

Ethics in Economics - Where Is It?

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It is time to address the question of professional ethics in economics head-on.

As we pick our way through the debris of the lingering economic crisis, the economics profession continues to present a poor, incoherent, and frankly inadequate face to the wider society, one of whose key facets it purports to understand. Either it does. Or it doesn't. It is time to confront the possibility of failure and withdraw to sort the mess out. What it shouldn't be doing is to press on as if nothing has happened. The risk of doing even more damage is just too great.

Medicine has its famous injunction - first: do no harm. Economics ought to abide by that rule too. It is a massive evasion of responsibility for the profession to continue to plod along as if a few hundred more earnest papers will do the trick. They won't. The error is profound. It is deep. It is decisive. Economists everywhere: stop what you are doing. Stop advising. Stop writing. And above all stop pontificating. Start thinking about the ethics of economics. There are no clothes on this particular emperor, and it is high time we admitted as much. So, instead of all those old normal activities, consider this: what are you doing to rehabilitate economics? Now. Not tomorrow.

I found this comment buried deep in a Paul Krugman blog post about the effect of wage cuts. A correspondent of his, a non-economist, wrote:

"I wish that you economists had the equivalent of a bar exam so that the incompetent among you could be prevented from practicing. As far as professional credentials are concerned, you seem to be operating like medicine in the eighteenth century, PhD's notwithstanding."

Precisely.

But it isn't that easy is it? It never is in economics. The root of the ethical problem sits beside the root of all the problems in economics: there is no such thing as "an economics", there are many. From New Classicals to Post Keynesians, from Austrians to Marxists, and all points between, economics is a fractured, plural, and multi-faceted pursuit. Economists are opinionated and fractious. They cannot agree on even the most basic of principles upon which to build a coherent body of thought. There is no single foundation for economic thought, just a series of scarcely intersecting ideas that co-exist uneasily.

When I talk about this fragmentation with people who are outside the profession I use the metaphor of the archipelago. Most economists I know pretend their body of knowledge is a continent when in fact it is just a tiny island in a vast and disconnected archipelago. They teach it that way: they ignore all the other islands. They advise that way: they ignore alternative ideas. They research along those lines. They publish along those lines. They think along those lines. If an outsider bumps into a random economist my advice is always: find out which school they belong to because none will give you the entire picture. None.

But they will always be quick to disparage the schools they don't belong to. This may be fun and nicely hidden beneath a veil of academic argumentation. The problem is that the arguments are still going on. They have been for decades. No amount of point or counterpoint seems to resolve anything. Nor does evidence matter much. Economics has become intellectual trench warfare that bursts into public view at the most inappropriate times. As in the recent crisis when the public was treated to unseemly spats between supposed masters of the trade contradicting each other. Flat out. Openly. And apparently tone deaf to the shambles that the infighting reveals.

And a shambles it is. Patience is running out. It is time to do something. Society has skin in this game. It has a right to know that advice is helpful not dangerous. It has a right to know that economics is trying to clean up its act, and that it isn't just a pile of contradictory, mutually exclusive, strongly held opinions. It has a right to know that economists agree on the basic issues, even if they disagree on the solutions. And it has a right to know that current economists are committed to teaching a comprehensive view - warts and all – so that future generations can draw on all economic knowledge and not just some small, but powerful, part.

This, to me at least, is an ethical challenge. A challenge the profession fails to admit exists.

Let's attack this by asking: What is the point of producing more economists? And, just what exactly is economics anyway?

First, What is Economics?

Whatever you want it to be. Economics is organic. It responds to contemporary issues. It seeks to resolve certain problems that crop up in society, and then to advocate solutions. But it is more than this: it has also become an academic field of study. So it tries to theorize and produce more lasting ideas that have relevance through time. It is consequently bifurcated. It is a profession akin to medicine, and it is an academic discipline akin to biology - both at once. This bifurcation creates great confusion. And creates an ethical dilemma. The endeavor to be a "science" has dominated for years, and as a result the professional or practical aspect has lingered with its relationship with society un-discussed, or at least radically under-discussed.

If you visit the web site of the American Economics Association you will find three well-known quotes, each trying to summarize what economics is about. Here they are verbatim:

"Economics is the study of people in the ordinary business of life."-- Alfred Marshall, *Principles of Economics*; an introductory volume (London: Macmillan, 1890)

"Economics is the science which studies human behavior as a relationship between given ends and scarce means which have alternative uses." – Lionel Robbins, *An Essay on the Nature and Significance of Economic Science* (London: Macmillan, 1932)

Economics is the "study of how societies use scarce resources to produce valuable commodities and distribute them among different people." – Paul A. Samuelson, *Economics*; (New York: McGraw Hill, 1948)

The problem with these quotes is that only the middle one truly pertains in most of what passes nowadays for economics.

Marshall cast the net far too widely for his successors. The real study of people in the "ordinary business of life" would include all sorts of things no longer considered as being within the remit of economics. Remember he was writing before the great splintering within the social sciences - before, for instance, Talcott Parsons led sociologists off on their own pursuit of part of that wider study.

Samuelson, in contrast, tried to keep faith with the broader notion of economics, but paid due reverence to the notion of scarcity that sits at the heart of the contemporary subject. The problem with his articulation of what economics is, is that most, if not all, economists pay no attention at all to the actual production of things; nor to the infrastructure of distribution; nor to the desirability of the distribution we end up with. The Samuelson project has been gutted. His successors evidently decided that such issues - actual production and distribution for instance - threw too much grit into the wheels of the holy grail of equilibrium. Production is a process through time. It entails all sorts of compromises with uncertainty. It introduces the possibility of error and a reliance on judgments that cannot easily be resolved into, or reflected within, the equations of classical machinery. So study of such stuff was outsourced to the people in the organizational and management studies schools. Economics was radically restricted to ignore whole chunks of what constitutes an actual economy. It became constrained allocation.

In my mind this definition is so narrow as to be worthless. It asks us to focus on a set of "given ends". What on earth are they? How could economists possibly know? These ends inevitably remain a mystery to be revealed magically as whatever outcome occurs. It is a leap of faith that what happens is concurrent with what is potentially desired. Economists have no way of knowing the difference so they march on secure in their faith. Having set off down this mechanical path they allow themselves to offer up a definition of ends that suits their process. They borrow the notion of utility from Bentham and then twist it about to squeeze it into their desired analytical framework. A useful metaphorical or philosophical idea suddenly morphs, in the hands of economists, into a highly precise tool upon which everything depends. It was never designed to be thus. It cannot carry the load. But there it is: up front and center.

And those "scarce means"? This seems to be a binding constraint, of Malthusian proportions. But economics needs to limit itself if it is to stay within its self-imposed analytical boundaries. No wonder innovation and technology have been difficult subjects for economics. If there is one characteristic of the entire capitalist era it is that what was once scarce is now less so because we have invented better ways to produce more from our available resources. Yet a strict Robbinsian approach places the study of innovation outside the boundaries of "true" economics.

This is why the subject can seem so sterile. According to the American Economics Association much of what most of the public might think of as economics turns out not to be. Business firms, entrepreneurs, institutions, culture, gender and other relations, technology, geography, and a host of other factors that an ordinary observer may think of as legitimate subject matter for economics, or at least of great influence on an economy, are excluded from the pure definition. What's left, of course, is the study of the efficacy of markets, and the supposedly general mechanisms allegedly within them.

Even then economics allows itself to defy the laws of physics. It pretends that a market system can provide allocation solutions without actually doing work. This error introduces something akin to Maxwell's demon: information moves weightlessly around, levitated instantaneously, at no cost, with no loss of accuracy, and no regard to entropy. Somehow the system defies physics. Economists have created their own version of the impossible: a perpetual motion machine. It is as if they never heard of the second law of thermodynamics. If they have, they certainly ignore its ramifications. This is alchemy: especially in a world well aware of the advances within physics and biology that take such real world constraints seriously. Yet economics soldiers on building its macro policy advice on these tenuous, deficient, and other worldly micro foundations.

In order to avoid being trapped by those constraints economics had to banish, as a great number of people have observed, humanity. As if this could possibly reveal anything of importance for an economy populated by humans. The notion that origin of growth has its roots in artifacts that litter the economic landscape and is thus within and not without the system should not have engendered wonder. On the contrary its absence should have attracted scorn. Yet economics continues to proffer advice from this inhuman and almost absurd perspective.

Of course economists are not that stupid. Many of them set off on various heretical journeys to study the impact of these interesting oddities. They were all cast out for their pains, but at least their work still exists, waiting to be incorporated into a more general notion of economics if the subject can make its way back out of the desert.

Meanwhile, the mainstream profession is teeming with highly educated folks who have no inkling of large parts of its hinterland. They have been taught just one strand of a multi-strand web of ideas. They stand on just one small island within the archipelago and imagine they inhabit a vast continent. They believe, profoundly and erroneously, that they know economics. In fact they are functionally ignorant. They are deeply immersed in only one thing, and oblivious to all others. They are thus not well-rounded professionals. Their training is a license to train others in a limited way. They thus perpetuate – and possibly accentuate - the limitation. Their training is not a license to give advice. This is where a serious ethical problem crops up: they have proliferated not just in economics departments of universities, but in any other institutions that need the wisdom expected from someone steeped in economics.

Professional economics is thus a sham. The public is not receiving fully formed advice. It is receiving opinions based upon a narrow education designed exactly to eliminate large, and possibly vitally relevant, knowledge. Economics has willingly reduced itself to a series of scarcely related specialties built without a general base. It produces doctors without a general knowledge of medicine, but all of whom also claim to be generalists.

Driven on by hubris, the self proclaimed "queen of the social sciences", with its faux accuracy and its bag of apparently clever analytical tricks, the economics world view has been imported into those outsourced disciplines like management and organizational theory. In other words economics has falsely blended its theoretical and practical aspects. Its academic practitioners pretend to have clean hands with respect to giving advice, but, in fact, they are educating and influencing whole generations of erstwhile practical people. These practical people think they are being taught useful real world and deeply applicable knowledge. Some of them end up running major corporations. Others occupy places of great influence in government. Yet more advise politicians. Economics is thus not just some arcane academic pursuit, but it is

enmeshed within the public sphere. It is not just the study of something, but through its advisory role, it seeks to bend society to conform to its worldview.

It ought, therefore, to make sure that its worldview is efficacious. It needs to do no harm.

But the narrow notion of economics allows many economists to elide the need to discuss and take on board the ethical relationship all advisors have with their clientele. When pressed to discuss the ethics of such a professional relationship most economists claim academic privilege. They claim they should be allowed to pursue their vocation wherever it leads. Ethics, they tell me, is for doctors, accountants, and attorneys. They argue economics is different.

But that position is no longer tenable. Not in view of the recent crisis and the inability of economics to muster a coherent response. Economists must address and correct the fractured and deliberately limited basis of their advice. It has customers, who deserve better.

The public perceives economists as deeply practical and worldly - no matter how abstract and theoretical they may feel themselves to be. What economists argue over matters a great deal to society as a whole; what they disagree over matters; what economics is, and isn't, matters; and what economists teach matters even more. What appears to be arcane academic argumentation has enormous real world consequences. This may feel like an enormous burden or an intrusion into freedom of thought, but it reflects the expectation society has of all the experts upon whose knowledge it draws. It is distressing, to me at least, that economics remains the only social science not to take seriously its relationship, as a center of expertise of interest and value to society, with the society within which it operates, and whose operations and wealth it affects with its opinions.

Yes this needs to be said.

Again.

There is, I believe, a general opinion - I stress the word "general" - about what an economist knows. That is to say out that there in the great wide world people have expectations of economists. There is a skill, or set of skills, attaching to the word "economist". When people seek that skill, as in when they hire an economist, they are justified in imagining they have secured the services of someone who is well briefed in the subject and who is capable of providing a well rounded response to problems based upon that set of skills.

What they get nowadays, too often, is a very narrow mind largely ignorant of economic history, the history of economics, the context of its ideas, society at large, and, crucially, any notion of the limitations of the economic worldview. This worldview is based upon the absurd assumptions and naive psychology of economic orthodoxy, which propagates reductionist methods and methodological individualism even where they are wildly inappropriate. And even when the rest of the academic world has rejected them as being wildly inappropriate in a social setting.

And then there is the problem of politics.

Economics is inextricably tied up with politics. This is evident every day when we read of phalanxes of well-known economists proffering competing opinions that directly contradict

each other. The vaunted scientific project of economics is revealed to be nothing but an adjunct of a particular political point of view. There is, apparently, a well-crafted economic theory to justify every point on the political spectrum. There is no right and wrong, just a gaggle of opinions.

But at least they are opinions backed up with fancy math. Which is what influences the public most. I would wager that the image the word economist conjures up most is akin to a slightly more sophisticated accountant. Someone versed in more complicated math; someone who can be trusted with difficult computational problems; and someone steeped in the tradition and values of objective clinical analysis. In other words an applied mathematician and not an economist.

Yes: our schools are producing deliberately ill educated people and presenting them as the complete article. This is an ethical failure on the part of those schools. It fails the community who has every right to expect those places to produce well rounded, fully educated professionals who will in fact, and not just in theory, "do no harm".

In other words economics is a rotten enterprise when viewed as an activity that produces professionals who add value to society at large. Economists are not bad people. They are simply the product of a broken system. Rehabilitation is in order.

One of the more enjoyable moments I had this summer was reading Sylvia Nasar's excellent history of economics titled "Grand Pursuit". She brings to life some of the varied personalities who tower over the progress of economic thought, particularly up until the 1930's. I, like Krugman, had no idea that Irving Fisher invented the Rolodex. Her approach is revealing: she ignores everything after Samuelson - other than a long discussion of Sen. This is both highly deserved and telling. There has been remarkably little progress since 1948. In my more draconian moments I would say there's been none. On the contrary, the subject slid backwards. What was known as efficacious in 1948 has been disregarded and "unlearned" since.

This is an extraordinary disservice to society and is akin to medicine "forgetting" how to cure smallpox simply because that cure no longer conforms to contemporary ideas about what a cure ought to look like. It isn't that economists don't want to cure. Nor is it that the cure doesn't work. It is the nature of the cure, which isn't congruent with individualist thinking and is thus set aside as old-fashioned. And since all economics has been reconstructed on the absurd and flimsy base of its micro foundations, most, if not all, macro ideas have been deliberately forgotten. Tried and true cures were cast aside for the sake of ideological purity. Faith triumphed over reason. Which is odd in the extreme given the perverted place rationality plays in the workings of that faith.

This quote from Blaug tells it far more succinctly than I can:

"At this point, it is helpful to note what methodological individualism strictly interpreted...would imply for economics. In effect, it would rule out all macroeconomic propositions that cannot be reduced to microeconomic ones, and since few have yet been so reduced, this amounts to saying goodbye to almost the whole of received macroeconomics. There must be something wrong with a methodological principle that has such devastating implications."

In my words: economics forgot some of its cures because they were inconsistent with the purity imposed after their discovery. Damn the patient, economics sought its ideal. It had to forget anything not fitting within this ideal. That this forgetting could cause harm, serious long term and very real harm in the actual economy, was of no consequence. That real human families could be broken up, could lose their homes, and could be ground down by relentless poverty was of no consequence. The pursuit of the ideal, of that elegance so marveled at, that wonderful and difficult mathematics, that narrow but beautiful construction of market magic, that consistency so prized within orthodoxy, all trumped, by far, any notion of retaining cures that did not fit. That this ideal was built upon axioms that explicitly rejected the core of humanity was also not a consideration. Nothing, absolutely nothing, was allowed to stand in the way of the pursuit of the ideal.

I do not think for a moment that students entering an economics education desire to emerge as narrow minded and potentially dangerous to society. On the contrary, most want to learn something useful and view economics as socially beneficial. They are unaware of the amnesia that bedevils the subject, its intellectual poverty, and the naive view of humanity that infests its models despite the glitter of their math.

As for my second question: What is the point of producing more economists?

I don't know.

It depends on what economics is. And that question is what got me into this trouble to start with.

Whatever the answer, they should do no harm.

Can we say that now?

No we cannot.

The issue of ethics in economics can no longer be avoided.

Editor' note:

Economics needs you to take part in the World Economics Association free online conference **Economics in Society: The Ethical Dimension**. If you go to the conference site now <http://weaethicsconference.wordpress.com/> and leave your email address, you will be notified when the conference begins and when new papers are submitted. You will be able to leave comments and take part in the ongoing discussions. Better yet, please consider submitting a paper. Short papers of 1,000 words are acceptable.

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