Integrating Ethics and Economics: 
Rationality and the Common Good

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Section I: Introduction

Last year Harvard professor Michael Sandel published a book called, *What Money Can’t Buy: The Moral Limits of Markets*. The book was designed to show that economic thinking has become so pervasive that it crowds out moral evaluation. The book was a line in the sand regarding the limits of “market thinking.”¹ Sandel’s book never mentions Sandel’s Harvard colleague Robert Barro, but the contrast is illuminating. Barro wrote a book ten years previously called, *Nothing is Sacred*. In that book Barro claims that “no forms of social interaction- including, religion, love, crime and fertility choice- are immune from the power of economic reasoning.”² Hence the title, “Nothing is Sacred.” The clash of perspectives between Sandel and Barro couldn’t be more illuminating. One the one side Sandel, the moral philosopher, is using moral arguments to claim that economic reasoning runs up on moral limits. On the other, Barro argues that economic modeling has virtually unlimited applications and implications. It is this clash of perspectives motivating this paper. The question I ask is the following: What is the right way to integrate economic facts and moral evaluation?

The question regarding where economic reasoning ends and moral evaluation begins are central to debates about the social good. Further, they are pertinent to viewing the world through the perspective of the liberal arts. Classical liberal arts education seeks to integrate different perspectives of the world. The liberally educated person would be able to see one problem from different dimensions. There are numerous problems regarding the common good that require the integration of ethics and economics. These issues include:

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socio-economic inequality, education, climate change, world poverty, and others. As educators within the liberal arts tradition, we must not only know how to apply an integrated ethical and economic perspective, but model this for our students. Such instruction requires that we ourselves know how these ideas ought to be related to one another.

In this paper, I argue that the traditional way of thinking about the integration of ethics and economics presents a problem. On the traditional view, economics merely presents facts that are related to values in order to arrive at an informed and morally justified perspective. I argue that this traditional model is problematic. I don’t propose an answer, but merely want to make the problem explicit.

The paper proceeds as follows: Section I describes the basic features of most economic models and explains why they can be applied to nearly any social interaction. Section II presents the traditional mode of integrating ethics and economics. Section III raises a problem for this view by arguing that the scope of economic rationality makes the ethical evaluation either redundant or irrelevant. Finally, Section IV addresses possible solutions.

**Section II: Economic Rationality**

The term “rationality” can mean different things in different contexts. It is common for economists to think of rationality in completely instrumental terms. Instrumental rationality is, broadly, achieving the best means to attain one's ends. Instrumental rationality does not evaluate the ends themselves. This conception of rationality differs from others where one’s goals, preferences, and desires may themselves be considered rational or irrational. One reason economists prefer to employ a purely instrumental account of rationality is to avoid normative commitments. Others may criticize a person’s ends as immoral, but economists do not want to build moral judgments into their descriptions of behavior.
The way that economic rationality is (normally) described is through the maximization of subjective utility (or expected utility). Utility is thought to be represented by a set of subjective preferences. Choices are thought to be made based on a set of preferences. This set must have some features of priority and consistency. Rational choice theory or (RCT) formalizes these forms of consistency into axioms that include: (a) complete ordering; (b) transitivity; (c) reflexivity. When preferences are combined with the axioms of RCT, they can be represented as a function. As James Dreier explains the Expected Utility Theorem states that, "if a preference relation, R, satisfies the axioms, then (i) there is some expected utility function that represents R, and (ii) every expectational utility function that represents R is a positive linear transformation of every other." The ability to represent someone’s preferences by a linear function allows economists to both explain and predict behavior according to formal models.

For example, if I know someone’s preference rankings and I believe that she will choose according to her preferences, then I can accurately predict her choices. Additionally, if I am given her choices, then I can work backwards and explain them through her preferences. Importantly, real world preferences are often subject to certain constraints. For example, we might all prefer to have a new car instead of our current one, but we also need to pay for rent, food, clothes etc. Additionally, economists assume that we get satisfy our preference through an exchange with other agents. As Steven Green explains, the choices that are made by people “are the choices that best help them achieve their objectives, given all relevant factors beyond their control. The basic idea behind rational choice theory is that people do their best

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3 It is true that there are current debates regarding maximizing vs. satisficing. However, it is unclear whether maximizing utility or achieving satisfaction will make much of a difference in the subsequent discussions. Hebert Simon, *Economics, Bounded Rationality and the Cognitive Revolution* (New York: 2008).

under prevailing circumstances.” The appeal of this methodology is its methodological simplicity and explanatory scope. As long as people choose what they prefer, then we can both predict and explain their behavior. In fact, the process of economic modeling can be quite succinctly summarized. As Hal Varian explains,

   All economic models are pretty much the same. There are some economic agents. They make choices in order to advance their objectives. The choices have to satisfy various constraints so there’s something that adjusts to make all these choices consistent. This basic structure suggests a plan of attack: Who are the people making choices? What are the constraints they face? How do they interact? What adjusts if the choices aren’t mutually consistent?

It is important to notice a few things about the economic modeling process. First, the methodology is not only applicable to economic choices, but any set of choices. For example, we can apply RCT equally well to the banana trade and the sex trade. Additionally, we can use it to predict people’s decisions to vote, attend church or get a college education. There is no implicit limit on the application of this methodology. Importantly, the assumption that human beings are utility maximizers under constraints allows for us to apply some sophisticated mathematical methods to make predictions. To illustrate the point by oversimplification, the question of what people will choose becomes a “constrained optimization problem.” The implications of this theory may appear exhilarating or terrifying or both. For Barro, the results are exhilarating because we can apply these mathematical models to any form of social interaction. To Sandel, they are terrifying due to the universality of their scope and the perceived overreach of mathematical modeling into moral reasoning. In the next section, I will show some may fail to share Barro’s enthusiasm or Sandel’s trepidation by briefly presenting the traditional way of integrating ethics and economics.

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Section III: The Fact Value Dichotomy in Economics

David Hume was the first to distinguish factual and normative statements. In other words, one cannot argue from factual premises alone and derive a moral evaluation. This distinction is sometimes called the “fact value dichotomy.” Economists follow this dichotomy in distinguishing between “positive” and “normative” economics. As Hausman and McPherson explain, “Positive economics is concerned with the explanation and prediction of economic phenomena, while normative economics is concerned with evaluating, economic policies, practices, and states of affairs from a moral point of view.” This distinction is thought to be similar in nature with other value free scientific disciplines. Chemists are merely thought to explain the facts regarding certain chemical reactions. What we decide to do with those facts must include some normative or evaluative criteria. For example, chemists may discover that a oxytocin is a specific hormone in the brain. However, the decision about whether or not to manufacture it as a drug requires further moral elaboration.

If we follow this way of thinking and believe that economists merely to present us with facts, then we would reason as follows. Economic models merely explain and predict choices given that we know certain things about their preferences and the environment in which the choices are made. Whether or not the preferences are good or bad is not determined by the economic modelling. We should merely treat the preferences and the predictions of models based on those preferences as facts in need of further evaluative criteria in order to make

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moral judgments. For example, our economic models can tell us the facts about the banana trade or the sex trade without making any value judgments. It is then up to us to determine the moral relevance of these facts when making individual or collective decisions.

Section IV: A Conflict Between Acting for the Common Good and Economic Rationality

Thus far I have described the ideas of economic rationality and the distinction between positive and normative economics in a noncontroversial way. At this point, I want to raise a problem. The problem is that in ordinary moral discourse we take moral evaluations as reasons to alter our choices. This way of thinking about morality is deeply held in the Western philosophical tradition beginning with the Greeks. For example, in the *Nicomachean Ethics*, Aristotle says that knowledge of what is good in itself, rather than merely good for its consequences, is the chief object of his inquiry. He calls this the “chief good” and asks, “Will not the knowledge of it, then, have a great influence on life?”\(^9\) It is clear that Aristotle believes that we can reason about the goodness or badness of our ends or goals. He also assumes that mere knowledge of what is actually good for its own sake, rather than merely a means to an end, will influence our choices. The idea that moral knowledge is relevant to our choices may be called, “ethical conception of practical reason.” I don’t have the time to lay out the variations of this idea, but it forms a thread from ancient debates regarding ethics to contemporary ones. For example, one can see this ethical conception of practical reason at work in Sandel’s book regarding the limits of markets. Sandel argues:

\(^9\) Aristotle, *Nicomachean Ethics*, (New York: Hackett, 1999), Book I Section II.
In its own way, market reasoning also empties public life of moral argument. Part of the appeal of markets is that they don't pass judgment on the preferences they satisfy. They don't ask whether some ways of valuing goods are higher, or worthier, than others. If someone is willing to pay for sex or a kidney and a consenting adult is willing to sell, the only question the economist asks is, “How much?” Markets don’t wag fingers. They don’t discriminate between admirable preferences and base ones.\(^{10}\)

One can see the common thread that links Aristotle’s conception of practical reason and Sandel’s. Practical reason ought to be able to distinguish what is genuinely good from what is not. Further, the fact that it is good ought to be relevant to our choices. Sandel's contrast with what he calls “market reasoning” is also instructive. In order to avoid such problems, RCT explicitly refrains from evaluating preferences. RCT doesn't give any advice so long as one chooses what one prefers. As James Dreier puts it RCT is merely a “coherence theory of practical rationality.”\(^{11}\) So, Dreier could very well agree with Sandel. RCT merely advises people to make their preferences consistent and offers no help on distinguishing which preferences are worth satisfying and what ones aren’t.

What is important to see is that these two conceptions of rationality are more at odds than it might at first seem. At first glance, these two conceptions of rationality may appear to be two different modes of practical reasoning. One of them merely tells us what a person with a consistent set of preferences will choose. The other allows us to evaluate those preferences according to independent moral standards. In fact, Sandel’s worry seems to be that we rarely reason in the latter way. In other words, we don’t apply both forms of practical reasoning and implicitly privilege economic conceptions of rational choice. The problem is that the economic conception of rationality may make the ethical conception of practical reason irrelevant or redundant.

\(^{10}\) Sandel, p. 11.
\(^{11}\) Dreier, p. 160.
To illustrate the problem take the following example: Suppose that firm a firm named Chem Inc is located along the Missouri. Chem Inc. has the choice to pollute the Missouri or refrain from polluting it. Chem Inc.'s highest preference is to maximize profits. Further, the managers know that polluting the North Raccoon will be more profitable even if Chem is caught and fined. According to RCT, we can predict that Chem Inc. will pollute. In this case, the knowledge that polluting a river is contrary to the common good is irrelevant to their choices. In other words, if RCT is correct about how choices are made and one does not prefer to act morally, then moral knowledge is irrelevant to the decision making process. At this point, all we seem to be saying is that sometimes it is rational, in the rational choice sense, to act immorally. However, this is not all that has been shown. What has been discovered is that on the RCT model, moral knowledge is irrelevant when one does not prefer to act morally.

Suppose that one's preferences are different. Let's say that another firm, Mineral Inc. also has the preference to maximize profits, so long as it is done in a socially responsible way. When Mineral Inc. has the choice to pollute or not pollute, it chooses to refrain from such actions even though it lessens profits. Again, RCT would predict this outcome given Mineral Inc.'s preference set. However, we may ask to what degree the moral knowledge explains any of these choices. According to RCT, if Mineral Inc. prefers to act morally, then the added explanation that such an action is wrong is merely redundant. RCT already tells us that Mineral Inc. will not pollute, we don't need to know whether or not polluting is wrong. In other words, if RCT correctly predicts our choices and we know that one prefers to act morally, then moral knowledge is merely redundant.

The foregoing examples seek to show the consequences of believing that RCT correctly explains the decision making process. If RCT does correctly explain all choices, then the ethical conception of practical reasoning seems to do no real work. Either one prefers to
act morally or one does not. There seems to be little room for moral knowledge to make any difference in reasoning about one’s choices. If one does not already prefer to act morally, then knowing that an action is wrong will be irrelevant to their choices. If one prefers to act morally, then knowing that the action is moral does not explain the action and is merely redundant.

Again, the ethical conception of practical reasoning assumes that moral knowledge is neither irrelevant, nor redundant. However, assuming that choices are made according to the RCT paradigm, moral knowledge seems to make no significant contribution. The irrelevance or redundancy of moral knowledge and the jettisoning of the ethical conception of practical reason has direct implications for the common good. The most direct implication is that the fact that something promotes or undermines the common good is does not play any relevant role in reasoning about our collective actions. When someone says that “polluting the air around us is wrong” we would like to think that this has some bearing on how we determine emission laws. Other examples are easy to find and include: effective education is good; poverty is bad; increased social mobility is good; discrimination is wrong. Each of these judgments purports to present uncontroversial moral judgments related to the common good. Additionally, they are thought to be, by themselves, relevant to our decision making process. However, given the arguments above, they would either be irrelevant or redundant on the assumption that RCT is explanatorily sufficient. Thus far, I have merely presented the problem. In the final section I offer two possible solutions. I am not confident that any of them will be successful in saving the role of ethical judgments in our reasoning process.

**Conclusion: Alternative Solutions**

The solutions arise from the form of the problem itself. One assumption that has been made is that RCT correctly and sufficiently explains the decision making process. Another is
that moral knowledge and preference formation are independent of one another. Each of these assumptions has been criticized in the large literature on RCT.

The first solution is to reject the initial assumption that RCT is true in certain substantive senses. Debra Satz and John Ferejohn argue against the “psychological” interpretation of RCT. The psychological interpretation takes individuals or groups of individuals as the primary. The idea is that only individuals or groups of individuals have preferences. They argue that alternatives are possible.\footnote{Debra Satz and John Ferejohn, “Rational Choice.” Journal of Philosophy, Vol. 91 No. 2 (1995): 71-84.} Such a theory need not be concerned with the actual preferences of individuals to explain choices. Eliminating the psychological features as an explanation of behavior has the advantage of escaping worries about the role of moral knowledge on preference formation. On the alternative view, the primary goal is accurately predicting widespread phenomena, rather than explaining it. It appears that one may take such a route. However, robbing RCT of its explanatory power may substantially weaken its appeal. For example, we may be able to predict that prices of tomatoes will drop using a RCT model, but then we would be left wondering why such phenomena occurs. One reason why RCT is so prevalent is that it is able to predict and explain phenomena and these are not equivalent. It isn’t clear that we should eliminate that for the purpose of resolving the problem above.

A second solution is to explain the role that moral beliefs have on preference formation. If it is the case that the wrongness of an action explains my preference against performing it, then I will have been able to show that moral knowledge is not irrelevant and redundant. This is the route that Daniel Hausman and Michael McPherson take. They argue that morality is relevant to economic decisions only if we can explain how moral norms motivate preference formation.\footnote{Hausman and McPherson, p. 78-85.} They do offer a few brief explanations of how this might
occur. However, their analysis is understandably truncated. The long standing debate among philosophers concerning so called "reasons internalism" or the view that moral beliefs by themselves can motivate moral action. Of course, this disagreement shouldn’t preclude someone from proposing a solution. However, the depth of disagreement at least offers some skepticism that an uncontroversial answer is around the corner.

Again, my purpose in presenting the paper is to engage in the easier task of presenting the problem than solving it. As it stands we are left to wonder if the moral line that limits markets can be drawn as Sandel believes or that nothing is sacred as Barro argues. The task of integrating moral reasoning and economic rationality continues to be unclear. At any case, the task of clarifying these issues for the sake of healthy political discourse and effective liberal arts education remains important.