Are Economists Amoral? Contemporary Economic Thought and the Distinction Between Values and Prices

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Abstract: Underlying the “clash of cultures” between economists and the rest of the citizenry is a way of thinking about rationality, consumer choice and policy that periodically reveals a confusion between values and prices on the side of economists. Lawrence Summers’ famous memo on the underpollution of the Third World was a case in point. Sadly, this was not an isolated incident. On the contrary, mainstream economists are conditioned, by the categories they employ, to regularly conflate value with price. This is particularly the case when it comes to theorizing about consumer choice and the meaning(s) to be ascribed to the set of market prices that emerge from the aggregate of these choices. This paper explores the dimensions of the problem and suggests other frameworks of choice that can enrich our understanding of consumer behavior and the significance of the set of prices that emerge in the market.

Non-economists often perceive economists to be immoral or, at a minimum, amoral. Periodically, these priors are strongly affirmed. An example that captured the public’s attention occurred in the early 1990s when Lawrence Summers, then the World Bank’s Chief Economist, set off a controversy with his famous memorandum in which he concluded that, “...the economic logic behind dumping a load of toxic waste in the lowest-wage country is impeccable and we should face up to that.” Non-economists, not surprisingly, took this statement to be another sign of the profession’s moral bankruptcy. Characteristically, Summers attributed the resulting controversy to “political correctness.” While it is not my intention to review the specifics of this controversy, I do wish, in keeping with the mission of the Association for Social Economics, to reflect on the extent that Summers was simply projecting the perspective of mainstream economic theory.

Underlying the “clash of cultures” between economists and the rest of the citizenry is a way of thinking about choices and policy that periodically reveals a confusion between values and prices. For example, one can simply, and correctly, refute Summers’ memo by pointing out that in our post-aristocratic era most thinking people believe that each life is to be accorded an infinite value. Since this idea is often unworkable in practice, ethical reasoning then ascribes a high and equal value to each life. It follows that systematically imposing the disease
and early demise associated with certain production processes on a select group of persons, specifically chosen because they are poor, is thought to be immoral. Indeed, when one examines the structure of economic theory — especially in its policy-making guise wherein statements concerning “efficiency,” “welfare-maximization,” and “cost-benefit calculations” are represented as neutral and transcendent standards of judgment — some disturbing value judgments and premises are, in fact, unveiled. This is the case because virtually every policy decision taken, or not taken, impacts some third party. Often this fundamental quality of decision-making is repressed by positing the existence of a depoliticized and thereby unproblematic “social welfare function.” Once such a social welfare function is posited, the distributions of the several costs and benefits from a course of action, if addressed at all, are hidden behind a criterion such as “the market outcome” or, worse-yet, a hypothetical standard of non-reimbursement called “Hicks-Kaldor Compensation.”

In sum, too many of the economists of our era are prone to reproduce Summers’ error — even if they, or the institutions they work for, have become more sensitive to the consequences of letting memos such as his leak into the public realm. In short, the public pronouncements of economists, and too many applications and examples from our textbooks, suggest that a confusion between values and prices runs deep, even to the core of the economics discipline, as it pursues its century-long quest to be received as an unbiased advisor on public policy issues.

On Prices

Reduced to its simplest form, a price is the ratio at which things exchange for one another. Consider the Neoclassical theory of price now dominant in American economics. Its assumptions of perfect competition — full and free information, many competing buyers and sellers, free entry and exit, and homogeneous products — collectively imply costless arbitrage across the market. Drawing upon this theory, Neoclassicals conclude that the price that prevails at any given time in the market represents the summation of the individual choices made by the numerous individual decision-makers that collectively make up the “marketplace.”

If we assume that we are dealing with a moment in time and thereby ignore discounting the future (nothing important changes in the analysis if we do this), Neoclassical economists posit that the demand curve that exists in the market is derived from the prior endowments and the (stable) preferences (drawn as “utility functions”) that describe the collection of individuals trading in a particular market during a particular trading period. The market, then, is presented to readers as the realm of “choice,” since the final pattern of demand can be said to reflect
a summation of the choices being exercised by the multitude of persons currently trading in the market. Under the conditions specified above, the market is said to be an efficient allocator of goods as it is thought to accurately reflect the willingness of people, given their prior preferences and endowments, to pay for a particular distribution of goods.

What most stands out when we review the above depiction of the market process is that it is not so much a “choice” as a “calculation.” This follows directly from the assumptions underlying the idea of a “rational economic agent” who is so knowledgeable; has a clear and independent understanding of his or her own preferences; and can draw upon relatively sophisticated mathematics to solve for an “optimal” decision.

To explore the ethical aspects of this understanding of choice, consider the following thought experiment. Suppose that we have a “rational” person whose characteristics fit standard criteria, including the Walrasian principle of gross substitution (this latter assumption guarantees that there is a price, above zero but below infinity, at which all goods can be priced in terms of one another, thereby ensuring that the system is coherent with an equilibrium solution). Now, let us assume a simple world of two commodities. The first is a medicine that I must have in a certain discrete, i.e., non-infinitesimal, quantity each day to keep my sister alive. I will call this Sister’s Medicine. The second commodity is beer. In light of my income and the market price of each good, I can afford certain “bundles” of each of these two goods.

Now, let us suppose an optimizing agent who really loves his or her sister. This person would have a relatively flat but, being “rational,” downwardly sloped utility function between sister’s medicine and beer. It follows that it must be the case that there exists a price for beer at which our rational consumer will not purchase an adequate quantity of medicine to keep his sister alive.

According to mainstream economics, the above outcome must be both rational and efficient. However, everyone else would say that the choice is irrational — even criminal. The absurdity built into the example is that it weighs on the same scale two “goods” that most of us believe exist on different planes or spheres of importance or priority. Philosophers refer to this as the problem of incommensurability. One of the goods, beer, is for most of us a moderate intoxicant used exclusively for recreational purposes. The second, sister’s medicine, is about the life and death of a loved one. Most sane people consider the life of their sister to be a priority over their own momentary pleasure, and for this reason would take the above to be a “false choice.” This is exactly my point — it is a false choice.

Essentially, what the above example suggests is that for the conventional “theory of choice” to make sense it must be exclusively applied to the banal decisions
of life. In other words, a choice between corn or peas for dinner, or buying a navy blue or tweed jacket to wear to an economics conference, etc., are the kind of choices that may be plausibly presented within this framework. The reason is that nothing fundamental is at stake, so a model of choice suggesting parameters such as “preferences,” “relative prices,” and “budget constraints” is plausible. If peas and a navy blue jacket are relatively expensive, I will choose corn and a tweed jacket.

Not surprisingly, a model designed to explain the banal choices of life falls short when something fundamental is at stake. The limitations of this approach are most evident in two broad classes of choice that will be discussed below. The first I will call *Moral Choice*, the second I will call *Identity Choice*.

**Moral Choice — Values**

Moral choices, what the philosopher Martha Nussbaum calls Tragic Choices, are of a qualitatively different nature from the calculations that are the true subject of the Neoclassical theory of choice. Here a real tension exists that requires a fundamental assessment of priorities, as the choice that one eventually arrives at is laden with meaning and ethical implications.

Nussbaum believes that literature is a realm well suited to exploring the dynamics of tragic choices, so I will follow her lead here. William Styron’s novel, *Sophie’s Choice*, poignantly captures the idea of a moral choice. In this novel a Nazi prison camp doctor forces a young mother to choose which of her two young children is to be led away to die. Clearly it trivializes the situation to describe such a choice as a calculation in the sense that one decides to have peas or corn for dinner, because such a decision presents a fundamental moral dilemma. Sophie, the heroine of the book, does in fact make a choice and is tormented by it for the rest of her life.

Recently, McDonald’s Corporation learned how a failure to appreciate the ethical implications that others ascribe to certain choices can lead to actionable consequences. McDonald’s now admits that for years, and without informing their customers, they used animal products to flavor their french fries. McDonald’s management evidently took the position that those who wished to be vegetarian were free to exercise such a choice, but that the choice was a trivial one, i.e. based upon a calculation, that McDonald’s could knowingly undermine without any important repercussions for anyone concerned. What they did not, or would not, understand is that for some persons, such as practicing Hindus, vegetarianism is a moral choice and not a “preference” or “lifestyle.” For that reason McDonald’s knowing misrepresentation of the qualities of one of its leading products was deeply offensive to many of its customers.
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Without considering their ultimate foundation, the importance of moral choices for economics can still be readily understood. Essentially, the distinguishing feature of a moral choice is that it should not depend on price considerations. For example, the Biblical injunction, “Thou Shalt Not Kill,” is not modified by the qualification that one should feel free to kill if it pays enough. While each of us may continue to disagree over the motivations and conditions under which one might nevertheless kill another person—judicially-mandated punishment, self-defense, defense of one’s family or nation, under no circumstances—I am confident that all religions and philosophical frameworks would concur that killing for money is wrong. Moreover, the actual level of remuneration does not constitute an extenuating consideration.

Hollywood tapped into this issue a decade ago with the movie An Indecent Proposal. Here a young woman (Demi Moore), with the consent of her husband (Woody Harrelson), agrees to spend a night with a stranger (Robert Redford), in exchange for a million dollars. While the young married couple initially perceived the transaction to be a pragmatic exchange that would not undermine their relationship, it nevertheless did. To the audience, the interest and dramatic tension of the movie turned on the fact that incommensurable “goods” were being exchanged.

Identity Choice

Somewhere between the set of Neoclassical choices (calculations) and moral choices (duties, obligations) there is a third set of choices that are neither moral choices nor calculations, but are nevertheless considered binding by many people. I will term this category Identity Choice. To motivate this set of choices, consider the fact that anthropologists, sociologists, and marketing professionals do not think of consumption choices as taking place in a series of discrete settings along the lines of methodological individualism. Rather, most of the non-economic literature on consumption acknowledges that consumption plays a role in shaping a person’s sense of themself and their place in the complex sphere that we call “society.” In short, consumption serves to simultaneously associate and distinguish a particular person from their fellows.

These identity choices, which appear to be arbitrary when viewed from a distance, are effectively binding upon the everyday decisions of most people. That is to say that such choices are not based upon an accidental configuration of preferences, relative prices, and budget constraints. Yet it would also be incorrect to think of identity choices as moral choices, although this generalization has exceptions or at least a “gray” area. Depending on the specifics of a given culture or situation, a person’s choice of food and clothing can be considered a moral choice.
For example, during the German occupation of France in the 1940s, patriotic women wore long and flowing skirts to signal their non-compliance with the German and Vichy governments' request to spare cloth for the war effort.

In general, a person's choice of clothing or food is a decision that they, and their peers, feel strongly about even if they are not choices with a clear moral basis. In short, there is a reason, beyond a calculation based on preferences and relative prices, that I did not present this paper to the Association for Social Economics in a swimsuit and sunglasses. Rather, my choice was based on the social meanings that would be implicit in such a choice of personal presentation. The point is that for each of us identity choices are fraught with meaning when considered in light of the personal investment that individuals have made, consciously or unconsciously, in a particular self-image or identity. Within our society, at this moment in time, certain clothing choices are identified with certain professions and contexts. What I would wish to wear to the beach is different from what I would wear to an academic conference, all things being equal.

The larger lesson is that in a complex social structure, the ability to act or, more importantly, to interact with our fellows, to complete transactions, to have satisfactory interpersonal relationships, requires a higher and more nuanced pattern of consumption than what is simply convenient or necessary for biological subsistence. When our sense of identity and social status is involved, consumption is less about wants, or even needs, than it is about our ability to function as full members of society. As Amartya Sen (74), put it: "The focus has to be, in this analysis, on the freedoms generated by commodities, rather than on the commodities seen on their own." With this fuller understanding of the dynamics of choice, we are ready to return to the posited distinction between values and prices.

Values and Prices

Prices, as previously noted, are an economic category. They are the ratios for which objects trade for one another. Values, on the other hand, are based on considerations of ethics or even identity. The reason that we do not kill each other for money, or to spend our money on beer rather than on our sister's medicine, is not because the "price signals" from the market fail to consistently support these choices. Indeed, we all know that for a subset of persons, today's prices are already sufficient to support perverse, dangerous, or pathological choices. To discourage such choices we do not depend upon the price system, but impose sanctions, sometimes criminal and at other times social, that reinforce our collective disapproval. Tellingly, we often act as though at least some of our choices are larger than ourselves. And they are. To this end we pursue consumption patterns
or agendas that identity, taboos, religion, morals or reason dictate to be ends in themselves and are, for that reason, not to be readily surrendered for financial considerations.

Now, as a matter of experience, we know that some people can be bought (how cheaply is often a disturbing surprise). In the case of an identity choice, "buying" someone is probably, and ought to be, easier than in the case of a moral choice. For example, we have "reality" television shows that reward people for violating certain norms associated with identity, such as our resistance to eating exotic bugs. So far we seem to be spared shows in which moral choices are violated for money prizes, although some may feel that a show such as *Temptation Island* comes close.10

Keeping the above distinctions in mind can be of assistance when we examine the arguments of economists who, in their zeal to expand the market into ever-more spheres of social life, fail to appreciate distinctions that are at the core of the moral systems that philosophers, theologians, and most thinking people uphold. It follows that when economists argue that Christmas gifts involve a "deadweight" loss, or that the adoption of children could be more efficiently conducted though the market, they are often perceived to be missing the point.

At times a failure to distinguish values from prices becomes pronounced when economists participate in debates over social policy. Assessing the value of a clean environment, the value of maintaining a relatively diverse set of species on the planet, or the proper level of a legislated minimum wage, are issues that typically appeal to strongly held norms. For this reason they are not exclusively, or even primarily, the subject of a calculation or cost-benefit analysis.

It is in this sense that George Stigler (57), was in error when he observed that the public's support of the minimum wage demonstrated that people are ignorant of the insights that economists can contribute. It is unnecessary to share Stigler's perspective on the economics of the minimum wage to grasp the reason why his perspective has been rejected — it was simply not addressing the point. When considering a legislated minimum wage, most people wish to uphold a long-standing social norm that a person of able mind and body who "plays by the rules" should be able to live by their labor. As with many widely-held values, this norm has come to be embedded in law. In other words, most Americans take the principle of a minimum wage to be primarily an ethical, rather than a purely (or simply) economic, issue. When the issue is examined from the perspective of values, the economists' analysis of the policy's effect on the employment prospects of teenagers, whatever the econometricians may say, is simply beside the point.11
Conclusion

Most of us are familiar with the quip that “An economist is someone who knows the price of everything and the value of nothing.” While an amusing line, I have come to the conclusion that it also embodies some truth. Having a developed theory of price, and a method for estimating and contrasting probable outcomes, economists have come to invest the results that follow from such exercises with more importance than they actually merit.

Recently, Amartya Sen (80), summed up the essential problem.

Since the preference for market-price-based evaluation is quite strong among many economists, it is also important to point out that all variables other than commodity holdings (important matters such as mortality, morbidity, education, liberties and recognized rights) get — implicitly — a zero direct weight in evaluations based exclusively on the real-income approach.

Unfortunately this implicit bias has placed economists on the margin of the public’s debate over many social, and even some economic, problems.

Notes

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1 See Anonymous, “Furror On Memo At World Bank;” and Weisskopt.
2 When policy researchers ask themselves if, hypothetically, those who gain from a proposed policy would be able, in principle, to compensate the losers from such a policy, then the policy is said to have passed the “Hicks-Kaldor Compensation” test. Notice that this test includes no plan or proposal to actually make such compensation occur; the test only demands that the gains be adequate to do so in principle.
3 See Bernstein.
4 Of course several other coherent, viable, and applicable theories of price exit, but since they are no longer part of the training or knowledge base of American economists their implications for the subject of this paper will not be considered. For a survey of some of these other theories see Arestis, ch. 6; Lavoie, ch. 3, or Prasch, 1998.
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5 Becker and Stigler. The reception accorded this paper by Becker and Stigler will someday be the basis of a fascinating history. Essentially, it announced a set of “rules” for theoretical work — rules that were neither plausible nor adequately defended — that in turn became a parameter of research and hallmark of professional conduct for a generation of economists. For a recent critique, along the sketch of a viable alternative, see the paper by Geoffrey Hodgson.

6 Again, by staying within the spirit of “mainstream” analysis, I am brushing over a host of serious, and inadequately resolved, conceptual and technical problems in the actual theory itself. Those that most stand out are the aggregation problems involved in summing across a collection of individual demand curves of several individually rational actors to arrive at an aggregate demand curve. John Hicks, note to ch. 9; Oscar Morgenstern; and Harvey Leibenstein each present interesting analyses of the pitfalls that await the careful theorist in the process of aggregation, although they drew different conclusions as to how fatal the problems were for the theory. Finally, it must be acknowledged that theorists working within the Austrian tradition also reject this “mainstream” approach. To persons such as Ludwig Lachmann or Friedrich v. Hayek and, depending on the text in question, Ludwig v. Mises or Israel Kirzner, the economy is about change and adjustment to change from continually evolving states of the world, including changes in information and preferences. Taking the market to be a “process,” they generally reject attempts to aggregate the demand of several individuals and are suspicious of conclusions drawn from such exercises.

7 See Chang.

8 See Levine, ch. 1; Lutz and Lux, chs. 1-3; Goffman; Douglas 1992.


10 Of course, the reason may be that moral choices are often codified into law. Either way, we do not see the practice of cannibalism on Survivor or incest encouraged on Temptation Island. Or did I speak too soon?

11 See Waltman.

References


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