Economic Analysis, Moral Philosophy, and Public Policy

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APPENDIX

How Could Ethics Matter to Economics?

We hope in this book to have shown how knowing moral philosophy can help one to do economics better. The most persuasive way to make this case is the one we pursued in the main text: by describing important aspects of moral philosophy and showing their bearing on economics. But many economists are inclined to deny that moral philosophy has anything to do with economics. Why? In this appendix, we shall explore the reasons and reaffirm the conclusion of this book – that ethics *is* relevant to economics.

As explained in Chapter 1, one can distinguish between "positive" and "normative" inquiries. Positive inquiries address factual questions, whereas normative inquiries address evaluative questions. Although it sounds paradoxical, it is possible to regard what is called "normative economics" as a positive inquiry into the logical presuppositions and practical means to satisfy preferences efficiently, and some economists have in fact viewed normative economics in this way. Most economists, however, concede that normative economics is a normative inquiry addressing evaluative questions and prescriptions; and, as our discussion in Chapters 2 and 15 shows, arguments such as the Summers memorandum do not address only factual questions.

Hence we shall interpret those economists who would deny that moral philosophy is relevant to economics as distinguishing positive and normative economics, as conceding that moral philosophy is relevant to normative economics, and as denying that moral philosophy is relevant to positive economics. In some cases that denial is linked to a repudiation of normative economics coupled with the view that economists should contribute to policy questions exclusively by providing information concerning the consequences of alternative policies. The first section of this appendix addresses this position and considers the role of positive economics in policy making. The second section turns to the general question of what it means to say that positive economics is "value free" and then sketches what we call "the standard view" of the relation between positive and normative economics. The third section comments briefly on the exaggerated distinctions sometimes drawn between positive and normative inquiries, criticizing in particular the view that evaluative claims cannot be rationally addressed. The fourth section then considers whether positive economists have anything to learn from the study of ethics.

A.1 Objection 1: Economists as Engineers

Economists who deny that ethics is relevant to economics and who repudiate normative economics as the bastard offspring of completely distinct inquiries do not deny that economics is relevant to policy making. It is relevant – vitally relevant – but only in the way that civil engineering is. Owing to a need for electric power, policy makers might consider building a dam. Civil engineering does not say whether this is a worthy objective. Engineers instead provide information about how difficult it is to build dams in different locations, how much electricity the dams can generate, how much land they will flood, and so forth. Engineers thereby provide answers to some of the "What if …?" questions that policy makers need to answer when they are deciding whether or where to build a dam. In order to accomplish anything, one needs knowledge of cause and effect. Engineering is one source of such knowledge. The first objection to the view that ethics is relevant to economics asserts that the role of economics is exclusively to provide causal information. Ethics helps determine the ends that policy makers pursue, and it constrains the means that may be employed. Economics clarifies the consequences of alternative policies. So-called normative economics confuses matters by amalgamating these completely distinct tasks. Both economics and ethics are crucial to policy making, but neither has anything to do with the other.

The following very simple schema might help clarify this view.

1. Our policy ought to achieve goal G and satisfy constraints $C_1, \ldots, C_n$.
2. X satisfies $C_1, \ldots, C_n$ and achieves G.
3. Thus our policy should be to do X.

In this oversimplified schema, premise 1 comes from ethics or political philosophy while premise 2 comes from economics and other relevant bodies of empirical knowledge. The conclusion is a moral judgment, and it requires both the moral premise 1 and the technical premise 2. On the view of economists as engineers, premises 1 and 2 have nothing to do with each other, and ethics has nothing to contribute to economics.

This schema is too simple. After all, X may have other desirable or undesirable features, and there may be better alternatives. The following schema is more defensible.

1. Our policy should be governed by the complete moral or social ranking R.
2. The consequences of X rank higher in R than do the consequences of any other policy under serious consideration.
3. Thus our policy should be to do X.

The moral part of policy making, represented by premise 1, requires not only a specification of a particular goal and constraint but a complete determination of the relative moral importance of the various consequences that different policies may have. For example, in the case of a proposed law prohibiting arbitrary firings, R would specify the moral importance of arbitrary firings, of intimidation of workers on the job, of unemployment among the lowest strata of workers, of difficulties for firms in firing workers, of overall productivity, and so forth. The economist's job is then to determine all the relevant consequences of the alternative policies. Once all the consequences are known, the policies can be ranked in terms of their consequences. If policy makers do not know for sure what the consequences of policies will be but still can estimate the probabilities of outcomes, then they can rank policies via weighting the moral values of their outcomes by the probabilities that they will obtain. As in the simpler schema, the policy conclusion depends on both moral and technical premises that are independent of one another.

The second schema, unlike the first, is not too simple. Its drawback is that it is too demanding. No existing moral system is refined enough to provide the needed first premise, and economics is not up to the challenge of providing the second. Real policy making relies instead on partial moral rankings of salient features of policies and their consequences. The terms of the partial rankings rely on positive information concerning what sort of consequences the policies under consideration have, while the positive study of their consequences is channeled by normative views of what kinds of consequences matter.

Although the view of economists as pure engineers thus cannot be sustained, there is some truth to this picture of economists as purveyors of technical information. It is a useful caricature. It fits some economic activities – for example, work devoted to estimating how much revenue would result from changing income-tax rates. But economists need to understand the values to which policy makers are committed in order to understand what policy makers want to know and what questions to ask. Economists need not share those values, but they do need to understand them.

As Fritz Machlup (1969) recognized, applying the second schema to the activities economists undertake is often impossible. Machlup made the telling observation that the political process rarely formulates its economic problems clearly. When economists are called on to give "purely technical" advice about how to accomplish certain ends, they are rarely given purely technical problems. Just think about the tasks of economists who are asked to advise governments on how to transform formerly socialist command economies into market economies. Without knowledge of the prevailing system of values and moral constraints in those societies, they will not know how to proceed. Even if wholly without moral views of their own (as if that were possible!), economists concerned to give policy advice will need to understand the structure of the moral theory or theories that are implicit in people's ideals and commitments. Although these may be different from the economist's own commitments, there are likely to be many points in common, and economists who understand their own moral perspective and who have some general grasp of ethics are likely to understand the moral perspectives of others better. It is likely (though not inevitable) that the values to which economists are committed – including their best judgment about what will be good for the people whose government they are advising – will influence what alternatives they consider and what weights they place on the comparative advantages and costs. Could policy makers in Bulgaria or Latvia possibly provide their economic advisors with a full list of all relevant goals and constraints together with precise weights and priorities specified for each? To give advice, economists need to know what other objectives policy makers have and how to weight them. Although in principle all this might be precisely specified, in practice economists will have to rely on a general grasp of ethics to fill in the gaps. Economists may not think systematically about ethics, and they may not want to think about ethics at all. But they will not be able to understand what policy makers want or to translate policy problems into technical problems of economic analysis without some moral understanding.

We are not denying that positive inquiries into technical questions are possible. Of course they are, and a good deal of economics is devoted to them. But economists cannot rely on policy makers to formulate these questions. Though they need not share the values of those whom they advise, economists who seek to weigh in on policy questions need to understand the moral commitments of their advisees. (And if economists find that their values conflict with the values of those whom they advise, then economists will have ethical problems of their own to wrestle with.)

Similar problems arise when economists select problems to investigate. Most economists want to solve problems that matter to people's lives, and they want to solve theoretical puzzles in ways that do not conflict with their moral commitments. So long as economic processes and outcomes remain so important to human interests, evaluative commitments are bound to be crucial to the choice of problems to investigate. In stressing the evaluative roots of economic research, we intend no criticism of this research. We doubt whether there is any alternative, and we are confident that it would be a bad thing if the moral commitments of economists did not inspire their research. Economics is not only devoted to pure research and puzzle solving, it is also relevant to the pressing practical problems we humans face. If economists refuse to deliberate over messy moral matters, then they will not know which questions are important. Economists do not face prespecified technical problems. In deciding what to study and in thinking about how to apply economics to practical problems, economists must think about ethical matters. They need not do so systematically, self-consciously, or well, but they cannot avoid ethics altogether.

In fairness to engineers, we suspect that the complexities we have noted for economists apply often to engineers as well. In designing a superhighway, the civil engineer is unlikely to have available a social ranking of all the various combinations of aesthetic appeal, safety, durability, expense, ease of traffic flow, and so on that combine to make a good highway. As Donald Schon (1983) has observed, much professional practice involves wrestling with situations in which the normative and the positive are deeply entangled.

A.2 Objection 2: Positive Economics Is Value Free

Economists cannot avoid ethical questions if they want to understand the terms of policy debate, to help determine public policies, or to select problems for study. But many economists would argue that these conclusions do not preclude the possibility of a positive science of economics. These economists would grant that ethics has a role in determining what problems to study, pointing out that it is hardly surprising that ethics is relevant to normative economics. But they would insist that the role of ethics ends there: Ethics may pose the economist's questions, but it cannot contribute to their answers. Ethics has nothing to contribute to positive economic analysis. Thus, the second objection maintains that there is a positive economic science and that this science is "value free." Let us call this position *the standard view.* Some further clarification is in order, as follows. (For an insightful alternative view see Mongin 2006.)

A.2.1 Positive and Normative Economics

As mentioned in Chapter 1, most people can readily distinguish questions concerning (nonmoral) facts from questions concerning what is good or bad or what ought or ought not to be done. This is the so-called fact–value distinction. It is difficult to make this notion precise. There are many hard cases. (In stating, "That was a kind thing to do," is one describing or appraising?) And some philosophers argue that the fact–value distinction breaks down altogether. But let us suppose that it is possible roughly to classify questions as either factual or evaluative. Ethics is then taken to be concerned with questions of value, while the sciences (or at least the natural sciences) are taken to be concerned with questions of fact.

The standard view maintains that questions of fact and questions of value are not only distinguishable but, moreover, independent. No question concerning values is supposed to be settled by the facts alone, and no question concerning facts is supposed to be settled by values. On the standard view, it is accordingly possible for there to be value-free inquiries into matters of fact.

To speak of a value-free inquiry may be misleading, because it suggests that the *conduct* of the inquiry is value free. But the conduct of inquiry cannot possibly be value free. Inquiring involves action, and action is driven by values. As we have already seen, values influence choices of what to study. Values also influence choices of what methods to employ and consequently of what hypotheses to discard or to pursue. It is because of their moral identification with the goals of science that economists resist "cooking" their data. It is because of their personal morality that economists rarely shoot those who disagree with them (or try to get them fired). The standard view does not deny that values influence the conduct of inquiry. What is meant by a value-free inquiry is instead (a) an inquiry into a question of fact or a question of logic in which (b) the answers are not influenced by any values except those that are part of scientific activity itself.

Investigations into matters of fact are called positive investigations. The standard view concedes that the results of positive inquiries may be relevant to policy, because those results may show that policies facilitate or frustrate the attainment of valued objectives. But without some prior evaluative commitment, the findings of positive science settle no questions of policy or value. According to the standard view, positive science can be value free, positive science ought to be value free, and – apart from lapses – positive science is in fact value free. Thus the study of ideology and of the values of economists is irrelevant to understanding economics or economic methodology, though it may help one to understand the scientific failings or motivations of particular individuals.

A.2.2 On the Independence of Ethics and Economics

The standard view does not repudiate normative economics, and it does not maintain that economics bears on policy only through its determination of the consequences of alternatives. So our responses in the previous section to these more extreme views should not be taken as a criticism of the standard view. On the standard view, economics consists of many different activities, and ethics is relevant to some of them. Economists are human beings with human interests, and they are accordingly deeply concerned with ethics and economic policy. Parts of economics are thus unsurprisingly concerned with ethics. But it does not follow from this that ethics is relevant to all of economics. In particular it does not follow that ethics is relevant to positive economics, to the part of economics that is concerned to represent, explain, and predict how economic systems function.

As a result, those who hold the standard view can readily concede Machlup's point that economists need to understand some ethics in order to appreciate the objectives of policy makers. Only with reference to such moral understanding will economists be able to formulate clear and relevant technical problems. Economists who hope that their work will be relevant to policy questions need to know some ethics. But once precise technical questions have been formulated, there is no reason to believe that knowing ethics has anything to contribute to answering them. On the contrary, according to the standard view, there is a categorical difference between questions concerning facts and questions concerning values, and ethics will not be relevant to the answers to factual questions.

It may well be impossible to do economics well without knowing some ethics, because ethics is so important in formulating research problems and applying the solutions. But on the standard view there is still a body of knowledge – namely, positive economics – to which ethics has no relevance.

A.3 The Rationality of Normative Inquiry

On the standard view, normative science, which is contrasted to positive science, consists of inquiries into matters of policy or values. Normative economics consists of the application of positive economics to explore questions that are of evaluative relevance. As mentioned in Chapter 1,

Factual Claims	Evaluative Claims
Disagreements can be resolved by evidence	No good way to resolve disagreements
Relatively little disagreement	Relatively little agreement
Descriptive: say how things *are*	Prescriptive: say how things *ought to be*
True or false	Not true or false
Objective	Subjective
Independent of evaluative claims	Dependent on factual claims
Help to achieve goals	Help to determine goals

Exaggerated Contrasts between Facts and Values

the distinction between factual claims and evaluative claims and hence between positive and normative economics is often drawn very sharply. Thus, for example, Milton Friedman maintains with respect to disagreements about fundamental values that "men can ultimately only fight" (1953, p. 5). Reprinted above for the reader's convenience are the stylized distinctions of Figure 1.2.1.

Sharply distinguishing between facts and values and between positive and normative science does not, however, commit one to this set of distinctions. Nothing is settled concerning the status of questions of value when one insists that they are different from questions of fact. If facts and values are completely independent, then all that follows is that truths concerning values (if there are any) are different kinds of truths than truths about facts, and that truths concerning values are known in some way other than via scientific confirmation. But these differences do not imply that there are no truths about what is good or bad, right or wrong, praiseworthy or blameworthy. Moreover, and perhaps even more importantly, the possibility of distinguishing between positive and normative economics does not even imply that they should be pursued separately (Weston 1994).

At issue in this appendix is whether positive economics is value free, not whether rational arguments concerning values are possible; even so, we do want to cast a few words of doubt on the distinctions listed in the figure. A full critique calls for a long story, which we will not give here; and we do not wish to take issue with every one of the distinctions listed. The main point we insist on has, we hope, already been demonstrated in the chapters of this book. It is that *normative questions* – questions concerning evaluative claims – *are subject to rational discussion and resolution.* Consider, for example, our discussion of a preference satisfaction theory of well-being, the adequacy of utilitarianism, or the plausibility of the goal of welfare equality.

One addresses such questions with rational arguments rather than experiments (which are, in any case, only rarely possible even in positive economics). Rational argument does not suffice to resolve all controversies. Nevertheless, principles can be tested by examining their implications, and specific judgments can be criticized on the bases of their factual presuppositions and the moral principles upon which they rely.

So we think it is mistaken to suggest that there is no way to resolve disagreements about values. Substantial disagreements remain, but it is easy to exaggerate the prevalence of disagreement because, of course, people don't argue about what they agree on. What's crucial is not exactly how much agreement and disagreement there is but that rational persuasion is both possible and real.

The other contrasts we want to contest are those between, on the one hand, the objectivity and truth or falsity of factual claims and, on the other hand, the alleged subjectivity and arbitrariness of evaluative claims. Whether evaluative statements are literally true or false is a difficult question that we will not attempt to answer. Prescriptions cannot be literally true or false, but not all evaluative claims are prescriptions (consider again the statement, "that was a kind thing to do"). What is crucial is that not all answers to evaluative or specifically ethical questions are equally good. Some are way off the mark, while others are in some relevant sense correct. If by "objective" one means that claims are correct or incorrect regardless of whether people believe they are correct, then – as our discussion shows – many evaluative claims are objective. Whether a market in pollutants would be beneficial is not determined by whether people think it would be. In other senses of "subjective," evaluative claims are subjective because they often express subjective states. But claims in positive economics concerning preferences or expectations are subjective in much the same way. The bottom line is that recognizing that there is an important difference between facts and values and between normative and positive inquiries does not require one to denigrate normative inquiry or to insist that the inquiries be isolated from one another.

A.4 How Knowing Ethics Contributes to Positive Economics

Before addressing the question of whether studying ethics might have something important to contribute to positive economics, it is important to recognize how much the standard view concedes. It confesses that economists may need to understand the concepts and the criteria that guide the evaluation of economic outcomes and processes, and it concedes that ethics has an important part to play in economics. It concedes that it may be difficult to be a good economist without knowing some ethics. All the standard view maintains is that positive economics, considered as a body of knowledge, is independent of ethics. We can thus grant this objection without abandoning our project of showing how much ethics has to contribute to economics. It is important for economists to know some topology and statistics even though there are important parts of economics to which these fields contribute nothing, and likewise we maintain that it is important for economists to know some ethics even if is not relevant to everything economists do.

We have no wish to deny that there is a good deal of truth to the standard view. Some work in economics is largely independent of all specifically ethical concepts and theories, though less obviously independent from evaluative concepts in general. Consider all the work that goes into estimating demand elasticities. Yet as examples in this book show, positive economics is sometimes penetrated by ethical concerns. We showed that ethical commitments on the part of economists play an important role in discussions of overlapping generations models and of involuntary unemployment. But we do not maintain that such cases are ubiquitous. We do not know how large a part is played in positive economics by the moral appraisals economists make of economic processes, institutions, and outcomes – beyond their role in suggesting questions to investigate or possible answers to be assessed. What we want to argue instead is that studying ethics can make a contribution even to inquiries that are, in the relevant sense, value free. Studying ethics can be useful even in circumstances in which the theorist's own values do not come into play.

Ethical commitments are among the causal factors that influence people's economic behavior, and hence they are among the factors with which economists need to be concerned. If people did not generally tell the truth and keep their promises, then economic life would grind to a halt. As theorists who study labor markets have noted, employees and employers have moral beliefs that affect the wage and employment bargains they make. People's moral dispositions affect economic outcomes.

This fact does not imply that economics cannot be value free. People's beliefs and preferences, including their moral beliefs and preferences, obviously have economic consequences. But so do facts about their physiology or about the terrain. The mere fact that moral beliefs and preferences are important causal factors does not show that economists need to pay more attention to morality than to biology or geology.

However, the importance of knowing some ethics cannot be dismissed this easily, for two related reasons. First, ethical commitments, unlike physiological or geological facts, are not just givens: they depend on economic institutions and outcomes. Second, their content and this dependence on economic institutions and outcomes are very hard to grasp without understanding a good deal about ethics. An example will help clarify these claims.

In 1971 Richard Titmuss published *The Gift Relationship: From Human Blood to Social Policy.* In this book, Titmuss compared different systems by which human blood is collected for the purposes of transfusion. He was particularly concerned to contrast the system in Britain, in which all blood was obtained by voluntary donations, with the system in the United States, in which some blood was donated and some blood was purchased. He found that blood shortages were more severe in the United States and that the incidence of hepatitis and other blood-borne diseases was higher. The monetary costs in the United States were also much higher. The system in the United States appeared to be in some sense much less efficient.

Titmuss went on to offer a striking causal explanation for these data. He argued that the existence of a market in human blood undermines people's willingness to supply blood, which in turn causes the mediocre outcomes of commercial systems. In short, Titmuss argued that the existence of a market *causes* the efficiency loss.

The comparison between Britain and the United States was not Titmuss's only evidence for this striking and (for most economists) paradoxical claim. Titmuss also pointed out that in Japan prior to World War II, there was a voluntary blood donation system with outcomes similar to those in Britain. After World War II a commercial system was instituted, and the outcomes then resembled those in the United States. Blood donations dropped precipitously. The evidence from Japan is particularly impressive because it shows blood shortages developing after the institution of a commercial system for acquiring blood – even though Japan, unlike the United States, is a homogeneous nation with a great deal of social solidarity. In addition to the statistical evidence, Titmuss pointed to statements people make about *why* they donated blood. Donors repeatedly said that they were giving "the gift of life." Implicit in this discussion and explicit in Peter Singer's later (1973) defense of Titmuss from Kenneth Arrow's criticisms was the thought that, when a pint of blood can be purchased for $50, donors may feel that instead of giving something priceless – the gift of life itself – they are giving the equivalent of $50. Hence people might be less willing to donate blood when blood can also be obtained commercially. Their moral commitment depends on the institutions and is not simply a given.

The bad consequences – higher costs, shortages, and more hepatitis – can then be explained. Since fresh blood is perishable, supplies must be regular and blood cannot be stockpiled to accommodate fluctuations in demand. Shortages may result under a commercial system because (a) people are less willing to donate blood and (b) the amount of blood available from the small part of the population that is willing to sell blood increases and decreases irregularly. The higher costs are obvious. Finally, in commercial systems, unlike systems involving only voluntary donation, people have an incentive to conceal illnesses such as hepatitis.

This case illustrates how people's moral beliefs and preferences influence economic outcomes and also how economic arrangements (in this case, whether there is a market for human blood) can influence what people feel a moral obligation to do. We do not know whether the explanation offered by Titmuss for the dramatic differences between outcomes in the United States and Britain is correct, but there is no way to understand or assess it without attention to systems of moral beliefs, which (according to Titmuss) explain the choices of individuals.

If there is anything to Titmuss's account, then one cannot understand the contrasts between different systems of blood donation without what might be called a "deep" understanding of moral beliefs. In addition to knowing what people think is permissible, obligatory, or impermissible to do, or merely knowing how they value particular outcomes or states of affairs, one needs to know how these beliefs fit together and how they depend on features of social and economic institutions, processes, and outcomes.

All of this is still arguably sociological knowledge. Economists do not need to make their own moral appraisal of systems of blood donation or of the values of blood donors. What matters are people's behavioral dispositions and their *beliefs* about what is right and charitable, not what is "in fact" right or charitable. Just as economists can study the art market without appreciating art or the wine market without a cultivated palate, so can they study the economic causes and consequences of moral beliefs and preferences without knowing what is right or wrong. Positive economists studying blood distribution systems do not need to make moral judgments or to evaluate moral beliefs. All that matters is whether economic agents make those judgments and have those beliefs – and what their causes and consequences are.

But it does not follow that economists have little to gain from studying ethics. Although they do not need to pass moral judgments on systems of blood donation, they need to understand how people think about blood donation and what the commitments of people depend on. Without some grasp of the moral issues at stake, one will not be able to understand why people give blood or what impact a market in human blood will have on their continued willingness to supply blood.

Some of Titmuss's data, such as the lower rate of disease, make good economic sense. But why should the possibility of selling blood *decrease* its total supply? In a generally sympathetic review, Arrow can make little sense of this. Part of the problem may be in some of Titmuss's specific formulations, as when he says that markets "deprive men of their freedom to choose to give or not to give." The quotation is puzzling because the option to donate blood still exists, and indeed it seems that the existence of markets can only increase freedom by providing an additional alternative. Titmuss also seems to assume that altruism is virtually unlimited, and Arrow is reasonably skeptical about that. Perhaps we are better advised not to expend our limited altruism when it is not needed. As Adam Smith pointed out:

> But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only .... It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love and never talk to them of our own necessities but of their advantages. (1776, pp. 26–7)

Why should the blood donor be different from the butcher or the baker? An economist might claim that it makes sense to call upon limited supplies of altruism only when there is no alternative (Robertson 1956). Apart from the specific problem that results from imperfections in the ability to test blood and the consequent incentive that commercial providers have to lie about their health, it would thus appear that markets in blood – like markets in bread, meat, or wine – can only be for the good.

But as Arrow recognizes, Titmuss's case for a voluntary blood donation system cannot be easily dismissed. Although the good will of neighbors, fellow citizens, and fellow humans is limited, the best society does not minimize acts of altruism. Obviously acts of altruism are costly. (They wouldn't be truly altruistic if they involved no sacrifice at all.) It takes time to donate blood, and sometimes one feels sick or dizzy for a while. It's not very pleasant. But altruistic acts carry rewards, too. People take pride in doing something they take to be decent and unselfish. They take pleasure in thinking of the good their blood may do for someone else. They take pleasure in the good opinion others may form of them (though the concern for reputation depends upon the act of giving being independently valued). Having given blood once, an agent may be more rather than less likely to give again. If many of one's neighbors donate, then one still may be more rather than less likely to give, even though the need for one's gift is reduced by the larger supply. Altruism is scarce but it is not in fixed supply, and in some instances its supply increases with its consumption (Hirschman 1985). To appraise and comprehend Titmuss's explanation, one needs to understand factors such as these. And there is no way to do so if one has no understanding of morality.

Arrow is puzzled by the claim that people are on average less willing to supply blood when it can be sold as well as donated, and he is unwilling to accept this proposition because he cannot understand why it should be true. What is needed to convince Arrow is not statistical data but an explanation of the structure of people's moral beliefs and of how moral beliefs change. Arrow is not convinced because Titmuss fails to make clear why people may be more strongly motivated to make more valuable gifts and how commercializing blood diminishes the value of the gift. If one cannot make sense of these claims, then one will find Titmuss's story an inscrutable one of strange irrationality. We see no reason why there should not be true stories of strange human irrationality. But Titmuss's story is much easier to credit, and the pieces easier to put together, if only one can "make sense" of it. And there is no way to make sense of it without entering into the moral universe of the donors, learning its rules and learning how it is affected by factors such as whether blood may be sold.

Those who are not convinced might complain that we have shown only that economists sometimes need to know what ordinary people think about morality, not that economists themselves need to think about morality, let alone the sophisticated theories surveyed in this book. Part of this complaint is surely correct. Much esoteric work on moral philosophy will not help anyone to understand how the moral convictions of ordinary people hold together, what they depend on, or how they influence actions. But there is a great deal in ethics that does bear on everyday moral thought. Thinking about morality contributes enough to the understanding of how ordinary people think about morality that it can be of great value to economists.

The moral commitments of economic agents can reasonably be regarded as sociological and psychological factors, but they differ from other sociological and psychological factors because they are supported by reasons and held to be generally binding. They need not always make sense; but it's puzzling when they don't, and one's first reaction will be that one has not understood them correctly. To understand economic phenomena, economists will sometimes need to understand the moral commitments of agents, for these may be of great economic importance. And doing so requires some ability to enter into the moral universe of the agents. Furthermore, the consequences of economic institutions and policies will often be mediated by their effects on people's moral commitments. Knowing something about morality will sometimes be crucial to predicting and explaining how people's moral beliefs and preferences change in response to economic policies and institutions, and it will thus enable economists to predict economic outcomes more accurately.

There is no general justification for setting aside questions about the quality of the arguments supporting the moral commitments of economic actors. Economists may be able to advance their work by appraising people's moral dispositions as well as by tracing their causal consequences. But whether or not economists make moral judgments when they are attempting to understand the moral commitments of the agents they study, it is natural, illuminating, and virtually unavoidable for economists to inquire whether people's observed (or alleged) moral commitments "make sense" – and it takes some understanding of ethics to make this inquiry.

There is a further complication: the moral convictions of economic agents, unlike causal factors such as rainfall, can be influenced by the way in which they are analyzed and described by economists. In virtually all ethical systems, the question of whether an action or principle is morally defensible will depend at least in part on what its consequences are. Learning economic theory may change people's view of consequences and hence their moral principles and conduct. Knowledge of economics may, for example, have contributed to the change in attitude toward charging interest on loans of money. Furthermore, generalizations about what people do will often influence what people think ought to be done. Even though what ought to be does not follow logically from what is, it often follows psychologically. Saying that human behavior can be modeled as if it were entirely self-interested unavoidably legitimizes and fosters self-interested behavior. Indeed, it seems that learning economics may make people more selfish (Marwell and Ames 1981; Frank, Gilovich, and Regan 1993). As we argued in Section 5.3, the terms of economic explanations – like Willie Sutton's account of why he robbed banks – can easily carry moral implications. Hence the moral commitments of economic agents are not only causes and effects of economic outcomes, institutions, and processes. They are also influenced by the way in which economists and other agents describe them and appraise them.

Learning economics has moral consequences because people's moral commitments are malleable. They are strongly influenced by the moral education provided by parents, churches, and schools, but they also change in response to pressures from peers and in response to the normative expectations of the many groups and institutions in which individuals find themselves. A firm with a well-deserved reputation for honesty and decency will not only have an easier time hiring honest and decent employees, it will also lead the employees it hires to become more honest and decent. The moral culture of the firm, the moral standards of the employees it hires, and the moral commitments of its customers, suppliers, and the community at large all interact to affect the productivity of the employees and the profitability of the firm.

The honesty, trust, and sense of fair play that help economies to function well are not givens that are fortunately abundant or unfortunately scarce. They are not comparable to geological formations or biological necessities. They grow or wither depending on the institutions within which people live and the shared understandings of those institutions. Their content varies widely from individual to individual and from society to society. Economists need to be concerned about nurturing these vital moral resources. Some moral principles may enable people to coordinate their behavior better than others, and some principles may spread more readily than others because they command more respect and emulation.

Economists need to think about the economic role of moral commitments, and they cannot do so intelligently without at least understanding – if not also appraising – the content of those commitments.

A.5 Conclusions

Economists are not only social engineers contributing to policy in the way that civil engineers contribute to policies concerning dams. Normative economics attempts to appraise policies, even if usually from a limited point of view, and evaluative thinking is in practice unavoidable in order to formulate well-defined questions for positive inquiry. The "standard view" of the relations between positive and normative economics does not deny any of this. It does not deny the existence or legitimacy of normative inquiry. Instead it insists on the possibility of purely positive inquiry and thus on the separability of positive and normative inquiry. Positive science is not, however, independent of all values. On the contrary, it is guided by the values of scientific inquiry; moreover, a plethora of specific values, including policy interests, play a large and legitimate role in determining which questions to ask and even possible leads to follow. In insisting that positive economics be value free, what is meant is that the positive economist's own evaluations of economic outcomes, institutions, and processes are not supposed to influence the answers given to the questions under investigation. The defender of the standard view does not deny that evaluations of economic outcomes sometimes do influence the results of positive inquiries. When this happens, the defender of the standard view sees a scientific failing.

Without directly challenging the standard view or attempting to measure the magnitude of such scientific failings in economics, we argued that the study of ethics can contribute to a good deal of positive economics. The reasons for this are that the moral commitments of economic agents are important causes and effects of significant economic phenomena, and that these commitments are influenced by the way that they are described and appraised by economic agents and by economists. Although understanding the moral commitments of agents and the dependencies among them and other phenomena does not require that economists themselves make ethical appraisals, an understanding of moral commitments requires a good grasp of ethics. As this book has shown, reflection on ethics has an important role to play in both positive and normative economics.