Friedman's essay "The Methodology of Positive Economics" where the validity of economic theory is said to rest solely on its predictive competence. Friedman states that "positive economics is in principle independent of any particular ethical position." Vickers completes the chapter by presenting a variety of ethical issues which are clearly relevant to economic considerations. These include equity issues such as: the fairness of the distribution of rewards for work, of property entitlements, and of wealth; the presence of discrimination; unemployment and underemployment; and entitlement vs. contribution.

Part II, entitled "The Status of Eco-

nomics and Ethical Theory," consists of three chapters. The first of these chapters is a brilliant review of the history of economic thought with regard to the importance of ethics, an expansion of the brief overview in Part I. Vickers starts in the Middle Ages with the discussions over usury, the just price and the justification of private property. He shows how the Enlightenment and the subsequent discarding of Christian dogma from discourse in higher education gave rise to the rational, self-interested economic man. It was decided that the Christian ethic was supportable without the Christian doctrine. As Vickers notes "When the latter had been effectively scuttled, the former became rootless, no longer securely moored, and without a meaningful rationale." Economics has arrived: it is scientific inquiry, an amoral discipline.

The second chapter of Part II, entitled "Ethics and Ethical Judgments," provides an overview of the major conceptual frameworks in ethics: teleological theories where the stress is on the "end" or "objective"; deontological theories which focus on notions of oughtness or obligations; and axiological theories which emphasize what is good or of value. The deontological and axiological positions require some value foundation. This raises the issue of the existence of God and nontransitory values and/or natural law. Alternatively, as cited by Vickers, one could assume Dewey's (and Joan Robinson's) position "that nothing is intrinsically good or bad, and that moral standards are like rules of grammar that are capable of change with changing customs or conditions."

Vickers argues that deontological and teleological considerations are unavoidable when considering economic activity. We are faced with a multitude of issues: distributive justice, efficiency wages, special interest domination, the impact of untruth on transactions costs, and so forth. A sustainable ethical outlook requires the specification of ethically meaningful ends in economic activity and these ends will be determined in part by deontological

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pressures. Vickers concludes "Morality in economic behavior...looks for vindication to larger and wider considerations than consistent self-interest and notions of automatic harmonies in the economic system."

Vickers continues this line of argument as he starts the third chapter of Part II, "Economics As Value-Free." The profession would have economists confine their study to the most efficient means to achieve whatever ends are desired, and nothing legitimate can be said about the ends themselves. Armed with a Lagrangian constrained model the economist performs in a value-free environment. Yet what if we are considering the markets for child pornography, automatic weapons, abortions, or cigarettes? What about information on the content of prescription or over-the-counter drugs? It is somewhat of a pretense, says Vickers, for economists to argue that the normative-positive distinction can be preserved. In addition to the analytical and practical research design involved in their work, economists need to make the value orientations of their work explicit as well.

In Part III, "Issues in Economic and Ethical Analysis," the author demonstrates the application and relevance of ethical analysis in four major areas of economics: market supply; market demand; economic distribution; and macroeconomics. With respect to market supply there are such meaty issues as: entitlement to the surplus of the actual values of produced outputs over and above the contractual payments to the factors of production; the ethic of work and the compliance with employment contracts; the exercise of monopolistic and oligopolistic pricing power and the exploitation of consumers; false or misleading advertising; water and air pollution.

With regard to market demand the major ethical issues are between individualism and solidarity. Adam Smith assumed that a fundamental component of our moral makeup was a commitment to others on the basis of general goodwill and human sympathy. In the real world,

however, maximization of individual utility may lead to a reduction in social utility. While my utility may be increased by the prohibition of abortion, such a prohibition may infringe upon what other people consider to be their rights. There are ample examples which cause one to call into question whether unconstrained pursuit of individual self-interest leads to results which are morally acceptable to a society. The bald truth is that utilitarianism is basically a hedonistic philosophy and a coincidence between individual demands and the social good is quite restricted. If you want proof, open a newspaper.

Vickers assumes economic distribution to encompass the distribution among members of society of economic resources, the institutional structures by which resources are converted to output, and the results of the economic and market process. He briefly reviews the field of welfare economics including Pigou, Kaldor-Hicks, Arrow and Rawls. His conclusion is that the field is currently at "something of an intellectual dead end," with roadblocks like cardinal-ordinal measures of utility and clear summary rules as to what constitutes social justice. Consequently, economists may argue that there is no sustainable mandate on any ethical grounds for the compulsory redistribution of income or wealth. Since economists are continually advocating government policies which significantly influence the distributions of income and wealth, Vickers doesn't accept defeat, and calls for work in the direction of minimum guaranteed income.

In his last chapter Vickers takes the observation that there is "no necessary correlation between economic justice and economic efficiency" into the realm of macroeconomics. He cites "ethical imperatives" in macroeconomics such as the maintenance of full employment and the existence of voluntary (frictional) unemployment only, no underemployment, and mechanisms to deal with cyclical unemployment and localized structural unemployment.

While it is a bit repetitious and lacks integration throughout, *Economics and Ethics* is a substantive book which probes the ethical foundations upon which economic theory is constructed. Christian economists especially, being in relationship with God and recognizing His transcendent values, must stand up

against the decoupling of ethics from economics. The book is tough sledding. But if we are to fight the battle to reverse the "positive" tide, we must do so in the context of the scholarship to which the secular academic world relates. I highly recommend this book. ■

*Economics, Ethics and Religion:
Jewish, Christian and Muslim
Economic Thought*
Rodney Wilson

*on order as of
7/21/98*

Washington Square, NY: New York University Press, 1997.
ISBN: 0-8147-9313-4, \$45.

Most economists educated in North America are familiar with the distinction between positive and normative economics. I have heard some go so far as to say, "Economics is about the world as it is, not as it should be." If you are willing to question that sort of thinking, you may find this book interesting.

Rodney Wilson's book is a survey of literature on the integration of religious ethics, economic theory, and economic practice. Teachers will find it useful as a summation of the important writings, including most of the notable books, on integration. Not a work of original research, Wilson instead displays his knowledge of how economic thinking has been acted out in three major religious traditions.

Perhaps most interesting is his first chapter in which he discusses whether "there is a place for morality in economics" (p. 3). He answers affirmatively, drawing on a history of economists who have written on ethical concerns. Economics considers both ends and means, and is a way of "doing" ethics. Any simplistic notion of maximizing utility, where utility itself is collapsed into money income or profit, can be discarded as a caricature. Real people are some mixture of *homo economicus* and *homo religiosus*. Wilson shows that definitions of economics in the past, and in particular those found in the older political economy, were more clearly

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