The economist as social engineer:

Maxi-max decision, utopia and the need for professional economic ethics*

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Introduction

The economics profession has attracted a good bit of attention lately due to revelations regarding the failure of influential economists to disclose potential conflicts of interest when serving in the role of public intellectual. For this we are indebted to filmmaker Charles Ferguson, whose film "Inside Job" ought to serve as a wake-up call to a profession that has suppressed its ethical obligations for over a century. Even worse, the film makes clear that the economists it exposes have never given the matter of disclosure a moment's thought prior to being grilled on camera by Mr. Ferguson. The film spawned several studies that further documented a failure to disclose among leading economists, and pressure from the business press on the AEA to explain just why it has no general rules or guidelines that speak to this issue (Epstein and Carrick-Hagenbarth 2010; Flitter, Cooke and da Costa 2010). In response, the AEA established a committee "to consider the Association's existing disclosure and other ethical standards and potential extensions to those standards."

These developments are important: like doctors (who sometimes shill for pharmaceutical companies), economists must routinely be required to disclose their financial entanglements so that the public can make informed judgments about the dependability of the economic advice they receive. Economics ought to adopt rules similar to those in place in other professions, as Epstein and Carrick-Hagenbarth rightly argue. That said, this is but one of many ethical issues that arise in the in the context of economic practice.

Economists routinely affect the life chances of others, for better or worse, and often decisively. This is the heart of the case for professional economic ethics. The extent and depth of economists' influence over others necessarily entail ethical burdens that the profession has been most resistant to engage—in the U.S. and, with few exceptions, across the globe.[1] And in the vacuum created by that negligence, economists have come to act badly especially when the stakes are highest and the costs of bad behavior are most grave. If I'm correct—if the problem is as severe as I believe that it is—then this amounts to a failure of the economics profession as a whole rather than of just the individual economists who run afoul of the most basic ethical norms. The chief take-away from "Inside Job" should not be that some economists have acted badly, but that the profession has failed in its deepest ethical obligations.

There is much to be said about these matters, which I explore in depth in *The Economist's Oath* (2011). Here, I will take up just one that is particularly disturbing. It concerns the "decision rule" that economists have come to embrace without much thought

* Many of the arguments that appear here are more fully developed in *The Economist's Oath: On the Need for and Content of Professional Economic Ethics*, Oxford University Press, 2011. Thanks to Anya Parakhnevich for her research assistance for this article.

[1] In the U.S., the National Association of Forensic Economics (NAFE) is the only economic association that has pursued a code to guide the behavior of its members (NAFE, undated). In contrast, three professional associations of applied economists in Sweden have adopted non-binding codes.

when confronted with the opportunity to shape public policy that bears on the most fundamental economic institutions and practices, and as a consequence, the most vital economic flows and outcomes.

The argument is this: In the most important policy matters of the past several decades, influential economists have embraced a decision rule that could not possibly pass muster under *any imaginable body of professional economic ethics*, were there to be such a field. Without ever speaking its name, the profession adopted the utopian decision rule of the revolutionary—a decision rule that entails substantial risks for those the economist purports to serve in the hopes of establishing the best of all possible worlds.[2] And the profession did this without any serious consideration of just what it was doing. Like those individual economists who neglected to disclose their potential conflicts of interest when advocating policy, the profession more broadly never deemed it necessary to think through just what it means to be an ethical economist; or for economics to be an ethical profession.

Economic decision rules and risk[3]

Economists don't tend to talk much of decision rules, but in fact policy advocacy in economics is often decision-rule driven. A decision rule is not to be conflated with an evaluative criterion, such as Pareto optimality. An evaluative criterion becomes a decision rule only when it is taken not as just one criterion among many that ought to inform decision making, but when it is held to be the uniquely correct basis for decision making. A decision rule, then, is a dominant evaluative criterion.

In practice the Pareto and Kaldor-Hicks efficiency criteria often serve as decision rules in economics, even if in principle economists know that other criteria, too, should inform policy making. The elevation of one of these (or any other) criterion to the status of decision rule transgresses the boundary that separates "positive" and "normative" economics—something economists are not always happy to admit they are doing. And yet, transgress they often do—and all the more stridently the more important is the issue before them. This is true not just in classroom explications of policy, where economists delight in showing the irrationality of minimum wage legislation or rent control—but also and often when economists speak publicly on policy matters, in the role of public intellectual. The logic that one finds in the *Op Ed* pieces that economists write, or in the expert testimony they provide to legislative bodies, often jumps without warning from a demonstration of "economic efficiency" to a recommendation about what is to be done.

When taking account of the uncertainty of policy effects, economists tend to embrace "expected utility" (or expected value) as the appropriate decision rule. There is substantial

[2] Equally egregious, it involves cashing in the lives of some for the presumed benefit of others without sufficient attention to the ethical issues that attend this practice (see DeMartino 2011).

[3] Space precludes an adequate treatment here of the matter of decision rules in general, or the ethics of using decision rules in professional practice (such as economics). Suffice to say that when one is in position to decide for others, the choice of a decision rule is ethically fraught. This is all the more true when the decision involves non-trivial risk to those for whom the professional decides. See Hansson (2007) for a very brief but insightful treatment of the ethics of decision-making under risk. Hansson notes that a division of labor has arisen concerning decision making in the face of risk, with moral philosophy largely ceding the field to decision theory. In Hansson's view, this division is untenable. Yet it may help to explain why economists who rely on decision rules have largely failed to address the ethical legitimacy of doing so.

theoretical grounding in neoclassical thought for this decision rule, of course. First, like the Pareto and Kaldor-Hicks criteria, expected utility derives from the welfarist normative framework that undergirds neoclassical thought (Sen 1987). Under welfarism that outcome that maximizes utility (or preference satisfaction) given the constraints that individuals face is deemed best. But if one presumes that the future is only probabilistically knowable, one must consider that the effects of any policy option must be represented by a probability distribution of possible payoffs. In that case, one must calculate the expected utility of each policy option, and then advocate for that option that scores best against this criterion.

Expected utility is but one of innumerable possible decision rules, of course. Others that appear in the literature include non-compensatory rules that rank the criteria of policy choice, and consider a policy's impact against those criteria sequentially. If the payoff of policy A exceeds the payoff of policy B under the most highly valued criterion—say its impact on the poor as opposed to the wealthy—then policy A is deemed best. This is true even if policy B scores much better under some other criterion, such as the policy's effects on the wealthy, or the aggregate effect of the policy (on the poor and wealthy). Only when the two policies promise equal payoff in the specified desideratum do we then consider their payoffs in terms of the second most important criterion. As the name implies, non-compensatory decision rules do not allow the effect of the policy as judged by other criteria to compensate for its shortcoming when judged by the most important criterion. The example just given, of privileging a policy's effects on the poor despite its aggregate effects, reflects the non-compensatory mini-max decision rule.[4]

In the context of decision making by professionals that will bear on others, all decision rules are ethically fraught and otherwise contestable. Consider a rule that comes from the field of professional medical ethics: *Primum Non Nocere*, or "first do no harm." This is certainly the best known principle from the entire field of professional ethics. It is often taken by non-ethicists as the single most important professional ethical imperative—one that is inviolable. This is incorrect. Understood properly, as one of many evaluative criteria that a medical practitioner ought to have in mind as she does her work, it conveys an important warning—that professional practice can do harm to those whom it is intended to help, and so the professional should attend carefully to that possibility when advocating a course of action. But when elevated to the status of an inviolable decision rule, it is entirely impractical and ethically deficient. For one thing, it is far too conservative. It may obstruct professional interventions to change the status quo even when the status quo is taken to be deeply indictable by the professional or those she serves, since any intervention involves uncertainty and so may induce harm. Moreover, in the social context (like economic policy making), it can sustain oppressive social arrangements since interventions that are designed to overcome oppression are particularly dangerous (owing to the resistance of those whose privileges are under threat). Moreover, in the face of oppression, doing nothing does harm. Third, this is a paternalistic decision rule: it places judgment and decision-making in the hands of the professional rather than the person or the community whom the professional serves. For instance, "first do no harm" can be and indeed has been interpreted to imply that the medical doctor should deceive a patient about his condition if the doctor believes that doing so would benefit the patient. Indeed, up until very recently medical ethicists in the U.S. debated the ethics of informing a terminal patient about his condition when doing so might cause anxiety for the patient. Only with the increasing emphasis on a different ethical principle—the principle of the "autonomy" of the patient—did the ethical legitimacy of deceit lose standing in professional medical ethics. Today, "first do no harm" has lost its status as a decision rule; it

[4] This is just one version of mini-max, since the term is used in various other ways.

is now considered alongside the autonomy-respecting principle that emphasizes the right of the patient to know the circumstances surrounding his case, and to make the ultimate decisions about the course of his treatment regimen.[5]

In the field of economics, expected utility has significant shortcomings when viewed as a decision rule. First, it makes unreasonable epistemic assumptions. It treats the future as probabilistically knowable even though that kind of knowledge is generally unavailable to economic policy makers. This is particularly true when an intervention involves not just a minor policy tweak but instead concerns institutional design or social engineering more broadly (to which we return below). Moreover, it doesn't take sufficient account of the risk of harm. A policy that scores marginally higher than another in expected utility might nevertheless be associated with much greater risk of harm to the targeted community, owing to its greater variance (see Hansson 2007). If taken as a decision rule, expected value ignores the fact that a vulnerable community might have good reason to prefer a suboptimal policy option that has a lower variance than the optimal policy with a greater variance. Hence, a strict application of the expected value criterion as a decision rule might put vulnerable communities in jeopardy.[6]

Maxi-max: the decision rule of revolutionaries (and social engineers)

All of this bears on the ethical responsibilities of economists. Though economists don't typically speak of decision rules in their policy advocacy, since in principle economists know that economic efficiency is to be taken as just one input into the policy making process, in practice economists often do impose decision rules in pursuit of influence over policy disputes. Moreover, and more troubling, over the past several decades the profession has applied a "maxi-max" decision rule that is extraordinarily dangerous for the communities upon which it is imposed. Maxi-max is not permitted by any existing body of professional ethics. Indeed, it is difficult to imagine how maxi-max could possibly be shoe-horned into any account of ethical professional behavior. If there is any justification for it at all, one would have to look beyond professional ethics to revolutionary ethics, were such a thing to exist.

The maxi-max decision rule that I have in mind is that which appears in the work of libertarian political philosopher Robert Nozick. Like many other decision rules, it presumes that any policy option can be represented as a probability distribution of payoffs. It instructs the decision-maker to choose from among all policy options that option that "has of its many possible consequences one which is better than any possible consequence of any other available action" (Nozick 1974, 298). This is a decision rule for terminally optimistic agents who cannot imagine policy failure, *since decision-making under this rule is driven entirely by a*

[5] The "principlism" framework of medical ethics entails four basic principles: nonmaleficence, beneficence, autonomy and justice (see Beauchamp and Childress 1989). These are not lexicographically ordered; none serves as an inviolable decision rule, though in much recent literature autonomy is emphasized particularly heavily (e.g., see Dworkin 2005).

[6] Theorists have advanced various decision rules that apply in the context of probabilistic risk (see Hansson 2005). Most of these also make demanding assumptions regarding the possible futures under alternative policy interventions. For instance, the various decision rules presented by Cabulea and Aldea (2004) (maxi-max, maxi-min, mini-max, etc.) presume that all the possible payoffs of policy are knowable, but that the probabilities of each possible payoff is unknown to the decision-maker. However, also see Mintz (1993) on cybernetic satisficing models of decision making that presume uncertainty in a deeper sense, and that present the decision-maker as enjoying only limited rationality owing to limitations imposed by time and epistemic constraints. An appropriate decision rule in this context involves seeking a satisfactory rather than an optimal outcome.

comparison of the best possible outcomes promised by each of the potential courses of action. The principle considers just the one criterion of maximum possible payoff in policy choice. Utopian revolutionaries tend to think this way, presuming without evidence or reason that things are just as their blueprint suggests they could and should be. Maxi-max recognizes risk explicitly, since it characterizes each policy option as a probability distribution of payoffs. But it then dismisses the matter of risk entirely in policy selection. In this regard, it is far more aggressive than the expected utility decision rule that we considered a moment ago.

Imagine a maxi-max approach to medicine. A doctor might confront a choice between two treatment regimens for a disease: one that holds out the possibility of complete recovery in the very unlikely event that the regimen succeeds, and certain death in the more likely event that it fails; and another that virtually guarantees substantial improvement (though not complete recovery) in the patient's condition under any of the possible outcomes. Think of this as the medical equivalent of playing the lottery with one's life savings on the one hand versus investing those savings in US Treasury bonds on the other. The maxi-max decision rule directs the medical practitioner to pursue the first strategy since, in the terribly unlikely event that the regimen succeeds, the patient will better off than she would be under the more prudent second option. Even in cases where the difference in maximum possible payoffs among the options is small but the range of risks is great, maxi-max directs us to seek the greatest possible payoff, full stop.

One need not be risk-averse to recognize the dangers associated with the maxi-max decision rule. Even the risk lover can see that it is imprudent to such a degree that one would have to question the sanity of anyone who chose to live his (probably very short) life in conformance with its dictates. But the question before us isn't whether any individual should make his own life decisions by reference to this decision rule. The ethically important question is whether economists are warranted in applying the maxi-max decision rule when they advise or decide for others.

Maxi-max and neoliberal reform in the Global South and transition economies

But why is any of this relevant to economics, since no sane economist would ever advocate maxi-max? I contend that leading members of the economics profession adopted the maxi-max decision rule in two of the most important policy matters they confronted over the past several decades. The first concerned radical economic restructuring in the global south from the 1980s onward and in post-socialist transition economies of Central and Eastern Europe in the 1990s. The second concerned the question of whether the new financial assets and markets that blossomed especially during and since the 1990s should be regulated by government to prevent financial instability. In both cases, the economics profession advocated policy that was extraordinarily dangerous on the exclusive grounds that it promised a higher possible payoff than any alternative policy regime. Here I pursue just the first of these two cases.[7]

The case of economic restructuring in the global south and transition economies is by now well known. In these contexts influential economists advocated for sharp, abrupt and complete economic transformation away from state-directed regimes to market-mediation of economic flows and outcomes. For instance, Jeffrey Sachs and Anders Åslund lobbied

[7] See DeMartino (2011, chapters 9 and 10) for a more detailed examination of this case, and the role of the economics profession in resisting financial regulation in the U.S. from the 1990s onwards.

Russian officials to implement abrupt economic transformation in the early 1990s all at once, before opposition could crystallize (Sachs 1991; Wedel 2001; Angner 2006). As Sachs put it, officials had to "figure out how much society can take, and then move three times quicker than that." To emphasize the urgency of the situation, Sachs cited approvingly the words of a Polish economist: "You don't try to cross a chasm in two jumps" (Sachs 1991, 236). In Poland in 1989, he insisted that "The crisis will be over in six months" (Wedel 2001, 21, 48).

The theoretical backing for this reform came from neoclassical theory which purports to show that market mediation is Pareto superior to any alternative economic regime. Even though economists knew that the actual economies could not possibly conform to the economic caricatures that the profession uses to teach economic principles, leading economists were resolute in their advocacy of neoliberal reform. Moreover, they urged market mediation over a state-led economic regime on grounds derived from the new political economy which purports to show that when the state is engaged to correct market failure, the state failure that necessarily arises will likely overwhelm the market inefficiencies that state intervention is intended to rectify. Hence, the economies targeted for restructuring were not provided with a menu of policy strategies that included social democratic alternatives. They were urged instead to adopt a radically liberalized market economy since, on the blackboard at least, such economies stood to enjoy gains that were unavailable under any alternative regime.

What is the evidence that the economists leading the neoliberal reform implicitly embraced maxi-max, when no one spoke in these terms? Let's consider in the abstract what maxi-max policy advocacy would entail. The key point to notice in this context is the extraordinarily restrictive information set upon which maxi-max decision making is based. The only information that is relevant is the maximum possible payoff of the alternative policy options before the decision maker. Maxi-max decision making therefore does not require (or even permit) a balanced assessment of the probability distributions of the possible payoffs (positive and negative) of alternative policies under any particular set of conditions; nor a detailed examination of their respective robustness in the face of the unknown features of the environment in which they will be implemented. Moreover, while maxi-max encompasses recognition of adjustment costs in the event of policy success, since those costs are incorporated into the calculations that generate a value for each policy option, it does not call for rigorous attention to and planning for adjustment costs in the event of policy failure since the probability of failure is discounted entirely by this decision rule. As a practical matter, we would expect agents who are committed to the maxi-max decision rule to generate partisan legal briefs that advocate the policy proposal that promises to maximize potential gains in terms that are meant to *persuade* rather than to investigate critically or elucidate candidly. Policy prescriptions would be judged by the degree to which they were faithful to the field's abstract theoretical insights rather than the degree to which they incorporated pragmatic compromises that reflected the complexities of policy reform under actually existing conditions in the contexts where it would be implemented.

All of these features appear in the mobilization of economists' efforts to advance the neoliberal cause. Neoliberal advocates largely spoke in one voice about the desirability and even the necessity of the reforms they sought. The consensus among the most influential economists drowned out alternative perspectives: any chance of pluralism in theoretical models or applied work was extinguished by the group think at the very top of the profession. And the group think that emerged made the advocacy of the one preferred policy regime credible to its advocates and to the policy makers upon whom this model was encouraged. In this context, exploring systematically the risks of reform failure, the risk profiles of the alternative regimes that might also have been available, the planning for the possibility of failure in reform and the like would have amounted to a waste of time and energy. No need for these when the blueprint for economic restructuring was so clear, and its payoff so certain.

Though just a couple of decades ago now, it may be hard to recall today the extent of the confidence that the economics profession exhibited then about its technical competence, the maturity of its science, its grasp of the complexities it confronted, and its ability to chart a pacific course from state-led to market-mediated economic affairs in the developing and transition economies. The faith in the basic neoclassical model, within the profession and to a degree also beyond, provided economists with authority and institutional influence that they exploited to begin to construct this regime in places which were unprepared for its adoption. In this context there appeared to be neither the need nor the time to attend to questions of uncertainty or the robustness of alternative policy regimes. Instead, widespread fidelity to market liberalization bred a suspicion of those advocating a more prudent or gradual approach to economic transition. In Ravi Kanbur's words, "'Give them an inch of nuance, and they will take a mile of protection,' seemed to be the mindset and stance" of the reformers (Kanbur 2009, 4). The challenge of the period was to seize the historic opportunity to promote economic progress; in this context, only the coward would flinch from the historic mission that lay before the profession.

Taken together, these circumstances generated a kind of adventurism that belies the normally cautious and even skeptical spirit of the economics profession. A natural caution that typically weighs all the costs against the benefits, and a mindset that understands that the greatest promised rewards entail the greatest risks of failure, were displaced by a utopian presumption that a radical program of abrupt, wall-to-wall institutional reconstruction would succeed—and that in success it would promote a far higher level of social welfare than any other contending type of reform.

The scholarship on economic transition produced by the reformers demonstrates the maxi-max spirit of the times. The essays compiled in the two-volume collection *The Transition in Eastern Europe,* edited by Olivier Blanchard, Kenneth Froot, and Jeffrey Sachs (1994) are emblematic. The volumes include essays by the editors and also by Stanley Fischer, Lawrence Summers, Andrei Shleifer, Rudiger Dornbusch, Simon Johnson and many other prominent and influential economists. In place of the lively debates and pluralism of views that one might hope to find among these essays, especially given the imponderables associated with unprecedented social transformation on such a grand scale, one is treated instead to a choir of harmonious voices. We find broad consensus regarding the challenges facing the transition economies, optimal policy choices, and the preparedness of the economics profession to intervene effectively in this uncertain environment. What we don't find is sustained attention to the likely consequences that will befall the inhabitants of these countries in the event of policy failure, and the measures necessary to offset the hardships that policy failure is apt to induce. "At the center of this consensus," Peter Murrell argues in his insightful investigation of these papers, "is a confidence in the ability of economic technocrats to design feasible, if painful, solutions to the central problems of reform" (Murrell 1995, 164).

The restructuring reforms did not always go as planned, of course. By the mid-1980s in Latin America and Africa and by the early 1990s in Central and Eastern Europe, it had become clear that the pain associated with economic transition would be far greater than had been predicted by its advocates owing to the fact that the reforms did not always work as planned (UNICEF 1993; Calvo and Coricelli 1993; Eberstadt 1994; Murrell 1995). Between 1991 and 1994, life expectancy in Russia dropped by 4.7 years overall and by 6.2 years for men (Angner 2006). A study reported in *The Lancet* finds that Russia, Kazakhstan, Latvia, Lithuania, and Estonia suffered a tripling of unemployment and a 41 percent increase in male death rates between 1991 and 1994, immediately following privatization (Stuckler, King, and McKee 2009). Factoring out other determinants, the researchers conclude that

> mass privatisation programmes were associated with an increase in short term adult male mortality rates of 12.8 % … with similar results for the alternative privatisation indices from the European Bank for Reconstruction and Development … (2009, 1).

How did economic architects of the neoliberal transition respond to evidence of failure? As Murrell (1995, 164) notes, the papers in Blanchard, Froot and Sachs (1994) tend to blame others rather than recognize that they had advocated a course of action that was inherently fraught with danger.

> To the extent that failures are perceived and autopsies performed, the diagnosis usually centers on the political sphere . . . Sometimes socio-political systems simply get in the way of sensible economics.

Sachs is emblematic of this tendency. He argues that “Most of the bad things that happened — such as the massive theft of state assets under the rubric of privatization — were directly contrary to the advice that I gave and to the principles of honesty and equity that I hold dear” (2005, 147). For his part, Åslund attributed the failure of Russian privatization to “extraordinary rent-seeking” rather than any defect in the plan he had helped to devise (Angner 2006).

As applied by the reformers, the maxi-max decision rule required a presumption of the full availability of the transition societies for social engineering. By this I mean that they must present themselves as a *tabula rasa* upon which the reformers could act without regard to their particular histories, institutions, cultures and other features. Only with this presumption could the reformers hope to realize in society the elegant model of economic affairs that they have in mind. Albert O. Hirschman had identified this presumption in the profession much earlier on; he worried about the tendency of economists to engage in “grand theorizing” and to impose simplistic models on societies that were far more complex than the economists wanted to recognize (Hirschman 1970; 1980). Yet during the heyday of neoliberal reform his warnings fell on deaf ears. By the 1980s his peers were happy to pursue their utopian projects with the vigor of the revolutionary. As Murrell (1995, 177) puts it,

> [T]he standard reform prescription . . . begins at the endpoint, an idealized market, phrasing everything in those terms, ignoring the crucial question of how reforms engage existing society. The project of the economist is to grasp the tabula rasa and design a new system, to match events against the yardstick of that design, and to diagnose as failures any deviations from design.

In making these arguments Hirschman anticipated the insights of subsequent poststructuralist, post-colonial and other traditions that came to problematize the technocratic impulse in modernist social science to exert social control (e.g., see Bergeron 2006). Within economics this impulse is not unique to neoclassical theory, of course, nor to the period of neoclassical dominance. Indeed, Hirschman (1988, 6) spoke of his Keynesian peers in the period preceding the rightward turn in economics as economic zealots who "preach[ed] the gospel to a variety of as yet unconverted natives. Deirdre McCloskey writes of the Keynesians of the postwar period as social engineers who presumed for themselves "godlike expertise." As McCloskey's scathing critiques indicates, the concern about the technocratic conceits of the profession is not monopolized by those on the left. In this connection John McMillan's application of Karl Popper's insights to structural reform in Russia is notable. McMillan elucidates Popper's advocacy of "piecemeal" over "utopian" social engineering. The latter requires "a grand blueprint for society: 'it pursues its aim consciously and consistently,' 'it determines its means according to its end,' and entails searching for, and fighting for, its greatest ultimate good." Popper distrusted such impulses and instead advocated "piecemeal social engineering" which entails "tinkering with parts of the system"; it involves "searching for, and fighting against, the greatest and most urgent evils of society" (McMillan 2008, 510–11).

McMillan puts this Popperian distinction to use in making sense of the economic shock therapy in Russia that was pursued by the economic reformers. Sachs himself described this intervention as "a rapid, comprehensive and far-reaching program of reforms to implement 'normal' capitalism" (cited in McMillan 2008, 511). In McMillan's view, this was utopian social engineering of the sort that Popper found so distasteful; and the unfortunate results corroborated Popper's antipathy.

Recognition of the overconfidence of leading economists and their associated attachment to maxi-max helps us to understand how technically adept economists could fail so miserably to anticipate their inability to control political processes upon which the reform efforts depended. For instance, and as noted above, Sachs (2005) attributes the failures in Russian reform to the fact that Russian officials took actions that flatly contradicted his advice. Sachs also blames the suffering associated with the structural adjustment in the former Soviet Union on the unwillingness of the Bush Administration to heed his calls for assistance (in the form of debt cancellation and emergency loans; see Pilkington 4/5/2008).

It is a profound historical irony that warnings about social engineering appear in the work of Adam Smith, who is wrongly taken more than any other as the authority for neoliberal restructuring in the global south and transition economies. In *The Theory of Moral Sentiments* Smith excoriates what he calls the "man of system" who believes himself to have access to the blueprint for optimal social organization, who therefore does not worry about the possibility of failure, and who believes himself to be warranted in imposing this model on even a recalcitrant society. Smith's insight has a modern feel, suggesting that already in his day the impulses to social engineering were alive and well. How presciently he anticipated the modern economists when he described the man of system as someone who

> is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests, or to the strong prejudices which may oppose it. He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board (Smith1976, 233–34).

In Smith's view the man of system suffers from a dangerous hubris:

> Some general, and even systematical, idea of the perfection of policy and law, may no doubt be necessary … But to insist upon establishing, and upon establishing all at once, and in spite of all opposition, every thing which that idea may seem to require, must often be the highest degree of arrogance. It is to erect his own judgment into the supreme standard of right and wrong. It is to fancy himself the only wise and worthy man in the commonwealth, and that his fellow-citizens should accommodate themselves to him and not he to them (Smith 1976, 234).

One wonders, then, just what Smith would think were he to have witnessed the fervor with which the economics profession insisted upon comprehensive and radical reconstruction in his name. How, for instance, would he take Sachs' emphasis on the "need for speed" in the transition to the market economy in the former socialist countries, when he writes that the reforms he proposes

> will eventually produce great benefits, but they will be opposed by many in the shrinking sectors. Populist politicians will try to hook up with coalitions of workers, managers, and bureaucrats in hard-hit sectors to slow or reverse the adjustment … So it is crucial to establish the principles of free trade, currency convertibility, and free entry to business early in the reform process (Sachs 1991, 239).

Smith's insights imply that the failures and suffering that attended the reform efforts in the global south and transition economies were inherent in the utopianism of the project rather than the result of some misstep or other along the way. Failure to recognize this fact, and the associated dangers of maxi-max decision making that gave rise to the neoliberal project, also precludes learning—by individual economists, and by the profession. The *ex post facto* rationalization of the reform failures demonstrate an unwillingness on the part of the profession to recognize the extraordinary naïveté that attended the project regarding the plasticity of social organization and the inability of the social engineer to control the series of events that his grand interventions inaugurate. The social engineer fails to realize that at best he enjoys is *influence without control*; and it is this failure that enables him to apply the maxi-max decision rule without recognizing just how inappropriate it is for him to do so.

Nozick echoes Smith's and Popper's sentiments in his indictment of social engineers who think it appropriate to apply a utopian decision rule like maxi-max. In his words,

> [U]topians assume that the particular society they describe will operate without certain problems arising, that social mechanisms and institutions will function as they predict, and that people will not act from certain motives and interests. They blandly ignore certain obvious problems that anyone with any experience of the world would be struck by or make the most wildly optimistic assumptions about how these problems will be avoided or surmounted (Nozick 1974, 328–39).

The ethical illegitimacy of maxi-max

As should by now be clear, the maxi-max decision rule makes for bad decision making—for the individual acting on her own behalf, and especially for the policy maker who serves others. In the policy domain it is far too dangerous. Nozick (1974, 298) argues that

> Everyone who has considered the matter agrees that the maxi-max principle . . . is an insufficiently prudent principle which one would be silly to use in designing

institutions. Any society whose institutions are infused by such wild optimism is headed for a fall or, at any rate, the high risk of one makes the society too dangerous to choose to live in.

Maxi-max presses the decision maker toward the pursuit of perfection (as she sees it) in the belief that utopia is available. And if utopia is available, it may even be taken to imply an ethical obligation on the part of the professional to pursue it even over and against the objections of those who are its intended beneficiaries. Moreover, since maxi-max already has factored into its calculations the harms that it imposes on some for the overall good, it validates the decision marker's imposition of those costs as regrettable but necessary collateral damage in the pursuit of 'heaven on earth' (cf. Nelson 2003). Those who oppose the reform can then be delegitimized as special interests that obstruct social progress Armed with insight into the unequivocally best, max-max licenses the decision maker to take the steps necessary to subvert opponents—such as by introducing the required reform immediately and all at once, before the opponents can organize to resist. Hence, the shock therapy that was so widely advocated by neoliberal economists to anxious legislators across the global south and transition economies: for the reformers, it was imperative that the reforms occur before the harms were recognized by those who would certainly attempt to block their implementation.

These features of maxi-max make it entirely illegitimate as a decision rule in any other profession that recognizes its responsibility to others. Maxi-max violates principles that are by now well established across all those professions that have examined their ethical obligations. Not least, it is antithetical to the principle of harm avoidance; indeed, it imposes extraordinary risk even when the affected community is in no position to bear its costs. Moreover, and equally important, it violates the autonomy of those who will bear the effects of professional interventions. As discussed in passing above, professional ethics has evolved in recent decades toward recognition that paternalistic interventions are illegitimate to the degree that they deny the agency rights of those whom professionals act upon. Maxi-max does not require decision-makers to factor into their considerations the will of those for whom they legislate. The reformer is instead a 'man of system' who must do what is necessary to achieve utopia regardless of how those who will bear the adjustments costs and live in this paradise themselves conceptualize the good; and regardless of their willingness to face the risks and pay the costs necessary to achieve it. No medical doctor today could possibly get away with this kind of disregard for the autonomy of her patients. How is it, then, that the economics profession believes itself to have the right and perhaps even the obligation to press utopian policy regimes over and above the objections of those who will live under them?

On the need for professional economic ethics

The answer, I think, lies in the fact that unlike virtually every other major profession with influence over the lives of others, economics has stubbornly neglected its obligation to examine openly, carefully and critically the professional ethical entailments of its practice. As of now there are no textbooks, journals, newsletters or curriculum that examine these ethical entailments, and that train economics students or practicing economists in the daunting ethical burdens that they face by virtue over their enormous influence in the world. And so it is the case that leading economists, who sometimes acquire extraordinary powers by virtue of their intellectual expertise and institutional positions, can pursue their craft without the least recognition of the dangers they face, or of the most basic duties to their profession and those they purport to serve. In this context we should not be surprised when they act badly—when they fail to give full disclosure of their financial entanglements when providing economic expertise, or when they practice economics in other ways that violate the tenants of any imaginable body of professional ethics.

Over the past century economics has presumed that the professional responsibilities attending economic practice are so obvious as to render the study of professional ethics optional (cf. Coats 1985). This presumption is terribly wrong-headed and even dangerous. As the evidence of the past several decades demonstrates, a profession that chooses to ignore its ethical duties is apt to stumble badly through the ethical thickets that its work necessarily entails. As a consequence, economists do substantial harm as they try to do good.

The foregoing should not be taken exclusively as an indictment of the individual economists who adopted maxi-max in their work. The responsibility falls equally on the profession as a whole. Economists have worked hard to secure influence for economics. In that regard, we've succeeded immensely. Not as much as some economists would like, to be sure, since many fail to recognize that the control they covet is (and should be) unobtainable. We have as much influence as it is reasonable to ever expect—at least, if we value democratic governance.[8] What we haven't done is attend to the ethical challenges and obligations that necessarily attach to that influence. We haven't explored carefully what it means to be an ethical economist, and what it means for economics to be an ethical profession. It is an ethical fact that we have an obligation to do so. And until we do, the societies we purport to serve might be better off were we to lose some of the influence that we've illicitly acquired.

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[8] The aspiration for control (rather than mere influence) may help to explain why it is that economists have been so willing to provide economic expertise to dictators. The field of professional economic ethics would have much to say about the ethical legitimacy of this practice.

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