Introduction

Irene van Staveren and Jan Peil

Ethics and economics: the revival of economics as a moral science

From Adam Smith until John Maynard Keynes economics was widely understood as a moral science. Smith was Professor of Moral Philosophy in Glasgow while Keynes explicitly recognized economics as a moral science throughout his work. During the twentieth century, however, the centrality of neoclassical economics came to marginalize the ethical dimensions of economics. The stronghold of positivism over the discipline, particularly since Lionel Robbins's influential claim in 1932 that welfare economics should not compare levels of utility between individuals but leave that to politics, shifted ethical concerns to the equity side of the Paretian welfare criterion, which portrays efficiency and equity as trade-offs. This heritage leaves us today with a strong belief across the discipline that there are positive economics and normative economics and that the two are not only distinct but also each other's opposite.

Recently, however, the dichotomy between positive and normative economics that is portrayed in textbooks, models and empirical analyses has come under increasing attack. First, critical economists and philosophers challenge the fact/value dichotomy underlying modern science, including economics (Walsh 2000, 2003; Putnam 2002, 2003; Putnam and Walsh 2007). Putnam, a philosopher, argues 'that the whole idea of dividing up a thick ethical concept, such as cruelty or bravery, into a "purely descriptive part" (one which can be fully characterized in "value-free language") and a "purely evaluative art" is a philosopher's fantasy' (Putnam 2003, p. 396). He continues more precisely for economists, saying 'the world we inhabit when we describe the world for purposes the economist is interested in – is not describable in "value neutral" terms. Not without throwing away the most significant *facts* along with the "value judgments"' (ibid., emphasis in original). Walsh, an economist, confirms Putnam's view of economists, stating that 'a fact/value dichotomy (of which logical positivism was the early 20th century version) still underlies the beliefs and practices of economists today' (Walsh 2003, p. 321). He adds that the concept of rationality as the maximization of any goal 'is profoundly reductionist – boiling down "rationality" to sheer efficient maximization – fits like a glove the mathematics of constrained maximization. For both its formal convenience *and* its emptiness it is beloved of economists' (ibid., p. 345, emphasis in original). Amartya Sen is among the very few contemporary economists and Nobel Prize winners who has consistently rejected such economic reductionism, whether it is through the concept of rationality, welfare economics or efficiency, while developing an alternative paradigm around capabilities and human development which acknowledges the interwovenness of economic behaviour and morality (Sen, 1987, 1992, 1997).

The orthodox interpretation of Hume's is/ought distinction as an opposition finds less and less support among economists, who challenge dichotomies such as reason/emotion, preference/constraint, market/state, self-interest/altruism and statistical significance/substantive significance (see for example, van Staveren 2001, pp. 89–90). Of course, there is a fundamental difference between *distinguishing* between facts and values (which is necessary for conceptual reasons as well as to do justice to the different meanings of these concepts) and placing them in a *dichotomous* relation. The problem with a dichotomous positioning of fact and value and positive and normative economics is that one excludes the other and is favoured over the other, often without any ground other than that the favoured notion is not the unfavoured notion. Contrary to such dichotomies, values are part of economic analysis, alongside and frequently intertwined with facts, rather than being separated from facts in the form of policy recommendations following a supposedly value-free analysis. This connection between facts and values is revealed in economic terms such as 'freedom of choice', 'equilibrium' and 'efficiency' as being 'optimal'.

Second, experimental game theory has revealed that agents generally do not behave like the stereotype rational economic man, acting out of self-interest even when doing something for others (hedonistic altruism). A recent volume with state-of-the-art contributions from experimental game theory, entitled *Moral Sentiments and Material Interests* (Gintis et al. 2005) clearly shows that the rational economic man has had its time. The volume provides mounting evidence against the standard motivational assumption and instead reveals that strong reciprocity is the more prevalent motivation among human beings in various settings. The editors define strong reciprocity as 'a predisposition to cooperate with others, and to punish (at personal cost, if necessary) those who violate the norms of cooperation, even when it is implausible to expect that these costs will be recovered at a later date' (Gintis et al. 2005, p. 8). Strong reciprocity, hence, transcends the dichotomy between self-interest and altruism which characterizes most economic analysis today. Again, in the words of the editors, 'people are often neither self-regarding nor altruistic. Strong reciprocators are *conditional cooperators* (who behave altruistically as long as others are doing so as well) and *altruistic punishers* (who apply sanctions to those who behave unfairly according to the prevalent norms of cooperation)' (ibid., emphasis in original). Gintis and colleagues conclude with a call for a serious rethinking of economics in light of their model of strong reciprocity.

But such calls for rethinking have often fallen on deaf ears, even beyond the narrow confinements of neoclassical economics, as Kahneman, an economic psychologist, noted in his 2002 Nobel lecture. 'Theories in behavioural economics have generally retained the basic architecture of the rational model, adding assumptions about cognitive limitations designed to account for specific anomalies' (Kahneman 2003, p. 1469). The main reasons we see for the limited impact of innovative mainstream and heterodox empirical research on ethics in the economy is that these insights *cannot* simply be added on to the dominant paradigm. Attempts to do this are ethically weak, unconvincing, or right out perverse, as is the case for the inclusion of moral preferences in the rational choice model. This attempt simply reduces doing good by agent A to agent B to a 'warm glow' feeling for agent A motivated by agent A's preference maximization, not motivated by B's need, or only instrumentally so.

We are not under the illusion that this *Handbook of Economics and Ethics* will be able to trigger the necessary paradigmatic shift. But we do hope that this collection will contribute to the expansion of a critical mass of theoretical and empirical research that challenges the still common beliefs and practices of positivism in much of today's economics. With this as its motivation, the *Handbook* is a collection of 75 entries on the intersections between economics and ethics. It covers a wide range of topics – from key economists such as Smith and Keynes to the major ethical theories of utilitarianism, deontology and virtue ethics, and from basic economic concepts like markets and prices to key economic questions surrounding poverty, inequality and sustainability.

The purpose of the *Handbook* is twofold. First is the practical goal of providing a reference, a companion for academic economists, students and ethicists, as well as for policymakers who may be confronted with the ethical dimensions of economic policies. For this reason, we have kept the entries short and supplemented them with extensive reference lists for further reading. The *Handbook*'s second aim is to contribute to the challenging task of addressing the calls, referred to above, to reconsider the relationship between ethics and economics. To this end, we have collected a wide diversity of entries, theoretical as well as policy-oriented, analytical as well as empirical, having one common characteristic that makes them suitable for the ambitious task ahead. That characteristic is to go beyond the fact/value dichotomy that characterizes today's welfare economics, behavioural economics, evolutionary economics, new institutional economics and even to some extent normative economics. All of the entries in this *Handbook* focus on the intersections between ethics and economics, how the two are related in diverse ways, rather than assuming that they are necessarily trade-offs, or that ethics should come into the analysis only after presumably morally-neutral economic questions have been addressed.

At the same time, the entries are in many ways diverse; not only because of the wide diversity of authors who were willing to contribute to the *Handbook*, but also because we as editors did not want to force any particular framework upon the contributions. Hence, some entries are richly descriptive, such as, for example, the entry on corporate social responsibility, whereas others offer original analysis, of which the entry on postmodernism is a good example. Another consequence of our relatively open approach is that no unified message can be found of how economics and ethics are precisely related. There is not just one way in which the two connect, and there is not just one way through which these connections speak to economic theory.

It is up to the reader to judge whether we have succeeded in striking a balance between coverage and diversity, on the one hand, and helping the 'rethinking economics project' further beyond the fact/value dichotomy, on the other hand.

References

Gintis, Herbert, Samuel Bowles, Robert Boyd and Ernst Fehr (2005), *Moral Sentiments and Material Interests: The Foundations of Cooperation in Economic Life*, Cambridge, MA: MIT Press.

Kahneman, Daniel (2003), 'Maps of bounded rationality: psychology for behavioral economics', *American Economic Review*, **93** (5), 1449–75.

Putnam, Hilary (2002), *The Collapse of the Fact/Value Dichotomy*, Cambridge, MA: Harvard University Press.

Putnam, Hilary (2003), 'For ethics and economics without the dichotomies', *Review of Political Economy*, **15** (3), 395–412.

Putnam, Hilary and Vivian Walsh (2007), 'Facts, theories, values and destitution in the works of Sir Partha Dasgupta', *Review of Political Economy*, **19** (2), 181–202.

Sen, Amartya (1987), *On Ethics and Economics*, Oxford: Basil Blackwell.

Sen, Amartya (1992), *Inequality Re-examined*, New York: Russell Sage Foundation.

Sen, Amartya (1997), *On Economic Inequality*, expanded edition, Oxford: Oxford University Press.

Staveren, Irene van (2001), *The Values of Economics. An Aristotelian Perspective*, London: Routledge.

Walsh, Vivian (2000), 'Smith after Sen', *Review of Political Economy*, **12** (1), 5–25.

Walsh, Vivian (2003), 'Sen after Putnam', *Review of Political Economy*, **15** (3), 315–94.