



University of Richmond
UR Scholarship Repository

Jepson School of Leadership Studies articles, book chapters and other publications

Jepson School of Leadership Studies

4-2016

The Ethics Problem: Toward a Second-Best Solution to the Problem of Economic Expertise

David M. Levy

Sandra J. Peart

University of Richmond, speart@richmond.edu

Follow this and additional works at: <http://scholarship.richmond.edu/jepson-faculty-publications>



Part of the [Economics Commons](#)

Recommended Citation

David M. Levy and Sandra J. Peart, "The Ethics Problem: Toward a Second-Best Solution to the Problem of Economic Expertise," in *The Oxford Handbook of Professional Economic Ethics*, ed. George DeMartino and Deirdre McCloskey (New York: Oxford University Press, 2016), 635-650.

This Book Chapter is brought to you for free and open access by the Jepson School of Leadership Studies at UR Scholarship Repository. It has been accepted for inclusion in Jepson School of Leadership Studies articles, book chapters and other publications by an authorized administrator of UR Scholarship Repository. For more information, please contact scholarshiprepository@richmond.edu.

CHAPTER 31

THE ETHICS PROBLEM

Toward a Second-Best Solution to the Problem of Economic Expertise

DAVID M. LEVY AND SANDRA J. PEART

INTRODUCTION

WHILE it is in the interest of society to obtain disinterested advice from experts, there may be strong private incentives for any one expert to provide biased advice. This is the collective action problem associated with expertise. In recognition of this problem, the American Economic Association (AEA) has recently implemented new publication guidelines (AEA, 2012) that ask for disclosure of financial rewards associated with research conducted by economists. On the occasion of a discussion of these new AEA publication guidelines (AEA, 2012) we ask whether they are sufficient to overcome the barrier to disinterested economic research and advice. We suggest that the guidelines are insufficient to solve the collective action problem associated with advice-giving and we sketch out a potential remedy to our continued concerns.

We approach the problem from the point of view of the consumer of expert advice. In a world of transparency, the sensible rule would be to trust experts. We'd make the same decision as they recommend had we spent our resources on obtaining their knowledge. However, when transparency fails that trust can be a catastrophe. We propose to think in terms of the general theory of the second-best in which we accept the existence of constraints that cannot be removed (Lipsey and Lancaster, 1956–57). In this world transparency is a pipedream, but what is possible is to make that nontransparency itself transparent. A code of ethics for experts might suggest to nonexperts that there is temptation to violate professional standards for private ends. Thus, the very existence of an ethical code is a warning. To serve this end the code of ethics needs to indicate where the dangers lie, what tempts the experts.

In what follows we review early discussions of the collective action problem associated with giving advice. Frank Knight's discussion of economic experts is particularly valuable because he held a view of governance by truth-seekers but he also realized that such governance wasn't incentive-compatible. Instead of falling into Knight's pessimism we take this view as a first-best situation and ask what constraint blocks the solution. Given that constraint, we can then think about a second-best solution.

We begin with Knight's important insights into "the reasons why economists write books and articles." Knight recognized, first, that economists should apply their models to themselves, thereby explicitly modeling researchers and advice-givers as self-interested. Second, he was acutely aware of the collective action problem in which the "competition for recognition and influence take the place of the effort to get things straight" (Knight, 1933: xxvii). Knight's sometimes intellectual opponent, A. C. Pigou, made the similar point that instead of seeking the truth, individual economists who are unconstrained by ethics simply posture and argue. The third section locates the Knightian enterprise in a first-best world in which governance is conducted as truth-seeking. Knight's truth-seeking view of governance is explicitly presupposed in John Rawls's magisterial *Theory of Justice*. The Knight–Rawls connection is even clearer when one examines Rawls' annotations to Knight's *Ethics of Competition*. The first-best supposition of truth-seeking can fail when economists act as advocates for predetermined systems of belief. The fourth section moves to econometrics and the problem of nontransparent specification search, an issue first raised by Rutledge Vining when he asked the Knightian question where is the econometrician in the econometrician's model. In the fifth section we suggest why the Knight–Rawls' notion of government with ethics, which is to say government by (fair) discussion, is fragile and we offer a suggestion to help better align private and public incentives in the arena of giving advice by making the nontransparent pursuit of private ends itself transparent. We close with a proposed addition to the AEA guidelines to help deal with the motivated economist.

THE EXPERT ECONOMIST'S DILEMMA, HISTORICALLY CONSIDERED

We know of two important treatments of the collective action problem from the early 20th century. The first was offered by Knight in the 1933 "Preface to the Re-Issue" of *Risk, Uncertainty and Profit* in the London School of Economics reprints series of "Scarce Tracts." A. C. Pigou offered a second treatment a year later in his London School of Economics lecture in which he flamboyantly described the issue.¹

¹ Perhaps Knight and Pigou were inspired by considering what follows from failure of the motivational condition that J. Neville Keynes put forward when he described positive economics as the search for law. (We put the motivational condition in bold.) "We mean by a *law* a theorem, the statement of a uniformity, not a command enforced by sanctions. The law of supply and demand, the Ricardian law

Knight and Pigou are often correctly seen in oppositional terms. Knight's response to Pigou's road problem is rightly celebrated as the beginning of the London School of Economics (LSE)–Chicago analysis of the critical role of property rights in a competitive economy (Pigou, 1918; Knight, 1924; Coase, 1993; Heckman, 1997). As Coase tells us, he selected the title of his most famous article, "The Problem of Social Cost," in tribute to Knight's "Fallacies in the Interpretation of Social Cost" (Coase, 1993: 250). But Knight and Pigou also share an important insight into the economics of economists as experts. Just as they hold that the individuals studied by economists confront collective action problems, so too do the economists themselves face these problems. This makes for a motivational homogeneity between theorist and theorized, something we take as foundational in analytical egalitarianism.

Frank Knight

Knight begins his "Preface" by proposing to address what needs to be done to develop and improve received economic doctrine (Knight, 1933: xi). Although there are very few specific targets of his preface—Pigou's treatment of uncertainty in an appendix of *Economics of Welfare* (xiv) and the confounding of firm and plant (xxi) are exceptions—his unhappiness with the larger classical enterprise is quite clear and not especially surprising given his other writings of the period.

What *is* a surprise comes in his two-paragraph exercise in the economics of economics. In the first of these he proposes to use the tools of economics to analyze the economist's own activity:

The first and main suggestion, looking towards a more relevant economics, is that the inquiry into motives might well, like charity, begin at home, with a glance at the reasons why economists write books and articles. These things are also commodities, produced competitively for a market, . . . , the behaviour of economists provides evidence regarding the possibilities of settling questions—and of settling them rightly—by free discussion. (xxvi)

Then Knight describes the collective action problem in which "Economics finds itself in a vicious circle":

To get recognition and have influence it descends to the public's level of thinking; then competition for recognition and influence take the place of the effort to get things straight; finally, success in this competition becomes the condition of membership in the profession itself. It is no doubt idle to say, now, that there "might

of rent, Gresham's law, and the like, may be given as examples of economic laws in the above sense. The validity of such laws is a purely theoretical question, and our attitude towards them is not, nor at any rate should not be, affected by our ethical or political views" Keynes (1891: 36). Keynes continues and describes such activity as advocacy.

have been" an economics profession made up of minds exclusively devoted to the problem-solving interest and working co-operatively at this task, instead of more and more hawking their wares competitively to the public by way of settling their "scientific" differences. (xxvii–xxviii)

Knight's statement of the problem and his own solution to it were taken up by William Hutt in his 1936 *Economists and the Public* but they were otherwise largely ignored.

A. C. Pigou

Lecturing at the London School of Economics in late 1934 on the role of economists in society, A. C. Pigou comes to the matter of controversy. Those who thought he might respond to Knight's criticism were in for a surprise, as Pigou actually sharpened Knight's point. While "controversy up to a point serves, no doubt, to stimulate and clarify thought," Pigou argued that "controversy for its own sake is a prodigious waste of time" (Pigou, [1935] 1936: 22). He then quoted a verse from Rudyard Kipling without explanation: "There are nine and sixty ways of constructing tribal lays, / And every single one of them is right!"

Those in the audience who could place the verse in Kipling's poetic sketch of the hesitant steps away from a world of wars ("Neolithic Age") might have foreseen some of what followed. Pigou pointed to a rule that J. M. Keynes urged on the occasion of the official obituary notice for Alfred Marshall:

It is not politic for us to lay down even the most general rules for one another: we may so soon be constrained to break those rules ourselves. Not so long ago one of my most distinguished colleagues urged his fellow-economists to "eschew the Treatise, pluck the day, fling pamphlets into the wind." A few years later he himself offered, and we gratefully received, a work with the title of *Treatise* and comprising two weighty tomes!²

After offering a defense of Marshall's generosity to the classics, Pigou clarified the point of the verse:

And there is yet another thing. Are we, in our secret hearts, wholly satisfied with the manner, or manners, in which some of our controversies are carried on? A year or two ago, after the publication of an important book, there appeared an elaborate and careful critique of a number of particular passages in it. The author's answer was, not to rebut the criticisms, but to attack with violence another book, which the critic had himself written several years before! Body-line bowling! The method of the duello! ([1935], 1936: 23–24)

² Pigou, [1935] 1936: 22–23.

The episode, now cited as witness to the decade-spanning dispute between Keynes and F. A. Hayek, is for Pigou an instance of the failure of economists to attain their collective goal as they understand it³:

That kind of thing is surely a mistake. It is a mistake, not merely in general and in the abstract, but also for a solid reason of State. Economists in this country lack the influence which—in their own opinion—they ought to have, largely because the public believe that on all topics they are hopelessly divided. Controversies conducted in the manner of Kilkenny cats do not help to dissipate this opinion. And yet in truth the opinion is largely mistaken! ([1935], 1936: 24)

For Pigou, group influence depends upon unanimity but individual self-interest unconstrained by ethics leads to posturing and dissent. This was especially true in the arena of policy advice. Pigou described the demand for economic advice:

... political partisans, I say, are accustomed to decide what they want to do first and to seek for arguments in favour of it afterwards. Economic reasoning is for them, not a means of arriving at the truth, but a kind of brickbat useful on occasions for inflicting injury on their opponents. ([1935], 1936: 8–9)

He continues with a story about an unnamed political figure who switched economic advice as policy changed and then another about his adventures in offering advice in the letters column of the *Times*. He moved from being in the judgment of the Prime Minister, “the great Cambridge economist” to a “mere academic theorist” in a twinkling of a policy shift! ([1935], 1936: 9–10). Then he reviews the private incentives facing economists to gain influence through the sale of their theories for the sake of policy results:

Of course to students of detached mind this kind of thing is entertaining and quite harmless. But to a young man the ambition to play a part in great affairs is natural: and the temptation to make slight adjustments in his economic view, so that it shall conform to the policy of one political party or another, may be severe. As a conservative economist or a liberal economist or a labour economist he has much more chance of standing near the centre of action than he has as an economist without adjectives. But for the student to yield to that temptation is an intellectual crime. It is to sell his birthright in the household of truth for a mess of political pottage. ([1935], 1936: 10–11)

The only solution that Pigou proposed is what Kipling saw, a norm of toleration and awareness, from which it followed that the public would be skeptical of advice. Two stanzas provide a context to the lines quoted above:

Then I stripped them, scalp from skull, and my hunting-dogs fed full,
And their teeth I threaded neatly on a thong;

³ F. A. Hayek (1994: 47) quotes the passage as evidence of Keynes’s reaction to the review of *Treatise of Money*. Bruce Caldwell offers an extensive discussion (1995: 26).

And I wiped my mouth and said, "It is well that they are dead,
 For I know my work is right and theirs was wrong."
 But my Totem saw the shame; from his ridgepole-shrine he came,
 And he told me in a vision of the night:—
 "There are nine and sixty ways of constructing tribal lays,
 And every single one of them is right!"⁴

GOVERNMENT BY TRUTH-SEEKING AS FIRST-BEST

John Rawls depended upon Knight at the critical moment in which the question arose as to whether legislative discussion is aimed at discovering the correct answer or simply working out a compromise. Rawls then provided a framework to think about the fair conduct of those who are concerned with discovering the correct answer but who are aware that they and others have other motivations. Knight's view of governance is that it ought to be, but rarely is, an objective exercise to find the best solution to social problems. Governance for Knight is not about trading interests. It is instead a discussion about how best to obtain agreed-upon ends. In *Justice Rawls* is completely clear that his understanding of legislation was Knightian.

Government by discussion involves majority rule and decision making by experts. We quote the long passage in which Rawls takes legislation in a just constitution as a procedure to arrive at the "best policy as defined by the principles of justice":

In the ideal procedure, the decision reached is not a compromise, a bargain struck between opposing parties trying to advance their ends. The legislative discussion must be conceived not as a contest between interests, but as an attempt to find the best policy as defined by the principles of justice. I suppose, then, as part of the theory of justice, that an impartial legislator's only desire is to make the correct decision in this regard, given the general facts known to him. He is to vote solely according to his judgment. The outcome of the vote gives an estimate of what is most in line with the conception of justice.

If we ask how likely it is that the majority opinion will be correct, it is evident that the ideal procedure bears a certain analogy to the statistical problem of pooling the views of a group of experts to arrive at a best judgment. ([1971], 1999, 314).

⁴ It perhaps intrigued readers, and certainly struck us as worthy of note that both Knight's and Pigou's reflections offered in the space of a year on the collective action problem of economists have an LSE address. Whether this is purely coincidental or not, there is an LSE tradition of the 1903s that considers the role of the economist in the economy that we find in William Beveridge's "Mock Trial of the Economists" (Levy and Peart, 2011a) and in William Hutt (1936).

Rawls's footnote reveals the complexity of the issue. After the citation to K. J. Arrow's *Social Choice* comes the reference to the critical argument in Knight: "For the notion of legislative discussion as an objective inquiry and not a contest between interests, see F. H. Knight, *The Ethics of Competition* (New York: Harper and Brothers, 1935), pp. 296, 345-347. In both cases see the footnotes."

The pages cited in *Justice* are marked for attention in Rawls's index in the rear inner lining of his copy of *Ethics of Competition*. These passages are from Knight's 1934 paper on nationalism which has been (unfortunately) read in isolation from the introduction to the LSE reprint except perhaps by W. H. Hutt (1936). A small part of the index Rawls prepared for *Ethics* is reproduced in Figure 31.1.

The pages Rawls cites are also reproduced below. Rawls's use of red ink is apparently a mark of emphasis. He seems particularly taken by Knight's response to a skeptic who denies there is a "best" answer.

Knight clearly worried that discussion aimed at discovering the correct answer can degenerate into pursuit of one's interests. His proposed solution to the problem of partial interest corrupting the discussion of social goals was to appeal to fairness. The role of agreement is very subtly worked into Knight's argument. The background assumption in footnote 1 (345) is an appeal to impartiality (Figures 31.2 and 31.3).

We see in the extensive footnote to which Rawls paid close attention the doctrine that "expression of personal preferences is not discussion and indeed leads definitely toward conflict."

Knight famously worried that growing income inequality would corrupt government by discussion because those with more dollars would have a louder voice. The problem of interest—the individualization of ends—does not go away when we leave the government of a commercial society and move to the government of a philosophical one.

Knight's answer is precisely the same in philosophical discussions as it is in the government of a competitive order. The player, as Knight puts it, must be more concerned to have a good game, to play by agreed upon rules, than to win. The question as we see it is whether this is sufficient to ensure the discussion is "fair." Our worry, expounded in more detail in the fifth section, is that without a more expansive code of ethics, enforced by spectators who are aware of the nontransparency of advice, experts will be insufficiently wedded to a norm of fair play to take part willingly in a competitive discussion, to

Discussion & Com. Theory 345-7 and 29; 296 n;	I dealy Rem Discussion 296, 352
Human Deter 342-5; 118-	Discussion Cots of: 304
On History 125-6;	any re skepticism: 346n I'm not up + value
Role of I deals: in deciding: 44	

FIGURE 31.1 A section of Rawls's index to Knight's *Ethics of Competition*.

The philosophical problem of the nature of validity in connection with values and its relation to that of the truths of science and mathematics or logic cannot here be further pursued, but one point does call for emphasis. It is that in the field of political ethics as in the domains more usually recognized as affected by truth, the recognition of validity in any conclusion excludes the role of force, and equality of persuasion, in any form, in securing agreement. Acceptance must rest on discussion of the objective merits of the question itself.†

as all. In political ethics, as in natural science, there is an interaction between the two processes of knowledge, from general to particular and from particular to general.

There are, of course, cases in which only the fact of agreement is important, the choice between the alternatives a matter of indifference. Here the issue may be settled by drawing lots, or otherwise left to "chance." Examples are choice between turning to right or left upon meeting, and the definition of words. Where agreement is vital and an objective basis difficult to find, a working adjustment will naturally be reached through compromise.

* Or, more accurately, these plus a bureaucracy of "controllers" for whom the scientists would certainly work and by whom they would be controlled, and see conversely, as they often seem to assume.

† A few brief statements may be added, in the hope that they will be taken in the spirit of suggestion or challenge, not that of dogma.

1. In both science and political ethics, the establishment of objectivity, but not the objectivity itself, depends upon the acceptance of the conclusion by a competent and impartial group (which presupposes valid intercommunication). Agreement is the *fact* of validity, but the concept itself rests on the assumption, or faith, that validity is more

FIGURE 31.2 Rawls's marking of Knight's *Ethics of Competition*, p. 345.

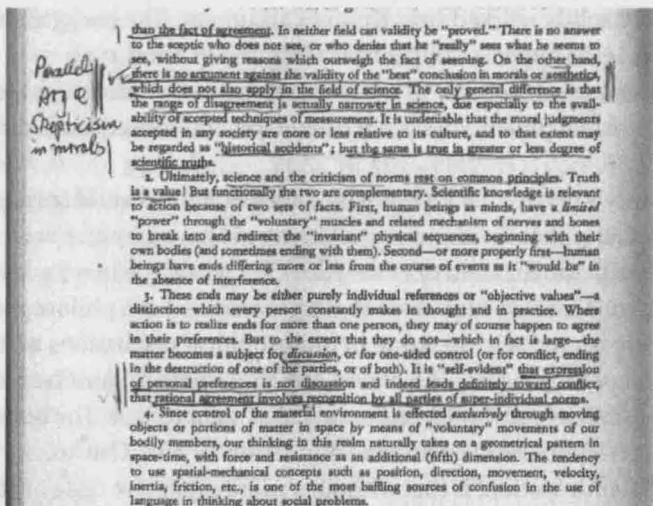


FIGURE 31.3 Rawls's marking of Knight's *Ethics of Competition*, p. 346.

play by the rules and to abide by the outcome. Knight sees this too and despairs (Figures 31.4 and 31.5).

VINING EXPLAINS KNIGHT

Readers of Knight owe a great debt to Vining for a stream of publications in which Knightian themes were expounded (Vining, 1949, 1950, 1956). Vining's stress on the ethical obligations of researchers was particularly important in these publications. We begin with the 1949 exchange with Tjalling Koopmans, in which Vining defended the

Discussion itself, moreover, is a social activity in the true sense, a "game" which has to be carried on in accord with rules, and these rules must be respected for "absolutistic" or "spiritual" reasons and not from individual utilitarian motives. The player must be more

FIGURE 31.4 Rawls's marking of Knight's *Ethics of Competition*, p. 352.

concerned to maintain the game and have it a good game than he is to win. But discussion seems to manifest in an especial degree the tendency of games to deteriorate, through "cheating," first into ill-will, and ultimately into disruption or even violence. From this point of view, the history of intellectual activity, in science, criticism, and philosophy, is surely far from encouraging. The specialized, professional intellectuals have shown little enough capacity to maintain the spirit of discussion, even in small groups and under what should be extremely favourable conditions; and of their ability to settle issues and solve serious problems by discussion among themselves, it is more pleasant not to speak. In the natural sciences, the issues finally get settled by unmistakable objective tests, the results of which are plain even to the non-specialist. In the field of morals and politics—to say nothing of religion—it is questionable whether the net result has been progress toward consensus or the multiplication of controversy.

FIGURE 31.5 Rawls's marking of Knight's *Ethics of Competition*, p. 353.

National Bureau of Economic Research (NBER) practice as "hypothesis seeking," something we might now call "exploratory data analysis" (Vining, 1949: 78). There Vining asked Koopmans to consider the econometrician's motivations in Koopmans's research program. If the econometrician was considered to be outside the chain of cause and effect then perhaps, Vining argued, we need to appeal to the sort of Kantian moral motivation that Knight presupposed (81). In his response Koopmans accepted "hypothesis seeking" as an open problem to be addressed by future technical developments.⁵

For our purposes the most helpful of Vining's statements is found in his 1956 pamphlet for UNESCO, *Economics in the United States*. The pamphlet speaks to the relationship between choice and individual obligation. Vining opens his section "The individual obligation implicit in the idea of individual freedom" with a statement familiar to Knight's readers, that one is ethically bound not to advocate in one's own interests:

One can never propose an alteration in an economic system on the *explicit* grounds that he will gain personally from the alteration—at least he can never do so with any hope that he will be listened to. The proposal must be made on the grounds that the result will be generally more satisfying or else that what now exists is unfair. (1956: 18 [emphasis added])

⁵ Koopmans (1949: 90): "This touches on unsolved problems at the very foundations of statistical theory, and I must confess that I do not see clearly through the issues involved. It is possible to take a formal view and argue that hypothesis-seeking and hypothesis-testing differ only in how wide a set of alternatives is taken into consideration."

We return later to the possibility of dropping “explicit” and pursuing personal interest, whether pecuniary or ideological, in a nontransparent manner. Vining’s argument of course raises a puzzle concerning the sources of the ethical obligation:

How is it that we say that social criticism in order to be valid must necessarily be devoid of personal motive? And how is it that the individuals constituting the society may feel a binding obligation to pursue the process until consensus is reached and to conform to the rules and constraints which are the outcome of the process? That is, what is the source of the obligation that may be felt by each member of the society to abide by the laws established by the group? (1956: 18)

The solution, Vining argues, comes from the very concept of “a free and rational individual,” an explicit Kantian imperative (1956: 19).

The econometric literature moved on with rare backwards glances, two of which are of considerable importance. While in his 1972 *JEL* review article of Koopman’s life work, Edmond Malinvaud regarded Vining as the “definite loser” as judged by professional acceptance (1972: 801), and he emphasized the “interesting distinction” between hypothesis seeking and the practice defended by Koopmans (Malinvaud, 1972: 801). Second, at the 50th anniversary of Cowles in 1983 Malinvaud began a serious reconsideration: “Notwithstanding this undisputable success of the probability approach, some of R. Vining’s doubts have been recently echoed within the econometric literature. Some have argued that current econometric practice is often weak at the specification stage.” (Malinvaud, [1983] 1988: 207). (Malinvaud cited the work of E. Leamer (1978), C. Sims (1980), and referred to the work of exploratory data analysis in mathematical statistics of J. Tukey.)

1983, the year that marked the 50th anniversary of the Cowles Commission, also saw the publication of Leamer’s “Let’s Take the Con Out of Econometrics” (Leamer, 1983) that developed the unhappy consequences of the hypothesis-seeking behavior Vining had laid out as a problem for Koopmans and his associates. Since then, 30 years of econometric work on specification search suggests that economists and other experts are indeed motivated by something other than truth itself (Leamer, 1983; Feigenbaum and Levy, 1996; Levy and Peart, 2007, 2008).

TOWARD A SOLUTION TO THE ETHICAL DILEMMAS OF EXPERTISE

We need to recognize that the problem of expert advice is more than just a worry about financial incentives; we take seriously Adam Smith’s worries about the dangers of system (Levy and Peart, 2013). If we combine Smith with Knight and Rawls, the “objective inquiry” or the “best policy” may only be contingent upon a system. This would be akin

to how Buchanan reads Knight (Buchanan, 1967) except that instead of preferences for policies we have preferences for a system.

“Best” answers that are far from the best are often the consequence of a false system. System-specific answers of course will generally be local to issues. Thus, if the system was a eugenic system in which the great “dangers” were race suicide and inherited criminality, a “best” policy might be the sterilization of the “unfit.” If the system was a view of comparative growth of the American and the Soviet economy in which Soviet overtaking was a near-certainty, the “best” policy might be an early war against North Vietnam, a Soviet client state, as a way to prevent a later war against an “increasingly powerful” Soviet Union.⁶

It is common knowledge that Knight and Rawls worried about income going to those with extraordinary inherited abilities. For Knight, income inequality changes the rules of government by discussion; those with more income obtain a louder voice. Knight’s concerns with bias via inequality is largely a question of transparency. He worried that the arguments advanced by interested parties could not be checked by their opponents. And because the bias in the system is nontransparent, regular people would not come to the conclusion that the discussion was unfair.⁷ Consequently, the question of how the system is selected requires our attention.

The Knightian vision of a fair game in which all the players are tempted by their several goals to cheat poses the question of what makes playing the game of greater importance than winning one round. What induces experts to propose their best attempt at the correct answer instead of their best attempt at an answer that maximizes their several individual interests? There is, as we have argued previously, no easy answer to this question. But given individual and social interests so rarely fully align, knowing the question is one step, perhaps, toward a second best solution. As we argued elsewhere, experts function best when they are not fully trusted (Levy and Peart, 2010a).

A Rawlsian potential solution now presents itself. Suppose the experts put themselves behind a veil of ignorance in which their future clients are unknown. Why would they do this? Perhaps if the consumers of expertise know the tricks of argumentation (of expertise), it is harder for experts to impose a trick upon them (Levy and Peart, 2010b). But this would make the readers into experts of a sort. Making the nontransparency itself transparent is our second-best answer.

When economists act as expert witness in a case for monetary damages in trials before juries, the nontransparency of economic advocacy is itself transparent. It is

⁶ As illustration of the fragility with respect to false systems in the Knight–Rawls approach to politics, we can do no better than to notice that Rawls himself toyed with eugenic concerns (Rawls, [1971], 1999, 92–93) and Barry’s important commentary asks whether we are willing to trade liberty for the higher growth and the more abundant future for the sort of direction provided by the Soviet Union (Barry, 1973: 73–74).

⁷ This is not to say that inequality concerns go away in our approach. Rather, they come to us in system specific fashion. In the eugenic era, poor girls were sterilized; in the Vietnam War, poor boys were drafted.

entirely implausible to presume that the jury members know what underlies the econometric models that are presented by the contending experts engaged by the opposing parties. Legal institutions have been developed so that presentations by experts are tightly constrained. The legal rules of discovery that mandate data and program sharing, along with sanctions for fraud, help ensure that the opposing estimates are replicable. Everyone involved in the procedure understands that the advocates will offer biased estimates but there will be contending experts. Thus, such a simple rule as splitting the difference offers a coherent way to reduce the bias (Froeb and Kobayashi, 1996; Posner, 1999). A modest change in procedure, introducing a statistical variation on final offer arbitration, would attenuate the incentives to offer biased testimony and thus help attenuate the economist's dilemma that Knight and Pigou described (Levy and Peart, 2008).

All these nice properties depend on the transparency of nontransparency. No one believes the jury will become expert so steps are taken to overcome their limitation. To reform economic advocacy we need to take the hardest step of all—to recognize, with Knight and Pigou, that we share motivation structure with those we study (Peart and Levy, 2003, 2005). The consequence of this is that we really need to put the economist in her model.

The dust has yet to settle on the consequences of the data error in the collection compiled by Carmen Reinhart and Kenneth Rogoff so we await a consensus judgment (Cowen, 2013). What does come as a surprise is that sophisticated spectators were surprised by the reported difficulties in obtaining data with which to do the statistical analysis.⁸ Systematic data-sharing problems were reported in the economic literature at least since the 1986 study by William Dewald, Jerry Thursby, and Richard Anderson (1986). It came as a shock that the *editors* of the *Journal of Money, Credit and Banking* tried and often failed to get data from the authors who published in their journal! If the nontransparency of expert advice were itself transparent then we would simply ignore those who advocate policies without sharing their data.

CONCLUSION

The AEA ethics guidelines ask for disclosures of financial temptations to bias. This is surely a significant improvement over no disclosure. The temptation to bend one's results in favor of a client who financially supports the research is now perhaps an uncontroversial concern.⁹ Our concern, however, is that there are other private reasons

⁸ According to reporter who corresponded with the student who discovered the error (Weisenthal 2013) the raw data were published on the web but it wasn't until the spreadsheet, which wasn't publically available, came that the problem was discovered.

⁹ The fact, however, that financial disclosure has only recently entered the economics discourse while there has long been a code of ethics in statistics (Levy and Peart, 2008) suggests that there has been rather more resistance to admitting that private interests might clash with the public interest in economics than other disciplines.

for bias. An advice giver might, for instance, have a nonmonetary (“sympathetic”) connection with the advice seeker. Or, a researcher might hold with a particular “system” as Adam Smith put it. In today’s parlance he or she might have ideological attachments or policy commitments, or commitments to governing principles for society. The commitment to “social justice” or “classical liberalism,” for example, might influence an economist’s model specification or choice of estimation technique which of course in turn yield specific conclusions in favor of the presupposed (but hidden) commitment. This is not to suggest that economists should refrain from having commitments—the impossible—but instead to maintain that the commitments themselves might constitute relevant information as the results (or advice) become public, are published in a journal or are otherwise dispersed to a more general audience. We suggest that such sympathetic connections will be revealed best by detailing the history of one’s work, including not least one’s consulting history, the policy positions one has advocated in consulting and academic work.

Economists have, indeed, occasionally recognized that they have enormous influence in the business of persuasion, which can entail diverse forms of reward. Paul Samuelson’s remark about the rewards associated with making his conclusions widely known speaks directly to the potential for influence and the nonmonetary reward that accrues from writing textbooks: “Let those who will, write the nation’s laws if I can write its textbooks” (quoted in Colander and Landreth, 1996: 28). For those whose expertise is prized, influence is gained by giving highly regarded advice. If the advice is regarded as ill-informed or wrong, then the expert loses face or influence. Thus the expert will be asymmetrically motivated to accept confirming evidence and reject contradictory evidence. There is consequently a certain stickiness of models with respect to falsifying evidence. We have documented this stickiness in the context of the leading textbook comparisons, including that of Samuelson, of Soviet and American growth after 1960 (Levy and Peart, 2011b).¹⁰

Interestingly, our concern about the nonmonetary connections between those who give and receive advice was shared by Ronald Coase. In 1968 Coase was accused of yielding to the sort of influence addressed in the AEA guidelines, of advocating for the Zenith Corporation as a result of financial incentives or being a hired advocate for Zenith. Coase responded with a letter that flatly denied that there was any monetary connection between himself and Zenith. But he then went on to recognize the second reason for bias we have identified, that of nonmonetary rewards that accrue from obtaining influence. Coase’s letter suggested that many false arguments are circulated as a means to an end, advancing the “public interest,” as he put it (Coase, 1968).

The foregoing has focused on two issues associated with the ethics of giving advice, problems that arise when there are nonmonetary incentives to bias one’s advice, and

¹⁰ In the context of a close examination of the methodology of economics, Blaug (1980) concludes that economists’ empirical research “is like playing tennis with the net down: instead of attempting to refute testable predictions, modern economists all too frequently are satisfied to demonstrate that the real world conforms to their predictions . . .” (256).

those that arise when the expert has a commitment to particular principles or policy stances. We find these to be more intriguing and perhaps more difficult to deal with than simple financial incentives. First, it is likely the case that these nonmonetary inducements to bias are more pervasive than are financial ones; second, it may be harder to detect bias associated with prior ideological commitments. Here we find Pigou and Coase in agreement that the temptation especially occurs in the giving of advice, in public service. We propose in conclusion not that advisors should remain neutral with respect to their advisees but rather that they render more fully transparent non-monetary inducements to select evidence and estimation techniques. We propose an addendum to the AEA disclosure policy:

The authors should describe their consulting history in sufficient detail so that the reader can infer sympathetic connections.

ACKNOWLEDGMENTS

A conversation with James Buchanan helped us realize the importance of Rutledge Vining's methodological work for our project. We thank Eric Schliesser and Ross Emmett for comments on earlier versions and Jane Perry for careful proofreading. The mistakes that remain are our responsibility. In accord with the AEA requirements we assert that we have neither asked for nor received financial payment of any sort for the work reported in the paper. Nor, in accord with our concerns, do we have any history of paid consulting about econometric or statistical ethics. We do have a long history revealed in publications and committee membership of worry about statistical and econometric ethics.

REFERENCES

Private Holding

- Coase, Ronald. 1968. Letter to Dean Edward G. Barrett. William J. Baroody Collection, Manuscript Division, Library of Congress, Box 77.
- Knight, Frank. [1935] 1951. *Ethics of Competition*. New York: Augustus Kelly. With John Rawls's Annotations.

Public Holdings

- American Economics Association. 2012. American Economic Association adopts extensions to principles for author disclosure of conflict of interest. http://www.aeaweb.org/PDF_files/PR/AEA_Adopts_Extensions_to_Principles_for_Author_Disclosure_01-05-12.pdf.

- Barry, Brian. 1973. *The Liberal Theory of Justice: A Critical Examination of the Principle Doctrines in Theory of Justice by John Rawls*. Oxford: Clarendon Press.
- Blaug, Mark. 1980. *The Methodology of Economics*. Cambridge: Cambridge University Press.
- Buchanan, James M. 1967. "Politics and Science: Reflections on Knight's Critique of Polanyi." *Ethics* 77: 303–310.
- Caldwell, Bruce. 1995. Introduction. In F. A. Hayek, *Contra Keynes and Cambridge: Essays, Correspondence*, edited by Bruce Caldwell, pp. 1–48. Chicago: University of Chicago Press.
- Coase, Ronald H. 1960. "The Problem of Social Cost." *Journal of Law and Economics* 3: 1–44.
- Coase, Ronald H. 1993. "Law and Economics at Chicago." *Journal of Law and Economics* 36: 239–254.
- Colander, David C., and Henry Landreth, eds. 1996. *The Coming of Keynesianism to America: Conversations with the Founders of Keynesian Economics*. Cheltenham, UK: Edward Elgar.
- Cowen, Tyler. 2013. "An Update on the Reinhart Rogoff Critique and Some Observations." *Marginal Revolution*. <http://marginalrevolution.com/marginalrevolution/2013/04/an-update-on-the-reinhart-and-rogoff-critique-and-some-observations.html>
- Dewald, William G., Thursby, Jerry G., and Anderson, Richard G. 1986. "Replication in Empirical Economics: The *Journal of Money, Credit and Banking* Project." *The American Economic Review* 76: 587–603.
- Feigenbaum, Susan, and Levy, David M. 1996. "The Technological Obsolescence of Scientific Fraud." *Rationality and Society* 8: 261–276.
- Froeb, Luke M., and Kobayashi, Bruce H. 1996. "Naive, Biased, Yet Bayesian: Can Juries Interpret Selectively Produced Evidence?" *The Journal of Law, Economics and Organization* 12: 257–276.
- Hayek, F. A. 1994. *Hayek on Hayek: An Autobiographical Dialogue*, edited by Stephen Kresge and Leif Wenar. London: Routledge.
- Heckman, James J. 1997. "The Intellectual Roots of the Law and Economics Movement." *Law and History Review* 15: 327–332.
- Hutt, William H. 1936. *Economists and the Public*. London: Jonathan Cape.
- Keynes, J. Neville. 1891. *The Scope and Method of Political Economy*. London and New York: Macmillan.
- Kipling, Rudyard. 1895. "Neolithic Age." http://www.kipling.org.uk/poems_neolithic.htm
- Knight, Frank H. 1924. "Some Fallacies in the Interpretation of Social Cost." *Quarterly Journal of Economics* 38 (4): 582–606.
- Knight, Frank H. 1933. "Preface to the Re-Issue." In *Risk, Uncertainty and Profit*. London: London School of Economics and Political Science.
- Koopmans, Tjalling. 1949. "Methodological Issues in Quantitative Economics: A Reply." *Review of Economics and Statistics* 31: 86–91.
- Leamer, Edward S. 1978. *Specification Searches—Ad Hoc Inferences with Nonexperimental Data*. New York: John Wiley & Sons.
- Leamer, Edward S. 1983. "Let's Take the Con out of Econometrics." *The American Economic Review* 71: 33–41.
- Levy, David M., and Peart, Sandra J. 2008. "Inducing Greater Transparency: Towards the Establishment of Ethical Rules in Econometrics." *Eastern Economic Journal* 34: 103–114.
- Levy, David M., and Peart, Sandra J. 2010a. "Prudence with Biased Experts: Rating Agencies and Regulators." http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1681609.

- Levy, David M., and Peart, Sandra J. 2010b. "Richard Whately and the Gospel of Transparency." *American Journal of Economics and Sociology* 69: 166–187.
- Levy, David M., and Peart, Sandra J. 2011a. "The Mock Trial of the Economists." <http://jepson.richmond.edu/conferences/adam-smith/paper11levy-peart.pdf>
- Levy, David M., and Peart, Sandra J. 2011b. "Soviet Growth and American Textbooks: An Endogenous Past." *Journal of Economic Behavior and Organization*. 76: 110–125.
- Levy, David M., and Peart, Sandra J. 2013. "Adam Smith on the State: Language and Reform." *Oxford Handbook on Adam Smith*, edited by Christopher J. Berry, Maria Paganelli, and Craig Smith, pp. 372–392. Oxford: Oxford University Press.
- Lipsey, R. G., and Lancaster, Kevin. 1956–57. "The General Theory of Second Best." *The Review of Economic Studies* 24: 11–32.
- Malinvaud, Edmond. 1972. "The Scientific Papers of Tjalling C. Koopmans: A Review Article." *Journal of Economic Literature* 10: 798–802.
- Malinvaud, Edmond. [1983] 1988. "Econometric Methodology at the Cowles Commission: Rise and Maturity" [Address to the 50th Anniversary Cowles Celebration: 1983]. *Econometric Theory* 4: 187–209.
- Peart, Sandra J., and Levy, David M. 2003. "Denying Human Homogeneity: Eugenics and the Making of Post-classical Economics." *Journal of the History of Economic Thought* 25: 261–288.
- Peart, Sandra J., and Levy, David M. 2005. *The "Vanity of the Philosopher": From Equality to Hierarchy in Post-Classical Economics*. Ann Arbor: University of Michigan Press.
- Pigou, Arthur C. 1918. *The Economics of Welfare*. London: Macmillan.
- Pigou, Arthur C. [1935] 1936. *Economics in Practice*. London: Macmillan.
- Pigou, A. C. 1953. *Alfred Marshall and Current Thought*. London: Macmillan.
- Posner, Richard A. 1999. "An Economic Approach to Legal Evidence." *Stanford Law Review* 51: 1477–1546.
- Rawls, John. [1971] 1999. *A Theory of Justice*. Revised edition. Cambridge, MA: Harvard University Press.
- Sims, C. A. 1980. "Macroeconomics and Reality." *Econometrica* 48: 1–48.
- Vining, Rutledge. 1949. "Methodological Issues in Quantitative Economics." *Review of Economics and Statistics* 31: 77–86.
- Vining, Rutledge. 1950. "Methodological Issues in Quantitative Economics: Variations on a Theme by F. H. Knight." *The American Economic Review* 40: 267–284.
- Vining, Rutledge. 1956. *Economics in the United States of America*. Paris: UNESCO.
- Vining, Rutledge. 1984. *On Appraising the Performance of an Economic System: What an Economic System Is, and the Norms Implied in Observers' Adverse Reactions to the Outcome of Its Working*. New York: Cambridge University Press.
- Weisenthal, Joe. May 26, 2013. "The Grad Student Who Busted Reinhart and Rogoff Explains How Open They Really Were with their Data." *Business Insider*. <http://www.businessinsider.com/thomas-herndon-on-reinhart-and-rogooffs-data-availability-2013-5>.