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No ethical issues in economics?

Abstract

For much economics research, ethics committee approval is not required. This is seen by some as indicating that there are no ethical issues in economics research. However, ethical research requires more than simply meeting regulatory requirements. If economics research has an impact on perceptions and resulting decisions, then there may be concerns about the nature of the research and its impact.

There are a number of arguments that could be raised as to why economics does not describe the real world. What we see is shaped by how we see, so it is important to consider context. This paper considers the simplification that is an inevitable aspect of research. Implications for economic approaches are described, recognising that criticisms can apply to heterodox as well as mainstream approaches. Subjectivity is then discussed. An additional section relates to the application of economics. It focuses on two aspects, the significance of rhetoric and the differing roles played by economists, each of which may have their own obligations and expectations. A theme throughout the paper is that of groups and group membership shaping perceptions and behaviour. The paper concludes that there are ethical issues in relation to both how and why economists undertake their work.

University human ethics committee requirements generally relate to research that directly involves human subjects. For example, approval is commonly required for interviews, surveys and experiments. Many economists, on the other hand, undertake research that is either theoretical modelling or quantitative analysis using existing data. Consequently we have come somewhat late to the experience of externally imposed ethical criteria. The implicit presumption has been that there are no ethical concerns if one applies economic reasoning and analysis according to the accepted conventions of the discipline.

This paper attempts a broader view. Might our perspectives or our methods be questionable? Should we be concerned about the influence that economics may have? Looking back, there are indications of disquiet by economists in some quarters, and certainly developments outside economics (and often among critics of economics) suggest grounds for concern.

Three broad concerns are incompleteness, subjectivity, and rhetoric and roles. One particular concern is a tendency, in heterodox as well as mainstream economics, to present simplified structures as if the findings apply directly as accurate representations of phenomena in the real world. In particular, analyses are incomplete, describing alternative structures rather than the real world. What we see is shaped by how we see, so it is important to consider context. The concept of framing, while widely recognised outside economics, gets only oblique recognition in economics. Its significance in introducing subjectivity and undermining “positive” analysis is often overlooked. The ways in which we choose to look at things are influenced by the environment and the views and actions of those around us. Economists do not work in isolation. We are judged by our peers and we function in the wider society, playing our part as economists in academic, political, legal and other social and institutional activities. The nature of these activities and methods of effectively working in them also shape what we do and what is expected of us. This may mean that there is no single set of ethical principles that would apply to all economists under all circumstances. The three concerns are discussed in the following sections.

1. Incompleteness

Inevitably, theoretical approaches involve simplifications. This raises an ethical issue. Should a simplified representation be presented as a description of reality, or should the findings be qualified. Keynes made this point:

“[I]n ordinary discourse, where we are not blindly manipulating but know all the time what we are doing and what the words mean, we can keep ‘at the back of our heads’ the necessary reserves and qualifications and the adjustments which we shall have to make later on.” (Keynes, 1973, pp. 297-298)

Without these added reserves, qualifications and adjustments, we are overstating the explanatory power of our findings. A similar point is made in literature on framing, which recognises that an explanation involves subjecting information to a process of “selection, emphasis, exclusion, and elaboration” (Weaver, 2007, p. 143). This theme is also developed in writings on postmodernism:

"We are no longer confident that we can build intellectual structures upward from firm epistemological and ontological foundations. We suspect...that, while there may well be somewhere a "world" underlying all our disparate versions of it, that world is finally inaccessible, and all we have are the versions" (McHale, 1992, pp. 4-5)

McHale’s audience may lack that confidence, and Lawson (1997, 2003, 2004) is aware of the problem in economics but is searching for a solution. However such reservations are not so common in the utterances of economists. McHale has a point. Our simplified structures are shaped by, among other things, the definitions of concepts, the choice of information and our

interpretation of that information, and there are many structures that could be chosen. As Goodman presents this:

"Frames of reference...seem to belong less to what is described than to systems of description...If I ask about the world, you can offer to tell me how it is under one or more frames of reference; but if I insist that you tell me how it is apart from all frames, what can you say? We are confined to ways of describing whatever is described. Our universe, so to speak, consists of these ways rather than of a world or of worlds." (Goodman, 1978, pp. 2-3)

A similar point is made by others, such as, in discussing science, "...ordinary, everyday observation is in fact theory-laden" (Gillies, 1993, p. 146), and philosophy of language, "In all aspects of life...we define our reality in terms of metaphors" (Lakoff & Johnson, 2003, p. 158).

1.1 An example: Economics and politics

The problem can be illustrated with economic theory which views the economy as being distinct from politics or government. As has been argued, this is unrealistic. The two coexist, and cannot be viewed in isolation. To quote Dixit and Johnson:

"...the traditional dichotomy of markets versus governments, and the question of which system performs better, largely lose their relevance. Markets and governments are both facts of economic life, and they interact in complex ways. We cannot find feasible improvements by wishing away one of the components." (Dixit, 1996, p. xv)

"[W]e must acknowledge the intimate, inseparable relationship between politics and economics." (Johnson, 2012)

Nevertheless, the relationship is overlooked in many theoretical representations. Consequently, the theory is of limited relevance for the real world, although this is not widely acknowledged:

"The market of the theory is there, but so are the national institutions of the practice. A contamination has taken place between two realms in the suspended world of metaphysics. This directly and materially challenges neither of the two actors. The theory can continue pretending to be abstract, and the practical deals among the nations go on as if nothing were the matter." (Micocci, 2009, p. 168)

In one attempt to incorporate political factors in an economics text, the authors, "stress the effect of trade on income distribution as the key political factor behind restrictions on free trade...[making it clear] why the prescriptions of the standard welfare analysis of trade policy seldom prevail in practice" (Krugman, Obstfeld, & Melitz, 2012, p. xxv).

Can either economics or politics give adequate service to their subject matter if they each disregard the other?

1.2 Limitations in mainstream economics

All theories emphasise certain aspects and exclude others. These limitations should be acknowledged. Critics of mainstream economics have pointed out many of the limitations to that body of knowledge. We should be equally aware that alternative approaches will have their own limitations. This is an inherent characteristic of the process of theorising, rather than a fault of a particular approach.

One line of reasoning, by Lawson, focuses on the limitations of the mathematics used in mainstream economics, using concepts of "atomism" and "closed systems". He is critical of what he terms the "dominant mainstream tradition" which insists "that economics necessarily relies on techniques of mathematical modelling" (Lawson, 2003, p. xvii). He distinguishes between the relationships required for the use of this technique and those which might be observed in the real world. To use his words, "...any presumption of the universal relevance of mathematical-modelling methods in economics ultimately presupposes a ubiquity of (strict) event regularities." And further, "...the dependency of mathematical-deductivist

methods on closed systems in turn more or less necessitates, and certainly encourages, formulations couched in terms of (i) isolated (ii) atoms" (Lawson, 2003, p. 13). By atoms he means "items which exercise their own separate, independent and invariable (and so predictable) effects (relative to, or as a function of, initial conditions)" (Lawson, 2003, p. 14)

Lawson defines a "closed system" as one in which "an event regularity exists", a requirement for predictability. Hence his closed atomistic systems give full explanation of the behaviour of units that are independent and predictable. He then questions the value of applying these tools of analysis (or frames) to real world issues. He argues that the real world is comprised of open and highly inter-related social systems, as are the economic phenomena that we observe. Consequently the methods used in mainstream economics are of limited value. At the very least, we cannot rely solely on mathematical formulations to analyse economic phenomena.

There is an inevitable focus in static analysis on equilibria and optima. Where the focus is on equilibria, there is a requirement (an unspoken assumption) that these are points of interest. This requires stability and rapid adjustment when out of equilibrium. The approach cannot handle dynamic aspects such as adjustment, process and time. One recent initiative to address this is the Non-Equilibrium Social Science group (NESS, <http://www.nessnet.eu/>).

There is a heavy focus on marginalism, but this requires infinite divisibility and the ability to substitute between factors and between goods. It is a poor representation in the face of, for example, lumpiness, limited substitutability, or fixed factor proportions and a limited number of production technologies. Similarly, marginalism may not be a useful representation of real world behaviour when, for example, a large proportion of the retail price of goods is based on percentage mark-ups in the distribution sector. Moreover, market structures may be determined less by the number of producers and consumers, and more by the nature of distribution and the number and type of players in the sector.

As has been suggested above, many sources suggest that the variables chosen, their definitions and associated data, play an important role in shaping the perspectives that are taken and hence the questions posed and the answers found. A notable example is GDP, the emphasis on which has received much criticism. More broadly, criticisms have been raised on many other aspects of mainstream economics, including the focus on market activity, market prices as measures of value, discount rates for comparing values over time, the use of static optimality criteria, the assumption of exogenous preferences and the concept of individuals acting independently.

All these points have been raised as criticisms of mainstream economics, but this does not mean that alternative bodies of theory are necessarily better. Rather, it should be taken as an illustration of the limitations that are necessary in any theoretical approach. The limitations may differ, but they will always exist. On the ethical level, a failure to recognise these limitations (in this or any other approach) would mean that we are misrepresenting and overstating the value of our results and recommendations.

1.3 Analogy - not the real world

There is one perspective on theory that might avoid an inflated impression of our degree of understanding. That is to base our understanding on the position that theories are analogies, not direct representations of the real world. Unlike the perspective of paradigms (Kuhn, 1970), which could be thought of as a way of seeing reality, the term "analogy" stresses that the theoretical representation is distinct from the phenomenon in real world, although it is hoped that the representation may provide insights that are of value. Any claim that theoretical findings are facts on which real world decisions can be based directly is rhetoric, unsupported by logic. The ethics is questionable, and the existence of other, relevant determinants is one reason why some such as Lawson (2003) have challenged the ontological validity of theories which assume "closed" systems. A similar point has been

made for the natural sciences, "Natural scientists work constructing highly abstract, imaginary worlds and narrate conjectural stories of how the earth or the whole universe developed" (Ingrao, 2009, p. 31). Regularity is perhaps more likely there than in systems where outcomes are influenced by the decisions of many human participants, as are the objects of economic investigation. Maybe then, as economists, we should consider ourselves to be telling stories based on abstract, imaginary worlds.

2. Subjectivity

Milton Friedman (1953) described a positive normative distinction that has been highly influential on economic thinking. However, positivism has been strongly challenged both outside economics and from within (Mäki, 2009; Mosini, 2011). The concept of framing has been instrumental in this regard, emphasising the subjectivity of what and how we see. Framing involves decisions, including the choice of variables and relationships to be included. These decisions are important. As Minsky (2008, p. 109) writes:

"In all disciplines theory plays a double role: it is both a lens and a blinder. As a lens, it focuses the mind upon specified problems, enabling conditional statements be made about causal relations for a well-defined but limited set of phenomena. But as a blinder, theory narrows the field of vision."

Economics has been likened to religion. There was a debate on whether basic assumptions are testable, or a matter of "faith" as described by Joan Robinson (1970), and also critically stated by Sumner Rosen:

"Long ago economists opted for a separation of their studies from fundamentals. In so doing they adopted a prevailing American view that the fundamentals are not in question. The older fashion of joining economic and political concerns into political economy passed from the scene." (Rosen, 1972, p. 417)

The theme was developed further by Nelson (2001), with additional speculation in the foreword to Nelson's book, where Max Stackhouse summarised Nelson's suggestion that crusading zeal might have influenced the framing of economics:

"[T]he profound religious tradition that shaped Western culture framed, inevitably, the intellectual contours of economics...[and] unacknowledged religious assumptions pervade the commitments of currently distinguished and influential figures." (Nelson, 2001, pp. x-xi)

There is another assumption in mainstream microeconomic economic theory which is not often explicitly stated. The theory is assumed to describe both how people actually behave and how, as rational individuals, they should behave, with the added understanding that this is desirable behaviour for the real world. It is by no means clear that all these assumptions are justified.

3. Rhetoric and roles

Max Stackhouse, in the Foreword to Nelson (2001) describes the view that theoretical and academic debate is a power play between groups competing for dominance. Similar points can be found elsewhere (Birkland, 2011; Cobb & Ross, 1997; Considine, 2005). Stackhouse contends that this may not be universally believed. However, those educated to this view may well see the power play as determining the "rules of the game", and it may at least describe attitudes in the policy sphere. If so, agenda setting and denial, rhetorical stratagems, and other practices may be considered acceptable, although ethically questionable in an alternative context of logical debate and search for "truth".

A rhetorical dimension to economics has been highlighted by McCloskey (1998), not necessarily in terms of persuasion, but at least in relation to the promotion of unsupported positions. Institutional incentives which result in support for a “conventional wisdom” in economics are described in Galbraith (1999, Chapter 2). The difficulty of going against the accepted position is described by Chomsky (Achbar & Wintonick, 1992). He points out that statements representing the norm can be made and not challenged. In contrast, those presenting alternatives will be required to provide extensive evidential support, the opportunity for which is not always offered. A similar point was made in relation to dominant “ideological-discursive formations”, or ways of framing debate that are favourable to a particular perspective (Fairclough, 1995). To put it simply, the dominant view is seen as knowledge, whereas alternatives are viewed as bias and ideology. This is perhaps understandable in the context of Hardin’s “street-level epistemology”, whereby people take their knowledge from others without much individual critical assessment (Hardin, 2002). Also Bertrand Russell, in his essay, “On being open-minded”, wrote of the relative ease with which one can appear intelligent by presenting the accepted position (Russell, 1950, pp. 65-70). An illustration of the strategies that might be encountered in public debate on policy issues can be found in Cook and Lewandowsky (2011).

The issue of ethics is further clouded by the diverse roles played by economists. Galbraith contends that people in key roles owe their position to a past willingness to expound, and are under an obligation to perpetuate, the “conventional wisdom”:

“The high public official is expected, as is indeed to some extent required, to expound the conventional wisdom. His, in many respects, is the purest case. Before assuming office, he ordinarily commands little attention. But on taking up his position, he is immediately assumed to be gifted with deep insights. He does not, except in the rarest instances, write his own speeches or articles; and these are planned, drafted and scrupulously examined to ensure their acceptability. The application of any other test, e.g., their effectiveness as a simple description of the economic or political reality, would be regarded as eccentric in the extreme.” (Galbraith, 1999, p. 10)

Galbraith also describes how apparently vigorous debate can be narrowly focused and simply reinforce the acceptability of the familiar, even in academic circles. Further grounds for such phenomena can be imagined as a consequence of group membership and group behaviour (Birks, 2011).

There may be alternative representations of the familiar, however, some being more favourable to certain positions than others while still operating within the same general construct. In the legal sphere, lawyers are expected to advocate for their clients, presenting the most favourable case and using a range of techniques to undermine the opposing position. Rather than being considered unethical, success in such action is seen as a sign of a “good lawyer” (but note Dodson and Fogg in *Pickwick Papers*, Dickens, 1986). Similarly, some economists may be expected to advocate for their clients or employers. This is particularly apparent in adversarial systems. Consider those working for political parties, unions, or employer or producer organisations, for financial institutions, lobby groups, or news media reliant on advertising revenue.

Advocacy research has been defined as “studies that seek to measure social problems, heighten public awareness of them, and recommend possible solutions” (Gilbert, 1997, p. 101). Gilbert acknowledges that advocacy research can be ethically done, but notes that researchers have been known to make exaggerated claims to support their chosen causes.

There is no simple answer to this matter. Consider the position of policy analysts in the public sector. They are advising politicians. If they consider only the policy options which may be acceptable to the current government, it could be argued that they are not giving impartial advice. If they consider a wide range of options, this could be seen as a waste of

resources, given that many will never be considered for implementation, or even as acting against the government of the day. This raises the very real possibility that different ethical principles should apply according to the position an economist holds?

These are just a few of the many ethical issues that could be raised by economists. In brief, they relate to the nature and limitations of theory and techniques in general, and economic theory and techniques in particular, recognising real world phenomena that shape decisions and outcomes and the various roles that economists may play within the institutional structure.

4. Conclusion

A major concern about those who have confidence in economic theory and resulting policy solutions is that they have to have an underlying belief that there is an attainable system or structure under which a society can “work well”. This belief may be a consequence of the central position of a theoretical “ideal”. However, its persistence is hard to fathom, given the numerous examples in history and plausible illustrations in literature indicating the contrary.

Is it then ethical for academic economists to present the results of a theoretical exposition, or of an empirical analysis based on theory or models, as if they are representing the real world without further qualification? The discussion above suggests that it is more appropriate to consider pluralistic approaches and, moreover, there should be some acknowledgement of the reservations and qualifications associated with those approaches. Just as lawyers advocate for their clients, so too will economists in some positions be expected to act as advocates, arguing in support of particular positions or interests. They may then be subject to alternative ethical requirements, and the reality is that deliberation, public debate and news media coverage is influenced by these factors. This may be an important aspect of people’s understanding, attitudes and behaviour. If so, it may be one of the aspects to consider when identifying reservations and qualifications to be raised in relation to economic analysis.

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