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Recommended Citation

Wight, Jonathan. "Teaching Economics." In *Handbook of Economics and Ethics*, edited by Jan Peil and Irene van Staveren, 539-546. Cheltenham, UK: Edward Elgar, 2009.

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70 Teaching economics

Jonathan B. Wight

Introduction

Ethical considerations intersect with economics education on a number of planes. Nonetheless, in terms of curricula, only a handful of economics departments offer courses specifically focused on ethics.¹ This chapter addresses the ways in which instructors can incorporate ethical components into teaching principles and field courses in order to broaden economic understanding and to enhance critical thinking. It examines three pedagogical issues: the artificial dichotomy between positive and normative analysis; the limiting scope of efficiency in outcomes analyses; and the incorporation of alternative ethical frameworks into public policy debates.

Charles Dickens began his satirical novel *Hard Times* (1854) with the exhortation of a successful businessman to a schoolmaster: 'Now what I want is, Facts. Teach these boys and girls nothing but Facts.' The speaker, Thomas Gradgrind, was 'A man of realities. A man of facts and calculations.' Such is the caricature of an economic technocrat who can explain the price of labour and predict its future movements using purely objective means – eschewing any reliance on moral analysis or judgement. By the mid-twentieth century, neoclassical economists also had an allegedly 'scientific' way of evaluating government policies, by measuring welfare gains and losses using cost-benefit analyses.

Unfortunately, these achievements rely upon a model of individual choice that severely restricts the scope of human identity, social relations in society and the ethical dimensions that inform them. As taught by Adam Smith and others, however, economics is inextricably a part of moral philosophy because humans are not aloof islands of exchange (as depicted in textbooks): rather, they live, work and thrive in social settings. Humans have innate instincts for self, for others and against others that serve useful functions, yet whose claims must be internally adjudicated by a moral agent. Smith, in rejecting a narrow focus on selfish individualism and hyper-rationality, noted that humans are endowed with social sentiments that aid survival and procreation. He observes, 'It is thus that man, who can subsist only in society, was fitted by nature to that situation for which he was made' ([1759] 1982, p. 85). For a classroom supplement that develops these ideas for students, see the academic novel by Jonathan B. Wight (2002).

Understanding individual and social conceptions of 'right' and 'wrong' is essential for the analysis of choice. Re-introducing ethical considerations to the classroom might better prepare students for the study of how economic agents actually behave, demonstrate how public policy analysis can be enriched by alternative welfare and ethical formulations and provide critical thinking exercises desirable for liberal arts and business educations. We begin by arguing that science itself relies upon such ethical components.

Normative and positive analyses

Economics teachers generally start by distinguishing between the goals of analysing the world as it currently exists or has existed (positive economics) and of analysing the world as it might exist under different policies (normative economics). This dichotomy is a prominent feature of modern economics and is a useful starting point. But students who are taught that it is possible to model economic behaviour without introducing a number of important ethical judgements will be dangerously misled. Ethics – the study of right and wrong, or good and bad – is infused into the ways that science operates and progresses. Attempting to delineate a value-free science would likely be destructive of it. Students should recognize that while science cannot eliminate ethical judgements, it also suffers when moral considerations dominate the search for truth (as during the Middle Ages).

The role of ethics in positive economics can be briefly described, beginning with how scientists come to conceptualize the world to be studied. In ancient times peoples observed the irregular events of nature and assumed that omnipotent beings (gods) were responsible for producing them. Adam Smith noted that ‘thunder and lightning’ were ascribed to ‘the invisible hand of Jupiter’ (Smith [1795] 1982, p. 49). Somewhat similarly, scientific researchers have an incomplete understanding and approach their investigations with imperfect preconceptions. What researchers currently believe (either consciously or unconsciously) affects what they can ‘see’ and what subjects they believed to be important for investigation (Brugger and Brugger 1993, cited in Weisstein n.d.).

Scientists thus approach their tasks not as empty vessels but as jumbles of sometimes conflicting worldviews. Preconceptions are intricately tied to moral values and philosophies. For example, classical economists held the view that markets – including labour markets – always cleared at an equilibrium price. This belief was central to the contemporaneous moral judgement about the virtue of hard work and the vice of relying on charity. Yet, these are not ‘facts’ about the world so much as limiting pre-scientific worldviews. John Maynard Keynes, in introducing *The General Theory of Employment, Interest, and Money*, wrote:

The composition of this book has been for the author a long struggle of escape . . . from habitual modes of thought and expression . . . The difficulty lies, not in the new ideas, but in escaping from the old ones. ([1936] 1964, p. viii)

Bringing presuppositions to light is an important part of helping students to learn how to think critically. Worldviews play an important role in the initial formulation of models, and are central to the allocation of resources. Science could not proceed without individual and social judgements about the relative importance of different research programmes and competing theories for testing.

Once a researcher has developed a hypothesis and received funding to gather data, there are a number of additional steps requiring ethical judgements. ‘Facts’ do not fall from the trees into the laps of researchers. Economic facts must be defined, which entails a normative consideration of the goals of the research. For instance, if the subject of inquiry is the labour market, one would need to define ‘unemployment’. If the definition is set too stringently, those in need of assistance will be undercounted; if it is set too leniently, there will be an overcount. Pure science cannot provide the definition of unemployment, since it is a moral (or political) judgement as to what type of definitional errors one should be willing to accept.

Facts then must be collected and analysed. Since resources for doing so have opportunity costs, a judgement must be made as to which subset of facts to collect and what degree of accuracy to accept. Observing the data often alters the data (known in physics as Heisenberg's uncertainty principle), hence methods of data gathering are subject to ethical norms and constraints. The choice of acceptable statistical errors in data analysis is a step often overlooked by researchers (who simply rely upon industry norms). However, the industry norm for acceptable Type I and Type II errors is not determined by scientific means, but is a collective normative judgement.

Conclusions about the findings must then be publicly debated through a peer review process. This entails a commitment to honesty and to rhetorical elements that are often unconsciously normative (McCloskey 1998). Science itself cannot provide a sufficient reason why investigators should tell the truth. One can argue – and students should consider – whether science progresses more efficiently when researchers ascribe to honest conduct because of duty or identity considerations (as discussed below) or due to simple calculations of self-interest. In mentoring young people, teachers are role models in the socialization of future scholars – which to Adam Smith meant inculcating students with examples of virtuous conduct that become internalized over time.

Finally, factual conclusions about the world often give rise to public policies that change the world, so that discovery and change are linked. In short, it is difficult to conceive of a positive economic researcher being isolated from important ethical concepts and principles.

Welfare analysis

Economists would also like to say something useful about how to make the world a better place. But this normative analysis is often approached from a single ethical framework – consequentialism – and from one narrow aspect of consequentialism, that relating to consumer and producer welfare. Modern textbooks, and probably most teachers, pay little attention to the underlying ethical framework that is implicit in neoclassical welfare theory.

Economists have an overriding but largely unconscious bias toward efficiency as a moral value (Hausman and McPherson 1993, p. 675). Teachers often address the term as if it were a scientific concept rather than a normative one. This is a serious mistreatment, reflecting perhaps the blinkers of worldview. 'Efficiency' is the implied superiority of one situation to alternative states of affairs; to analyse efficiency, the term must first be defined in relation to a goal. Choosing a goal is completely normative. Utilitarians such as Jeremy Bentham focused on the goal of net utility (measured by pleasure and pain). Neoclassical economists focus on maximizing the potential satisfaction of consumer and producer preferences. The modern formulation has several notable advantages, mainly that it can be quantified using market (and hedonic) price information. Yet it also has disadvantages.

Teachers of economics should advise students that efficiency and the related concepts of consumer and producer surpluses, and deadweight losses, are constructed using important ethical judgements that are open to debate. The difference between 'efficiency' as defined by economists and 'efficiency' as defined by wider moral norms provides an interesting contrast for discussion. One classroom technique for demonstrating this is to have students participate in a mock medical triage.

Tell the students they will play the role of a doctor at a remote hospital. The hospital has in stock only ten doses of a life-saving serum; it is impossible to get more in the short run. Two busloads of patients now arrive simultaneously. Bus A holds ten passengers who each need a life-saving serum, and who if administered the serum, will each certainly survive. Without the serum each will definitely die. Bus B holds ten passengers who also need the serum to survive. But due to their worsened conditions, their survival rate will be only 50 percent even if they receive the serum. I ask students, 'If you were the doctor, what should your goal be? Based on that goal, and given the resource constraints, how would you allocate the serum?'

Virtually all students adopt a Hippocratic ethical perspective. They answer that the goal should be to save as many lives as possible. Given this goal, they would perform a triage and allocate the scarce serum to patients on Bus A and thereby save 10 lives. By contrast, if they gave the serum to Bus B passengers, half would die and that would mean only 5 lives saved. I follow this up by then providing additional information: the passengers on Bus A are from a nursing home with an average age of 85 years; the passengers on Bus B are from an orphanage with an average age of 5 years. The new information leads many students to re-evaluate the goal. A new goal is not to save 'lives' but 'life years extended'. In saving a child they would extend life by perhaps 80 years; in saving an elderly person, they would extend life by perhaps only 5 years. Allocating the serum to children would save 400 life years, even though half of the children are not expected to live (compared to 50 life years if the serum goes to the elderly). Almost all students now switch their allocation of serum to Bus B patients.

This discussion helps students realize that being 'efficient' as a doctor is not simply a scientific determination; it is an ethical one. It requires choosing a goal that is most morally defensible. The analysis becomes more complex when I then announce that the life-saving serum is actually not under the control of the doctor. Rather, it is owned by a for-profit pharmacy that will sell it to the highest bidders. The passengers on Bus A are elderly and well-off financially. I ask students how they think the market would allocate the serum. Based on a market-efficient solution, and assuming selfish individualism, the serum would be sold to Bus A passengers and all of the children would die.

Students are surprised and upset to discover that the 'efficient' solution from the economic perspective (maximizing economic welfare) is not 'efficient' from the social perspective (maximizing life years extended), at least in the short run. Suddenly, the interpretation of consumer and producer surpluses takes on new importance. Students now see that economists and others in society often have competing notions of 'efficiency'. Defining and debating the desired goal is a critical step, yet it is one that many teachers simply bypass in assuming economic efficiency to be the most important goal. Many teachers would no doubt justify this approach by arguing that economists have a comparative advantage in assessing economic efficiency, and that teachers from other departments can best address alternative public policy goals. Such reductionism likely hurts the critical thinking process and ill prepares students for leadership positions.

A concluding segment of this exercise requires extending the timeframe of analysis. Students now examine potential outcomes 10 years in the future, comparing the market price system (allocation to highest bidder) with a command and control system (allocation by medical triage). Students come to appreciate the paradox that while markets might not extend the most life years in the short run, they have the potential to do so in

the long run through profit incentives for production and product innovations (assuming competitive conditions). By contrast, the command and control mechanism could theoretically save more lives in the present, yet produce shortages and fail to create incentives for long-run production, research and development. It could also lead to corruption and black-market activity. Hence, the ethical analysis of market outcomes is far more interesting and complex than a short-run period would indicate.

In summary, teachers who focus on efficiency and neglect other outcomes (life years extended, equity, freedom and other values) may inadvertently bias student perceptions about the acceptable or desirable goals in society (Frank 1996; Frank et al. 1993). Economic efficiency is an indispensable concept for students to master, yet it does not have an elevated place above other possible goals when analysing public policies. It is ultimately a normative concept, not a scientific one.

Non-consequentialist perspectives

The preceding section highlighted the role of ethical judgement in the selection and definition of consequentialist goals, such as efficiency. But the analysis of public policy goes deeper than simply choosing goals. Alternative ethical frameworks add depth to the analysis, and students often utilize these unconsciously. Teachers might briefly describe these in class. The major non-consequentialist ethical frameworks are illustrated in the schema below, based on Solomon (1998, p. 121):

(1) Economic Agent → (2) Action → (3) Outcomes

The (1) economic agent takes (2) an action that produces (3) certain outcomes. The neo-classical welfare model utilizes an outcomes-based ethical framework, which asserts that economic systems and policies should be evaluated on the basis of consequences alone. More specifically, efficiency is judged by the degree to which consumer and producer welfare is potentially maximized. One criticism, noted previously, is that alternative outcomes should be considered when assessing economic policies.

More subtle but important criticisms of the neoclassical approach come into view when students consider the antecedent steps. Processes (1) and (2) bring to light issues of duty and character that provide alternative frameworks for ethical analysis. These can be briefly described. Immanuel Kant's categorical imperative defines one's duty as the obligation to carry out actions that one's reason determines to be moral. The consequences of acts are irrelevant to the determination of moral value. Kant's approach leads to the conclusion, for example, that it is immoral to treat another person as a means to an end, regardless of how desirable the end might be. This ethical framework permeates modern philosophy and is reflected in both law and tradition.

Proponents of natural law and rights-based theories rely on a similar construct. The United Nations' Universal Declaration of Human Rights (1948), for example, establishes 'the inherent dignity' and 'equal and inalienable rights of all members of the human family'. According to this view, policies that infringe basic rights cannot be justified by appeals to beneficial economic outcomes. This is relevant for many public policy debates. For example, students often instinctively support the Living Wage Movement, and oppose sweatshop labour, because of adherence to rights-based considerations. That is, if all persons are created equal, there is thought to be some minimum level of compensation

and standard of working conditions that is compatible with dignity. Economists can demonstrate that unemployment may rise if wages are set higher than equilibrium, but to students concerned with human rights, the efficiency argument is a non sequitur. Rather than ignore the issue – thereby implying that only consequentialist ethics matters – teachers can use the issue as an opportunity to briefly outline the differing ethical frameworks, and thereby place neoclassical welfare analysis within its proper context.

Other duty-based ethical systems rely not on rationality or rights, but on adherence to divine law. The pope opposes stem cell research, for instance, because he considers it a violation of God's commandments. While medical advances may occur, these desirable outcomes have no bearing on the moral question of protecting those who are vulnerable. Like Kantians, the pope would argue that it is morally wrong to use others as a means to our ends, regardless of how beneficial those ends might be. Cost-benefit calculations are rejected as a flawed method of moral analysis.

Lastly, the Aristotelian character-based or virtue-based framework addresses important aspects of meaning and identity that shape human behaviour. This approach focuses on (1), the economic agent, and on the motivations that guide behaviour. According to this view, the right action is one that upholds the ideal human person. Adam Smith, who was clearly a consequentialist in his analysis of public policies, also promoted virtue ethics when writing about individual choice. Smith believed that a good society required not only good institutions and policies, but also the cultivation of virtuous character and moral imagination ([1759] 1982). To some degree, the outcome-based and virtue-based ethical systems operate side-by-side. That is, if people are virtuous, this will often produce positive outcomes for society. But people do not have to be virtuous to produce good outcomes. A shopkeeper who is inherently dishonest might discover that acquiring a reputation for honesty generates more business and larger profits in the long run. Hence, from a superficial perspective, it may appear that it doesn't matter why the shopkeeper is honest, either through calculation or character, since the ultimate result is the same.

But Smith argued that the two approaches are starkly different in terms of motivations and ultimate effects. A calculating person will always wonder whether it makes sense to steal, producing conduct of a 'much inferior order' ([1759] 1982, p. 263). By contrast, a person of character is honest for the love of virtue. Virtue includes an appropriate regard for one's own interests. However, one's interests are circumscribed by moral norms and conscience. Smith had no illusions that business people were virtuously motivated, which is why he strongly emphasized the importance of checks and balances using competitive markets. Still, virtue plays a role in the invisible hand by lowering transaction costs and enhancing wealth.

Conclusion: reconciling ethical views

One complaint that teachers may raise against discussing ethics in economics is that it lies outside the boundary of their specialization. A second is that economic theory provides definitive guidance to policymakers regarding what is efficient. Expanding the discussion to alternative ethical frameworks, as suggested here, might open a Pandora's box, because in a relative sense no ethical approach can be found superior to any other.

These are troubling concerns, but the alternative – to ignore ethics – seems even more problematical. Indeed, the American Economic Association warned against producing graduates who were '*idiot savants*, skilled in technique but innocent of real economic

issues' (Barber 1997, p. 98). Public policy debates occur within a multidimensional ethical framework. Economists play an important role in assessing efficiency, but it abrogates pedagogical duty to argue that this limited approach is sufficient for helping students reach conclusions about complex public policy issues.

Yet how can students reconcile conflicting ethical views? Students may ask, for example, how a president could endorse the use of torture in interrogating prisoners (justified by a predominant concern for outcomes) and at the same time oppose stem cell research (based on a predominant duty to uphold human rights). These are incongruous ethical stances. Such incongruity is common, however, and to force students into positions of internal consistency would likely offer a false model. Kenneth Boulding (1969) disclosed how conflicted he was in the autumn of 1968 when, as President of the American Economic Association, he had to decide whether to keep the ASSA convention in Chicago, where police abuses of human rights had been alleged at the Democratic Convention held there that summer. Many exerted pressure to boycott the city in protest. Boulding concluded that as an individual his duty would be to stay away from Chicago; however, he came to see that leaders have a different obligation, namely to consider the outcomes for all members. He thus decided to hold the meetings as scheduled. Through a critical thinking process, students too can come to recognize when it is appropriate to rely on one, versus another, ethical approach. A rational consistency can be foolish (to borrow from Sen 1977).

If the goal is to develop critical thinking skills, students should be aware of the ethical dimensions of positive economics; they should be able to place the study of economic efficiency within the context of wider normative goals; and – whether or not they are experts – they should understand the duty-based and virtue-based modes of thinking that inform many worldviews, and learn how to debate public policy issues using them. Teachers interested in introducing some of these ideas into the classroom have available in Wight and Morton (2007) a mix of ten lessons that contain step-by-step instructions.

Note

1. For example, Princeton, Notre Dame, Richmond, California-Riverside Erasmus, Nijmegen, Gothenburg, Lahore and others. Some philosophy departments also offer courses on economics and ethics (for example, the University of Wisconsin-Madison and City University of New York).

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See also the entries on: Code of ethics for economists; Efficiency; Epistemology; Positive versus normative economics; Rhetoric.