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The Imperialism of Economics Over Ethics

Jesús M. Zaratiegui
Professor of Economics
University of Navarra
Spain

Introduction

Business ethics, it seems, has finally caught the attention of economists. Businesses, in some parts of the world, have become integral participants in such causes as protecting the environment and alleviating poverty from economically depressed localities. This investment in ethics, however, is confronted with the problem that economists have no other way to approach reality without concentrating on questions of utility. A similar phenomenon is occurring within the economics profession, where economists such as James Buchanan[1] and Amartya Sen[2] have become outspoken advocates for social and ethical investing through work, savings, and company loyalty.

For these values, altruistic behavior can be analyzed as a positive external effect of consumption, where the individual makes a voluntary contribution. Buchanan and Sen both rely upon utilitarianism for their analysis of voluntary contributions, although they acknowledge that society would be aided if these values were more independently established. From the vantage point of society, however, it would be beneficial for the values of social and ethical investing to be more firmly grounded in a consistent rationale. Utilitarianism provides a poor basis for such analysis and can be manipulated easily for less than admirable purposes. For these values to be widely accepted, they should not be related to any order of values that exceeds the simple test of social well-being. Sen states this principle thus:

> The nature of modern economics has been substantially impoverished by the distance that has grown between economics and ethics … [economics] can be more productive by paying greater and more explicit attention to the ethical considerations that shape human behaviour and

> judgement. It is not my purpose to write off what has been or is being achieved, but definitely to demand more.[3]

In the last twenty years, economists and moral philosophers have renewed a conversation that was interrupted during the heyday of positivist methodology in both disciplines.[4] While considerable gaps remain between the modes of expression and habits of thought in these disciplines, there is today considerable room for productive interdisciplinary dialogue between economists and moral philosophers.

This change in the validity of using ethical-moral values in economic analysis has little to do with the criticism of nineteenth-century authors such as Thomas Carlyle or John Ruskin, who attributed the destruction of social ties to the influence of capitalism. According to them, moral values functioned as the backbone of society during the late Victorian era. The destruction of social ties can be attributed more to the Weberian work ethic than to the structure of a market economy.

We are, perhaps, in the final stage of the process that economic science began in the eighteenth century, namely, its search for disciplinary boundaries and foundations. The first phase of this process sought to separate morals and politics. It was sometime later, however, that Adam Smith and David Ricardo began to establish economics as a respectable science. Since the late-eighteenth century, economics has developed independent disciplinary foundations and, in successive stages, has subjected more and more domains of human life to economic analysis. This phenomenon has come to be known in the literature as the "imperialism of economics."[5]

Nowadays, economics is viewed as the social subsystem with the greatest capacity to integrate the other social sciences. Yet, surprisingly and for good reason, in recent years the relationship between ethics and economics has become much less hostile. In order to illustrate this change, it may be useful to compare the relationship between ethics and economics at the dawning of the modern age (where the economic aspect played a relatively insignificant role in moral science) and in our time (where the growing interest of economists is to analyze the economic implications of ethical conduct). That Alfred Marshall knew how to extract the essence of this process can be seen in his now-famous quip: "The servant has turned into the housewife." From this point forward the ethical aspect would be placed in a similar trajectory with economics—although in quite different circumstances.

The preceding raises two related questions, which this article will address separately: (1) What are the historical factors that led to the progressive emancipation of economics from moral science, and, ultimately, to its status as an independent discipline? (2) As a result of this emancipation, has the relationship between ethics and economics been fundamentally altered? Or, has this fundamental shift provoked a renewed interest in ethics on the part of economists?

How Economic Science Discovered Its Limits

Economics was, in its origin, integrally related to ethics. Sen reminds us of the contrast between the "non-ethical" feature of modern economics and its genesis as an offshoot of ethics.[6] At the time of its inception, then, the language of economics was comprised of normative elements. Nevertheless, over time, economics came to be considered an autonomous science, and its language and value judgments become increasingly more "positive."

This dissociation of economics from ethics is not a recent phenomenon. In fact, it is regarded by some as beneficial, enabling economists to develop analytic techniques and make rational predictions of future human behavior, whereas others view these "benefits" as fatal flaws leading to the imperialism of economic analysis over ethics. As analyzed, the transformation with respect to the traditional order of medieval times was finally complete.

In traditional societies, there is a multiplicity of small communities, including kinship networks and dispersed ethnic groups.[7] Between these communities market interchange is often restricted, and economic life is regulated by local conventions. Markets may exist within such communities, but they are embedded in wider systems of non-market relationships, and the behavior of transactors is governed by complex moral codes and informal sanctions.

The first indication of emancipation with respect to moral norms became visible during the resultant secularization of the Renaissance. Consequently, morals were siphoned off from other public domains such as politics and economics. The process of separation that began during the Renaissance fostered a gradual substitution of morals for a "worldly providence": the belief in a charitable role for the market. The rise of the market order changed this situation dramatically. It broke down the old ties of community by integrating them into an extensive division of labor governed by the abstract logic of commodity exchange.[8] Personal ties between producers were replaced by the anonymous process of commercial transactions. Furthermore, this transformation required a change in the nature of morality itself. It is difficult to see how any kind of general morality can arise spontaneously from an entirely anonymous process of exchange.

Furthermore, the birth of national states during the sixteenth century had the effect of accelerating a tendency that is now termed *the politicizing of wealth*.

The growing necessities of the new states forced economists, merchants, and bureaucrats to search for more stable sources of wealth. There was a mutual relation of interdependency between consumers and producers, but wealth was now subordinated to political power. *Mercantilism*, as it came to be called, made no sense because it did not allow for the possibility of distinguishing political from economic history. Thus, politics predominated, and the relation with the economy was hierarchically ordered.

The new argument was that moral categories were applicable to small societies but not to the powerful new nation states. In mercantilist doctrine, wealth (economics) and power (politics) appear to be mixed, which means that economic policies are decided upon through political mechanisms. In the end, the prosperity and the power of the state are what is sought after. The term *political economy* (Montchretien) appears now in order to designate the study of "economic" media to surmise "political" ends, which entails that the acquisition of wealth is at the service of political power. Thus, economic boundaries begin to offer the first steps under the vigilant protection of its older sibling—politics.

Adam Smith functions not as a link to this process but rather as a purveyor of a series of ideas. However, on the level of principle, Smith completes the rupture between economics and politics, although the transition takes place in successive stages. The decisive innovation here is that economics was liberated from making normative claims, which freed it to move naturally in the direction of positivism. Smith's originality was not rooted in the newness of his ideas as much as in the way he reassembled them to create something new. Through his innovation Smith severed the mercantilist unity between politics and economics; economics was now free to develop its own disciplinary foundations. To recap for a moment, then, the progression of Smith's ideas follows the pattern of first eradicating moral boundaries, then constructing political boundaries, and finally developing economics into a respectable science. In order to analyze economics, Smith's focus needed to shift away from the social arena. The nineteenth century witnessed the development of specialized social sciences such as economics that were not ostensibly interested in providing a grand framework or spectrum by which to analyze social behavior. This was the time when economics first demonstrated "colonizing tendencies" by neglecting its earlier mission to function as the integrating center for the other social sciences.

The Colonizing Tendency of Economics

All social sciences are subject to the law of decreasing marginal returns, and economics is no exception to this rule. The specific themes of analysis and the profound level that may be reached tend to decrease over time. In the early development of economics, economists explored new territories by using models based on axioms such as the egoism of the agent and rationality in economic decision-making. The maturity of the paradigm was accompanied by a reduction in the fields still undiscovered by science. Since this time, economists have been working on almost the same themes that Adam Smith announced in *The Wealth of Nations*. By force, the results each time had to be poorer, decreasing the possible areas of exploration.

These pioneers directed their attention in diverse directions. The tendencies are obvious in authors such as Augustin A. Cournot, with respect to mathematics, and are particularly intense in the work of Edwin Chadwick, a pioneer in the economic analysis of law and of public goods (e.g., railway systems and water suppliers). But the field of sociology is where the most interesting developments have been made, particularly following J. S. Mill's attempt to elaborate an economically based sociology.

Nevertheless, it was the intense development of economics in Victorian England that sparked controversy over the range and applicability of its method. As one of the newest eighteenth-century social sciences, economics enjoyed a privileged position in the university because of its rigor and practicality. The debate within the newly emerging social sciences over which social science discipline was greater was especially intense among sociologists and economists. These discussions raged among the intellectual disciples of Adam Smith, but it was J. S. Mill, Alfred Marshall, and John Maynard Keynes who gradually won the battle for the autonomy of economic science.

This separation or initial demarcation of fields produced a notable change in the direction of economic science, which can be characterized as a gradual turn from "interdisciplinary" positions (e.g., Smith analyzing the sources of the wealth of nations) to more specialized and inclusive projects from the relation of economics to the rest of the social sciences (e.g., the formation of prices). It follows logically from the development of economics as an independent science that it would refine its analytical techniques and clarify its disciplinary objectives.

The interrelation and overlapping of scientific disciplines—a soft imperialism—is a phenomenon common to all social sciences, but economics has an advantage that is added to its pioneering character, namely, to go forward in relation to the other social sciences. The advantage that economics has over the other social sciences is its simplicity. The theoretical economists are, by definition, creators of descriptive models of reality. The key for a successful construction of systems or models has to do with the model's simplicity and demand for instrumental order: Simpler phenomena are easier to understand than complex phenomena. The question of a model's simplicity is not exhausted by the logical consistency of mathematical rigor. There is something more important: Economic science has known how to maintain a firm nucleus (core assumptions) of axioms that are the base of any analysis. I am referring to the hypothesis of optimization, equilibrium, and rationality in decision-making, which implies a stability of preferences.

One of the essential differences that economics maintains from other sciences is the standardization of the previously mentioned basic axioms, guaranteeing the internal coherence of economic models used to reach a reasonable level of generalization. The combination of these axioms influencing any economic prediction means that the falsification of a prediction does not directly address a model's core assumptions; it simply suggests refining the model.[9] This distinction is shared by many sciences attempting to immunize the science's fundamental principles against specific critiques. Thus, a model's basic hypotheses, assumptions, or axioms are never the objects of falsification.

Mathematics is a powerful symbol of the internal logical consistency that economics has developed during this century. Nevertheless, it has been accused of making a non-critical use of mathematical methods and of converting these methods into a weapon of economic imperialism. One should be cautious when referring to the mathematizing of economics. To support its position within the category of sciences, economics has been forced to accept the onslaught of mathematical methods. Perhaps it has gone too far in this direction, but the way to critique this would have to be based on principles such as: to conduct "good" economics without unnecessary mathematics; or possibly to show the vacuity in the mathematical foci under certain circumstances. The problem is shown to be non-existent when the true dimensions are reduced: to make good/bad use of mathematical normalization.

In all, the critique of positive economics often adopts other forms—for example, that the science of economics had finished in a steep canyon without exit where political economy had been replaced by econometrics; that the areas of economics have been converted into annexes of the exact sciences; and that the recruitment of personnel in large financial engineering and stock market trading firms is composed of physicists, engineers, and mathematicians. A correction of the totality is not valid, but it should be asked whether the use of this technique adds anything that we did not already know. The idea of economic imperialism appears to disregard the followers of certain currents at the margin of neoclassic orthodoxy such as the movement known as socio-economics. This disposition is motivated by the neoclassic tendency to apply the criteria of economic rationality to non-economic behavior such as maternity or religion. The neoclassical quest for exactness has gone from simplification to the loss of contextual references. The conclusion is straightforward: The neoclassical attempt to understand non-economic behavior in an exclusively rationalist way is unacceptable.

To avoid confusion, it may be helpful to clarify that the idea of economic imperialism is really nothing more than a descriptive label. The idea is an outgrowth of the concept of *homo economicus* (together with the marginal analysis), that has permitted economics to invade the boundaries of other social sciences. But this—in itself—is neither good nor bad; it simply is.[10] This fact—taken by itself—is no more fearful than the roundness of the earth. However, the expansion of our field of analysis is indeed relevant, thereby gaining something in terms of knowledge, which enables us to come that much closer to the truth.

If we measure the success of a science by its capacity to explain a more or less wide range of phenomena, economics is the science that has had the most success among all the social sciences. Likewise, this success is closely connected to the idea of *homo economicus* (HE). Of course, this idea is nothing more than a methodological artifice—a useful supposition. It would serve as a motive for happiness if economic definitions (based on the HE hypothesis) were better, from the empirical point of view, than the alternatives. A critique of such imperialism would have to demonstrate that the new economic *foci* have not advanced—that they are logically inconsistent—inconsistent with the facts or something of the sort. If, in fact, they aspire to make any sense, they would have to be empirical critiques, performed on a case by case basis.

There are two cases that illustrate what might qualify as being *scientific*—one of which was more successful than the other. The successful example is taken from the theory of public election. James Buchanan examined the logic of the democratic process and its relation to the action of large social groups.[11] Perhaps less promising have been the results obtained by Gary Becker in the area of the economics of the family, which demonstrate how the seemingly unrelated aspects of economics impact the family.

The Perplexity of the Economist with Respect to Moral Behavior

Given the imperialistic tendency of economics, it makes sense that the concept of *homo economicus* has been applied explicitly to the area of ethics. One could consider, perhaps, that the discipline is returning once again to its origins and that it will find itself resembling the moral science from whose womb it was born.

In pre-capitalist societies, society was viewed holistically, with religion and morality acting as the glue that held individuals and institutions together. Later, due largely to secularization, politics replaced religion and morality as the principal factor in social cohesion. Economics grew progressively, reinforced by its method until it became an autonomous science. Today, after the long road of three centuries, it seems that we have found a new pact; the difference now is that economics has forced the issue of its hegemony upon the other social sciences. The current preponderance of economic analysis of social phenomena does not seem to be excessive; the process was motivated by the status of respectability that the discipline began to acquire along with its rising status.

The reunion between ethics and morals is apparent in the benevolent nature of the man for whom life has gone well, with the old friend from infancy coming less to his aid. Finally, ethics—separated from political and economic boundaries—is allowed to enter the economics department through the back door without drawing attention to itself in order to perform its necessary tasks. Like the clandestine immigrant, the contract is temporary, and at some point it will have to be considered whether its services are still required.

This invasion into the area of ethics by economics has taken place at distinct levels. In the first place, the ethical dimensions of economic behavior must be seriously considered: If we suppose that all persons are egoists—i.e., they act for personal ends—what sense does it make to speak of ethics? From this point derives the idea that ethical norms are principally mutually beneficial accords whose final intent has to do with maximizing individual well-being in situations characterized by interdependence.

The search here is not to discover the rules for the good life; it is, rather, to understand why individuals from diverse cultures typically adhere to certain self-imposed ethical rules that are constant (inter-culturally) with universal ethical behavior. This raises a question, however: From where does ethical behavior derive? Moral codes are not static entities that remain fixed for all time but evolve with changing economic and social conditions. In fact, even the most homogeneous society normally encounters social conflict concerning ethical beliefs and practices.

Recently, a number of economists have considered how moral codes evolve.[12] The central idea is that economic life requires cooperation between agents, and that both encourage morality and are facilitated by it. Moreover, cooperation, initially, is based on self-interest, sanctions, and mutual policing, but in the course of time, as social conventions arise, it acquires a moral dimension. This focus, which can be called the *positive theory of ethics*—does not always appear to be descriptive. Often it is nothing more than an implicit argument that underlies an explicitly normative framework.[13] Ethics maintains a role within positive economics because ethical commitments affect individual choices and, therefore, also economic outcomes because economic institutions and policies affect ethical commitments.[14] Economists do not deny that individuals live under a societal moral code, but they tend to believe that this implicit moral framework can be excised from economic analysis—whether pure or applied—with little analytical loss.

On the other hand, the concept of *homo economicus* has been used with an openly normative connotation. This would entail constructing an ethics for human beings inspired by the concept of HE, and by delineating rules to be followed in particular situations, which would mean constructing a system of moral norms from the reference point of HE disregarding (more or less) traditional moral and religious precepts.

Normative judgments and ethical premises are often presented in economic analysis, but this is rarely the result of a conscious commitment to a particular ethical stance. As a community of scholars, economists speak in this way not so much out of a shared ethical commitment, but rather because of the manner in which their shared theoretical framework views the world.[15] Economists do not need to understand the concepts and criteria that guide the evaluation of economic outcomes and processes, but this does not mean that ethics does not play an important role with respect to economics. In fact, it is impossible to be a good economist without doing some ethical analysis.

In any case, from the perspective of economics, traditional morals might be preserved only if they make sense within the utilitarian-contractual scheme. An example of this focus could be the work of D. P. Gauthier and, in part, the work of James Buchanan (although this has more to do with a positive than normative theory of ethics). Gauthier affirms that “the well-functioning of a market economic order does apparently not need any specific moral behavior. Even a minimal moral would not be necessary.”[16]

The utilitarian-contractual tradition conceives moral behavior to be the result of rational bargaining among well-informed and self-interested actors. If we suppose that such agents lack the means to make interpersonal utility comparisons, then they would agree to distribute the gains from cooperation in accordance with a principle of “minimax relative concession.”[17] This principle would distribute fairly the gains from social interaction relative to the situation that would prevail in the absence of agreement. Buchanan’s basic idea is that economic participants are better off when they share in a portion of the firm’s work; thus, the ethical aspect arises from people working more and saving more as a means of improving their individual and collective well-being.[18] Because of their anonymous character, market transactions cannot be governed by moral responsibilities of a personalized nature. What is required, then, is a set of general ethical principles such as universal honesty and respect for laws and conventions governing exchange. The foregoing demonstrates the difficulty of developing an ethical framework for conducting economic exchange in a publicly credible fashion, while also maintaining some degree of moral transcendence. Therefore, it may be asked why such ethical conduct spontaneously surfaces between individuals.

A number of recent studies have found that economists behave in a more self-interested fashion than non-economists: First-year graduate students in economics were much more likely than other graduate students to free-ride in experiments that called for private contributions to public goods.[19] In my opinion, here rests the essence of the problem we are describing. It is well-known that among economists there is a growing interest in ethics. But the characteristic feature of this economic and ethical analysis is its diverse interdisciplinary character, particularly with respect to sociology[20] and philosophy.[21]

What seems to prevail among the ranks of “pure economists” is an attitude of perplexity toward moral or ethical behavior. The lack of accurate and suitable tools for understanding ethical behavior does not encompass the entirety of the problem. Some economists suffer from a deeper inability to understand what ethical behavior is, which, perhaps, explains why economists have begun to focus increased attention upon the relationship between ethics and economics. The most problematic aspect of delineating an ethical approach to economics has to do with determining ethical starting points and with the formation of beliefs; existing economic models of ethical behavior have not dealt adequately with the subject of belief formation.

Conclusion

Economists are becoming increasingly interested in the analysis of moral behavior because of the difficulty in successfully applying the concept of *homo economicus* in ethical situations. Some research explains a formal representation of this behavior in terms of maximizing the utility function subject to restriction. However, in general, a bearing of curiosity and perplexity dominates in such conduct.

Ethics and morality figure prominently in economic life, but that influence has been largely ignored until recently. Despite major advances in game theory, contracts, and organizations, the subject of economics is still dominated by the traditional assumption that agents are entirely self-interested and unconstrained by moral considerations.

In this article we have analyzed how one can interpret this renewed interest in ethics within the field of economics as the natural end of a process of mutual relationships that was severed when economics became an autonomous science. We saw that the distinct phases of this process of emancipation culminated in the work of Adam Smith, which, in turn, enabled the discipline of economics to invade the boundaries of other social sciences. This phenomenon was called *the imperialism of economics*. In the last twenty years economists have increasingly applied their analytical techniques to the resolution of social ethical problems. It is within this nexus that the apparent re-unification of the two sciences can be observed; however, the circle is again closed.

Nevertheless, the conclusion of this article is that it is impossible to speak in these terms for two reasons: First, the character and content of the old ethics has little to do these days with moral behavior. Furthermore, the roles have changed: Economics is now the social science with the greatest academic and cultural prestige, while it was ethics that once had priority during the first stage of the process. Ethics exercised its control with a holistic view of society, whereas the focus has now changed to analyze why individuals from different cultural backgrounds adopt similar ethical and cultural norms with respect to moral behavior. It is also possible to develop a normative vision connected with the structure of *homo economicus*. In any case, it seems that this should not be considered more than a mild colonization of economics over ethics.

Notes

1. James M. Buchanan, *Ethics and Economic Progress* (Norman, Okla.: University of Oklahoma Press, 1994).
2. Amartya Sen, "Rational Fools: A Critique of the Behavioral Foundations of Economic Theory," *Philosophy and Public Affairs* 6 (1977): 317–433.
3. Amartya Sen, *On Ethics and Economics* (Oxford: Basil Blackwell, 1987), 7, 9.
4. Daniel M. Hausman and Michael S. McPherson, "Taking Ethics Seriously: Economics and Contemporary Moral Philosophy," *Journal of Economic Literature* XXXI (June 1993): 723.
5. L. Udéhn, "The Limits of Economic Imperialism," in *Interfaces in Economic and Social Analysis*, ed. U. Himmelfarb (London: Routledge, 1992).
6. Sen, *On Ethics and Economics*, 2.
7. R. Rowthorn, "An Economist's View," in *Economics and Ethics?*, ed. P. Groenewegen (London and New York: Routledge, 1996), 28.
8. Ibid.
9. This claim is contested by Sen: "The wide use of the extremely narrow assumption of self-interested behaviour has seriously limited the scope of predictive economics and made it difficult to pursue a number of important economic relationships that operate through behavioural

versatility." *On Ethics and Economics*, 79.

10. The reason is that "even the oddly narrow characterization of human motivation, with ethical considerations eschewed, may nevertheless serve a useful purpose in understanding the nature of many social relations of importance in economics." Ibid., 9.

11. Mancur Olson, *The Logic of Collective Action* (Cambridge, Mass.: Harvard University Press, 1965).

12. See Friedrich von Hayek, *Law, Legislation and Liberty*, 3 vols. (London: Routledge, 1973); R. Sugden, *The Economics of Rights, Co-operation and Welfare* (Oxford: Basil Blackwell, 1986); and R. Rowthorn, *An Economist's View*, 28.

13. The proper question is: "Does the so-called 'economic man', pursuing his own interests, provide the best approximation to the behavior of human beings, at least in economic matters." Sen, *On Ethics & Economics*, 16.

14. Daniel M. Hausman and Michael S. McPherson, *Economic Analysis and Moral Philosophy* (Cambridge: Cambridge University Press, 1996), 214.

15. F. Gill, "Comment: On Ethics and Economic Science," in *Economics and Ethics?*, ed. P. Groenewegen (London and New York: Routledge, 1996), 153–54.

16. D. P. Gauthier, *Morals by Agreement* (Oxford: Clarendon Press, 1986), 83.

17. Hausman and McPherson, "Taking Ethics Seriously," 710.

18. Buchanan, *Ethics and Economic Progress*.

19. G. Marwell and R. Ames, "Economists Free Ride, Does Anyone Else?: Experiments on the Provision of Public Goods, IV," *Journal of Public Economics* 15, 3 (1981): 295-310.

20. Amitai Etzioni, *The Moral Dimension: Towards a New Economics* (London: Macmillan, 1988).

21. See Martha C. Nussbaum and Amartya Sen, *The Quality of Life* (Oxford: Clarendon Press, 1993).