ETHICAL ISSUES SURROUNDING THE SCIENCE AND ENGINEERING OF ECONOMICS

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[Abstract: *Relationship between economic and ethics has always remained under scrutiny. Mainstream economists, who treat their subject as science, seldom address ethical questions as they impinge on economic theory or economic behaviour. It is difficult to accord weightage to the elements constituting economic behaviour and thus the precision of economic theories would be affected adversely. In real life situations ethical questions are inescapable as human affairs are conducted through a network of institutions which evolve on the strength of the ethical assets of the society. Even the market economy system, when the participants wish to be left alone, would require institutional support for preserving right over property and for enforcement of contracts and such arrangements evolve as a result of felt need of ethical behaviour in the society. Gandhi and Buddha both felt that ethics and economics co-exist and some scholars favour the requirement of a sound ethical base for development of market economy itself. Over the years, however, under the influence of mainstream economists relying on consequentialist approach, the role of ethical support system got eclipsed. Economists and institutions manned by economist professionals were perceived to be serving their agenda and the agenda of their employers in the guise of economic advisors to the developing countries and their clients in general without warning them and preparing them for the possible adverse fall out of the interventions being made on their advice. Thus the governments and other agencies and particularly public could not take informed decisions. Many economic scholars were showing concern about such conduct of their colleagues but their concerns found voice only when the economic crisis of 2007 surfaced and it was discovered that many economists in public affairs had not acquitted themselves well by not tendering advice as disinterested advisors. This paper is an attempt to place in historical context the subject of economics and ethics over the years and is towards an advocacy for a voluntary code of conduct by the economic professionals and practitioners particularly in the wake of their conduct post 2007 fallout.]*

"Inside job" is documentary film which won the academy award for best Documentary in 2010. The film has been produced and directed by Charles H. Ferguson; who is also a successful software entrepreneur and an authority on technology policy. He earned his Ph.D. in economics in 1989 from M.I.T. and has been a consultant to the White House on trade and defence issues. Besides, he has had an abiding interest in films and has a production house of his own which has distinguished itself in producing significant and award winning films on contemporary issues.

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"Inside job" is about the financial crisis of 2007-10[1]. This film put the profession of economics under scrutiny in the wake of economic crisis due to revelations regarding the failure of influential economists to disclose potential conflicts of interest when serving the role of public intellectuals. The film has been brutally frank in bringing out that economists have never considered about their ethical obligations seriously despite the fact that economists routinely affect the life chances of others, for better or worse, and often decisively[2], and that, too, across the globe. It is enormity of that impact that makes it difficult for economists to warp their minds around their ethical obligations[3]. Economists influence comes to them by virtue of their intellectual monopoly over a subject matter of social welfare and also by virtue of their positions in public, private and multilateral sectors that often give economists institutional power. Economic interventions, triggered by their advice and influence, typically harm some while benefitting others, and losers are rarely compensated. Empirical evidence demonstrates that economists can't control and don't know the full impact of the interventions that they recommend. Inabilities of those economies that cannot do the damage control effectively suffer unforeseen consequences[4].

Economists are driven by the motivation of understanding the human nature in pursuit of wealth and how to improve the outcome of such efforts. It is an irony, that a profession that portrays human nature as largely self-interested is populated for the most part by other-regarding actors who want to serve public good[5].

Relationship between political economy and ethics has been under scrutiny at least since the publication of wealth of nations (WN) by Adam Smith in 1776 in which he went on to stress that the personal interest of market agents would dominate in the market by him in often quoted words, "it is not by the indulgence of the butcher, the brewer or the baker that we expect our meal, but by the evaluation they give to their interests"; though he himself laid stress on the ethical issues in equal measure as

1 Enwikipedia.org./wiki/Charles-H-Ferguson.
2 "The Economist as a Social Engineer", George De Martino, *Real World Economic Review*, Issue No. 56 P. 5733-34
3 "On the Need for Professional Economic Ethics". George Martino, *The Economist*, Jan 6th, 2011
4 *Ibid*
5 *Ibid*

brought out in *ISID Discussion Note*[6]. Gandhi visualized that economics and ethics do coincide as to ends and co-operate by their respective methods in a great measure. In fact he believed that economic and ethical measures were inseparable. “I must confess that I do not draw a sharp or any distinction between economics and ethics, he wrote in young India, 3rd October, 1921. They could, Gandhi said, be considered separately, as indeed they usually were but for conclusions to be relevant and valuable, they should not. He acknowledged that even ethics would have to be “good economics” and need to be relevant to ordinary business of life where one’s options are limited by resource constraints as, according to him, no person in this world has found it possible to maintain which is a source of constant economic loss. He maintained that ethical and economic criteria must be considered together for either to be valid. “If Dharma and economic interests cannot be reconciled either the conception of that Dharma is false or economic interest takes the form of unmitigated selfishness and does not aim at collective welfare”. Buddhist literature honoured economic success and had some interesting things to say about the qualities that could help towards achieving it; but the rules of a good conduct, the eight fold path, still prescribed the bounds within which economic activity could legitimately be pursued[7]. Thus Gandhi’s concept of integrating ethics and economy corresponds to the Buddhist views. Similar views were echoed by George Newcombe way back in 1885 in his lecture before the American Institute of Christian Philosophy[8]. He observed that the economic end supports the moral in so far as society needs capital for its moral as well as for its material progress. The strife of economic competition fosters the prudential virtues and moral development carries with it economic advance. Order, efficiency and credit have their roots in moral faith and feeling. Virtue goes out of man into matter to make a more habitable world. Newcombe pertinently figures out that “Natural Liberty” and arrangements of nature” of which Adam Smith speaks presume for their beneficent operation an artificial and complex civilization in which wealth has come to be sought as an end and pursuit of it made practicable by an elaborate system which determines and

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6 Economics thoughts of M.K. Gandhi and Adam Smith, M.M.K. Sardana, *ISID Discussion Paper Series*, DN2013/04.

7 “A History of Economic Thought”, A..Dasgupta.

8 “Political Economy; Relation to Ethics”, George Newcombe.

protects the right of person and property, including contract. It may be recalled that even to this day, while existence of orderly conduct of the state and society continues to be pre-requisite for market economy, the state is being increasingly required to provide infrastructural support and even diplomatic initiatives for the pursuit of wealth by the entrepreneurs seeking to have free say in their business domain. Such expectations arise naturally from the state and are rooted in the moral faith of the people constituting the state towards orderly and efficient conduct of the affairs.

The publication of WN happening at a time when America was becoming independent and trade and commerce of England set off to unprecedented growth, Prime Minister Pitt found support in WN for comparative freedom of competition and force of self interest to such an extent that teleological forces and human values were sought to be governed by market forces.

Newcombe in 1885 carried the same concerns to prevail ’one hundred and twenty years down the line on issues like “rich grow richer while the poor grow poorer”. It was being felt even at that time that “let alone policy” would not be able to sort out equitable wealth distribution issues and emphasis for concerted social action was suggested. To Adam Smith “the market of interest was not the whole life but only an important side of it”. Practitioners of market economic found it prudent to “target the other side and confounded the rule of the market with the rule of life, nay even elementary laws of human nature”[9]. It was becoming clear increasingly that the let alone policy without the balancing policy instruments could not resolve the concern about social inequalities. There had not been significant initiatives demonstrated by the market players to maintain the balance through orderly institutional arrangements as advocated by Adam Smith.

The balancing act was necessarily left to be performed by the state in the pursuit of social justice. There is no dearth of literature to indicate that the diehard believes of laissez faire continued to sound alarm concerning the perils arising out of over legislation. Instead of recognizing a more working rule in economics, subordinating

9 *Ibid*

when need requires, to higher ends and laws of social action, practitioners of laissez faire have been seeking to secure "the survival of the fittest", an end which completes and conflicts with ethical end as understood. Such an evasion of ethics continues to be brought on increasingly at least in the minds of a large number of societies across the nations particularly in face of the evidence that practitioners of free market approach have not felt shy of state interventions in their favour in the name of correcting the market behaviour and further seeking to have facilitations by the state for furthering their pursuit of wealth. Such a singular approach raises ethical issues in regard to economic theory and its practitioners who exert considerable influence among the policy makers and the public at large.

Singular approach as discussed above has emerged because of the inadequacy of the mathematical tools in assigning weightage etc. to societal concern being termed as ethics and thus these being excluded from economic analysis. Most of the analysis carried out are for maximizing profits and the pursuit of profits alone has not found favors by those who value high order conduct by the individuals in society. Thus the economic conclusions emerging as a result of hard core economic analysis do not address ethical questions as they impinge on economic theory and economic behaviour. Ethical questions are, however, inescapable as all policies would have social goals with ethical content[10]. Gandhi would term conclusions arising out of such an economic analysis as irrelevant[11].

Ben fine has prescribed inter-related reasons for economics being poor in ethics[12]. According to him these are:

(i) While the rigid distinction between positive and normative economics has long been recognized in principle to be invalid; the discipline has continued in practice as if nothing were wrong with the separation between the two.
(ii) Economic is negligent of, and backward in, methodology, and so unlikely to interrogate its own ethical or other foundations.
(iii) Economics neglects its own history as a discipline, and so its own shifting ethical approaches and content

[10] "Economics or Ethics", George J.stigler; bbs.cenet.org.cn/up loadings
[11] *Op cit* 7
[12] "Economics and Ethics: Amartya Sen as Starting Point", Ben fine, *SOAS*, Union of London.

(iv) Economics has been isolated from other social science and their contribution to ethical question has been ignored.

(v) Mainstream economists are intolerant of heterodox alternatives from which ethical difference might be teased out.

(vi) Thus the discipline of economics has been lacking in circumspection around the ethical implications of standard concepts such as production, consumption, utility and the market.

Thus ethics and economics have a troubled relationship. As stated earlier Gandhi had advocated strongly for the co-existence of the ethics and the economics for either to be relevant to society. He discounted ethics without economics and economics without ethics as selfish. He firmly held that in a world of limited resource, ethics would have to make economic sense. Thus the learning has to be both ways.

Understood properly economics is an ethical science, branch of applied philosophy. For, in a world of limited resources and high expectations, it concerns how to understand, manage and fulfill the heterogeneous and often conflicting values, interests and capacities of large number of individuals operating within the constraints of limited resources in a particular community. The system level attention to the key aspects of heterogeneity conflict, and scarcity within a community should be a central concern of moral philosophy, but it generally isn't except for a few political philosophers.

Economists have addressed the scarcity by developing the concept of opportunity cost in the light of limited theory of forcing one to limit one's choice even in his moral pursuits. Economists have developed the concept of values in terms of choice under constraints to work out how valuable the things are in relation to other valuable things, to work out better that relationship.

Economists can provide logistical support to ethics in presenting consequentialism and enable one to foresee clearly under counter factual conditions.

Social choice theory takes into account preferences, judgment or views of different persons or groups in a particular society showing the logical implications of the combinations of various ethical premises enabling a reconsideration of ethical positions in the given set of circumstances. Similarly, economists within their analysis figure out the long term consequence of changes being brought about by an economic agent or government in a complex but in a closed system. This presents a choice for taking up seemingly agreeable idea towards implementation. “Paradox of Thrift” by Keynes owes its origin to economic analysis when good sense would favour thrift otherwise. Some analysis would caution that those who do not benefit from the resultant boom arising out of increased spending, would be worse off[13].

Most of the economic analysis even of high sophistication would have bounded conclusions; both positive and not so positive depending upon the groups of people on whom the results of such analysis is sought to be made applicable. Such an inherent limitation of economics raises ethical issues for the practitioners of the discipline in every aspect of economics and economic policy making.

When an economic advisor formulates a prescription prescribing liberalization of economy to a country or a group of countries with a view to achieve certain objectives, sense of honesty would dictate that the economic advisor should be disclosing that there is empirical evidence to suggest that the objective of faster growth may not be achieved always. Similarly when advice is being tendered for freeing flow of capital, advisor should also be giving examples of India and China who have progressed without doing so. In fact, every policy advice should be including tradeoffs; its effects on various groups in the society and thus enumerate risk factors associated segment wise. Such a disclosure made publicly would bind the executive to take well informed decision depending upon their capacity and instruments to manage the resultant conflict potentials. Besides, the economic advisor should not be having any contingent interests of his own or his employers and thus he or his employers should not be beneficiaries of the advice being tendered.

To meet the concern of social justice it would be ethical to bring out risk factors in relation to disadvantaged sections of society and also the impact of the policy on environment and natural resources of the country.

[13] “Economics for Ethics”, philosophers Beard, 16th September 2011.

Joseph E. Stiglitz has commented that the main activity of international financial institutions is giving advice. However, they fall short of almost all the ethical issues enumerated above[14]. Stiglitz argues that ethics in relationship between developed and developing countries dictate that the developed countries treat the developing countries fairly, aware of their disadvantaged economic position, and acknowledging that taking advantage of one's economics power inevitably will hurt the poor within developing countries. In reality, this percept is violated and grossly. Resultantly world's poorest regions remain worse off and international environment agreement keeps on conferring on the developed countries liberty of polluting more in future.

Stiglitz illustrates ethical violations in the dimension of globalization when liberal advice is given in regard to capital mobility in the name of increasing efficiency without highlighting the risk involved which may bring havoc on the poor countries and impact heaviest on the poorer of populations. Even in trade matters, the developing countries are advised to open their markets to the goods of developed countries while the developed countries would devise barriers for their internal markets. Developed countries are aghast when it is sought that like capital; labour should also move without barriers. When there is intervention by the international financial institutions in crisis situations with the stated objectives of minimizing the damage, particularly to the poor, the interest of foreign creditors are put ahead of the workers and small business which would lead to soaring unemployment and fall in wages. Lending institutions would not pause to take blame on themselves for the faulty advice tendered by them leading to the crisis and would compound the crisis in their eagerness to protect the interests of lenders. Inevitably there is trust deficit among stake holders and resultantly between government and societies catalyzed by the singular approach advice of financial institutions dominated by economic advisors who are individually otherwise aware in advance of the inadequacy of the institutional advice. Part of the blame would lie with the governments but they are not in a position to seek more equitable terms where associated risks are shared between the donor and the recipients. Such a state of affairs gives rise to ethical

[14] "Ethics, Economic Advice and Economic Policy", Joseph E. Stiglitez.

dimensions of the lending international institutions whose stated objective is raising the living standards of the recipient countries and reducing the level of poverty.

It needs to be recalled that the subfield of macroeconomics was born not as a science but more as a type of engineering. Macro economics was required to resolve practical problems which have been gigantic e.g. the great depression of 1930s when the sub discipline was born. Over the years, the field of macro economists has developed in two distinct directions i.e. towards problem solving and also towards developing analytical tools for enabling theoretical principles (scientific role). There has, however, been a substantial disconnect between the science and engineering of macroeconomics. In the real world situations, society needs competent scientists as well competent engineers. Best of scientists may be bad at mundane engineering issues and vice-versa. For tackling cutting edge problems and for bringing about significant innovations, there has to be interconnect between the scientists and engineers. Economist thus need to bear in mind that in real world situations they are required to perform a dual role and that too ethically in the true traditions of science and true tradition of lasting engineering solutions. The real world of macroeconomic policy making would be disheartening to those who remain in academics. The fact remains, because of disconnect between the two streams of macroeconomics, macroeconomics research of the past three decades has had only a minor impact on the practical analysis of monetary or fiscal policy despite the fact the men in the policy area are well informed and competent in their academic knowledge. The net result however remains that research may have been successful as a matter of science, but it has not contributed to the macroeconomic engineering[15]. Engineering solutions are site specific and environment dependant and it is difficult to imagine a fit all engineering solution in real life solutions particularly when solutions are towards balancing moral as well economic effects and effects on others as well as on oneself. Thus unlike as in science, in real life application of macroeconomics it may not be possible to enunciate one grand principle. Gandhi, visualizing the complexities of life situations, put it philosophically that in any actual choice a number of different

[15] "The Macro-Economists as Scientist and Engineer", N. Gregory Manikw Harward University, May 2006. www.aeaweb.org/articles.php

moral principles are involved and there could be conflicts between them. Consequences help in finding directions[16]. Macroeconomic solutions in specific situations around a group of societies would thus be hard to come by which benefit all the members equally. Some among them may be in fact hard hit by the solutions recommended. An ethical practitioner of science of economics should be laying bare all aspects of his recommendations and further he should not be seeking to subserve his own agenda or agenda or that of employer. Such a conduct on behalf of the advisors on policy issues would enable the public and government to take informed decision and be prepared to place in position institutional arrangements to mitigate the adverse consequences that are likely to arise as the policies so arrived are implemented.

Economic interventions affect societies significantly and those who are affected adversely because of such interventions have hardly ever been compensated. Because of the possibilities of adverse impact on some by the economic interventions, some scholars have been arguing that when economic interventions are conducted these should pass through specified safe guards in line with the ethical safeguards that are built around human subjects research whose first principle is well known among professionals: 'first, do no harm'. De Martino in this context remarks about economists charged with policy advices, "those who occupy position in which they can significantly alter the chance of others necessarily traverse dense ethical thickets"[17.] De Martino has explored the grounds on which economics has resisted self-development as a profession on the lines of medicine. Economics has not disdained designation as a profession, but has declined the responsibilities that professional status entails. This, Martino asserts, is due to the fact that neo-classical economics is committed to a consequentialist approach to the evolution of action: only the outcome is relevant, never the intention. This, Martino goes on the conclude, has the disturbing implication that a value-free science might license a behaviour that is value-free particularly when modern economics

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16 *Op cit.* 7

17 Review of George F. Martinos's, "The Economist's Oath: On the Need For and Content of Professional Economic Ethics"; *Erasmus Journal for Philosophy and Economics*, Autumn 2011, pp 89-96. http://egpe.org/pdf/4-2-br-4.pdf

profession enjoys institutionalized power whether through devising structures for economic exchanges or directly disbursing resources; economists govern. Economic interventions devised by them affect different groups differently; even policies believed to benefit all in the long run are likely to produce short time losses and some among may never get compensated for their losses.

Advice being tendered may be based on the best of theory but factual knowledge with the best of economists is far from adequate as the real life situations are highly complex. Thus economists do differ on many issues as they understand the world differently. Thus error and unintended consequences are unavoidable. Such a situation of uncertainty would require some prudential principle beyond 'first do no harm'. But the fact remains that in a variety of episodes such as Washington consensus, transition economies, financial deregulations, economists chose exactly the opposite principle, that of maxi-max regardless of the probability test.

De Martino has termed such an attitude as hubristic and ideological rather than humble and pragmatic and unethical as it violates prudential principle and also violates the principle of autonomy of the institutions seeking advice and role the individuals of their right of informed consent, which other profession such as medicine have come to respect.

A number of economists such as Alfred Eichner, Milton Friedman etc. have suggested that whenever economic policies are turned into policies such a state would constitute an experiment on an economy and sometimes even crucial experiment designed to bring about a change. Such an experiment of intervention on human societies is fraught with many uncertainties despite the sound economic theories which are being tested. Thus such economic interventions have to share similar ethical responsibility as is shouldered by medical research when humans are the subject matters of research. It has been suggested that three main elements of ethical and scientific reviews of clinical research should apply in the reform interventions: assessment of objectives, assessment of suitability of measures to the pursuit of the objectives, and proper governance. Such reviews need to be by an interdisciplinary group. It needs to be emphasized that policy makers set their goals on the advice inputs of groups of economists and thus they have to advise ethically regarding the goals also. Means of pursuing the goals would be deliberated upon over many alternatives in view and the optimum course would generally be arrived at with the involvement of economists. When evidence regarding an approach is not being supported by their sound research based knowledge, it would be the ethical duty of the economists to speak up. Even those economists who are not involved in the process directly must take note that economic research of theirs is in public domain and thus they should ethically refrain from spelling out conclusions on unproven nature of hypotheses and are not towards making exaggerated claims. Thus it becomes the responsibility of researchers to caution at the policy formulation stage or implementation stage if their models are being applied on mistaken appreciation of their models. Thus there are, ethical obligations ultimately while publishing one's findings[18].

For ensuring meaningful informed consent on economic interventions, it has been suggested that advising agencies should be making a proper risk assessment of the interventions and publishing widely the same in a language and form intelligible to the mass to be affected and is followed by suitable face to face interactions and thereafter implementation plan is redrawn, if necessary, before the actual process of implementation begins. Subsequently, the resultant effects of implementation efforts need to be monitored and mid-course corrections made as warranted following a similar approach. Such a process be gone through keeping aside the personal interests of the economic and other advisors.[19]

There have been attempts towards designing a code of ethics for economists. Any code concerning the behaviour of economists presumes a view of human nature and thus of professionalism. Socio economic issues surrounding the professions pose problems for the interpretation and implementation of principles particularly relating to standard of competence and truth seeking. It would serve the interest of

[18] "Ethics in Economics: Lessons from Human Subjects Research"; Megan B hemfeild. *Erasmus Journal for Philosophy and Economics*, vol. 5; issue 1, spring 2012, pp. 24-44. http://egpe.org./pdf/5-art 2.Pdf

[19] *Ibid*

stake holders including the professionals if code of conduct, if arrived at, should be general and concentrate on the ethics of pluralism: even-handedness and open-mindedness, on which ethical considerations rest[20]. Simply put, economist professionals, whether in research and/or in policy formulation, implementation, monitoring and evaluation should be submitting to a voluntary code of conduct adhering to full disclosure norms of their formulations spelling out risks involved and recommend instruments of containing the risk with a view to enabling the government and other clients to take informed decisions and public in general through their networks of organisations are educated to be willing participants in the process of change.

[20] "Codes of Ethics for Economists: A Pluralist View"; Shita Down, Shirting Management School, University of Squirting.