CHAPTER 5

Ethics and Economics

People who have to make political or economic decisions on matters which could affect many other people’s lives will, unless they have lost all sense of reason, . . . find themselves forced not only to account for their ethical motivation of conduct but also to gauge the likely consequences of their activities on the basis of their knowledge and conscience.

—MAX WEBER

Even as early as Aristotle, it was axiomatic that man is a social animal. This is a universal human and historical truth. In an environment dominated by animals, which were stronger, faster, and fiercer, human beings survived and prevailed through cooperation in social groups. The Bantu-speaking peoples of Africa say, “Umuntu ngumuntu ngabantu,” that is, “A human being is a human being because of other people.” Even today, when a fellow human is confronted with peril, the deep instinct of human solidarity comes to the fore. At sea, a sinking boat diverts any craft close to the scene to help. In the movie, The Russians Are Coming, which was made at the height of the cold war, there is an instantly credible scene: an escalating American-Russian confrontation is immediately defused when a child is in danger.

The fundamental truth, and paradox, of human existence is that we can only realize our individual potential in a community. We need to live in a society—this is a fundamental inner human need. And if we are to live in a society some ethical considerations have to be embedded in our lives (Williams 1985, 13, 27, 45, 47–49, 150). There must be limits on the individual expression of human freedom and of selfishness in the interest of some ideal of justice for all within the community so that the community will continue. Behavior that increased the strength of the social group in a hostile natural environment conferred an evolutionary advantage.

Experiments have shown that people identify those individuals who cooperate and those who cheat. When people who cooperate work together, they do better than those who are guided by selfish self-interest.
John F. Welch Jr., the creative chairman of the highly successful General Electric Company, got rid of people who, even if they were highly talented, “won’t block for others or play as part of a team. Their debilitating effect on the team can outweigh the benefits of their individual talent” (1994, 3).

Every society that survives has to form the character structure of its members in such a way as to make them desire to do what they have to do in order to fulfill their social function. In addition to the universal ethics (such as “Thou shalt not kill”) that are common to all great cultures, every society has its own set of norms. These socially immanent ethics are the prohibitions and commands that are necessary to the functioning and survival of a specific society.

A society and an economy are more efficient in attaining their particular goals to the extent that the character of their members is molded to value the behavior that best suits their modes of production and life. The more effectively people are brought up to want to do what they have to do, the more successful the society and economy will be in attaining their objectives. Thus, in a hunting society courage and endurance are important virtues and in a subsistence farming community patience and cooperation are particularly prized (Fromm 1947, 199, 237–44).

There is a human inclination toward conformity; we want to fit in. We learn very early to take advantage of the accumulated experience of our society. Tapping into societal knowledge informs our social behavior and our perceptions of what is regarded as acceptable. For anyone who is not a sociopath (i.e., abnormal), social norms do affect how we behave. Thus, under some circumstances the demands of society (as of soldiers in battle) may lead us to actions that are contrary to our individual self-interest.

**Selﬁsh Behavior and the Ethical Framework**

Neoclassical economics, while positing the fundamental assumption of individual selﬁsh behavior, does not face up to the question of whether this behavior is controlled by feeling for others, that is, constrained within a framework of ethics in the society. The ethics of an individual embodied in his or her conscience—the inner voice—govern the ends an individual will try to attain and what means he or she will adopt for this purpose. For our purposes, ethics determine to what extent individuals will allow themselves to be governed by pure selﬁshness.

Lacking an indigenous feudal background, from the beginning the United States has emphasized the rights of individuals against their responsibilities to others. This is not as characteristic of other countries.
Most European societies as well as the Japanese have inherited some community values as well as notions of civic duty and personal codes of honor.

Great economists like Adam Smith and Alfred Marshall, who had strong ties to reality, recognized the existence and importance of ethical conduct in the economy. Marshall put the case strongly in stating that ethical forces are among those of which the economist has to take account. Attempts have indeed been made to construct an abstract science with regard to the actions of an “economic man”, who is under no ethical influences and who pursues pecuniary gain warily and energetically, but mechanically and selfishly. But they have not been successful, nor even thoroughly carried out. For they have never really treated the economic man as perfectly selfish; no one could be relied on better to endure toil and sacrifice with the unselfish desire to make provision for his family; and his normal motives have always been tacitly assumed to include the family affections. But if they include these, why should they not include all other altruistic motives the action of which is so far uniform in any class at any time and place, that it can be reduced to general rule? ([1920] 1952, v–vi)

Marshall failed to foresee that later economists would not hesitate to construct an abstract science that regards economic man as perfectly selfish. However, he was right in concluding that such a construction would not result in a successful science.

Some pure economists, like Milton Friedman, do not recognize any limits on people acting for their selfish interests. And Gary Becker was awarded a Nobel Prize in part for assuming that economic man continues to act as such even in his family relationships. Individual selfishness preached by economics has come close to being regarded as the highest value. This was exemplified by the commencement speaker at the 1985 University of California School of Business Administration, who told the graduates, “Greed is healthy. You can be greedy and still feel good about yourself.” These remarks by Ivan Boesky (made before he was fined $100 million, sentenced to prison, and barred for life from securities trading for his criminal use of insider information) were greeted with applause by the graduating class.

Boesky himself may be having second thoughts about the desirability of selfishness. While he was in prison, his wife, who held some $100 million in wealth in her name beyond the reach of the court, divorced him. On his release from jail, he had to sue her for a share. After a six-week trial, a settlement was reached, under which his former wife kept the bulk of the fortune, a huge estate in New York, and a valuable art collection. Boesky received $20 million, a house in Malibu, and alimony of $15,000 a month.

It is mainly the churches of the United States that are expected to
instill respect for individual obligations to the community. Of all world’s rich countries, it is in the United States that polls show the highest voluntary church membership and the highest level of religious belief. The young are taught religious values handed down from earlier epochs. The individual is taught to submit to and find his or her ends in a power or principle outside of individual. People are not isolated units, autonomous entities, but a human family, a community of persons, a body genuinely one. In Judaism also, the Covenant with God is not a contract with individuals but with a people. To live is to be united with others in a social context by bonds of family or Covenant relationships (Burghardt 1996). All the great religions teach unselfishness.

The American Roman Catholic bishops on November 12, 1996, summarized the teachings of their church in relation to the economy as follows: the economy exists for the person, not the person for the economy; a fundamental moral measure of an economy is how well the poor and vulnerable fare; all people have a duty to work, a responsibility to provide for their families’ needs, and an obligation to contribute to society; and workers, owners, managers, stockholders, and consumers should act as moral agents in economic life.1

In neoclassical economics, there is no place for ethics. Economics teaches that one should act in one’s own advantage and that by so doing one will be acting in the final analysis for the greatest advantage of all. Selfish persons interested only in themselves, who want everything for themselves, and who get pleasure from taking, not giving, are model economic men. Consistent with this, the rich are revered and heeded. That egoism is the basis of the general welfare is the principle that spokesmen for our competitive society advocate.

But at the same time we also know that this is not quite right, and we try to protect society from being destroyed by individual selfishness. In an economics concerned with the real economy, it must be recognized that the ethics prevalent in an economy affect economic behavior and must be taken into account.

The ruling ethics and the degree to which economic actors in an economy live up to them are important forces. The functioning of society and the economy is directly related to ethical behavior. How social ethical restraints are observed has a great and pervasive influence on the productivity and national welfare of an economy. Smoothly functioning markets depend on trust. If the narrow economic assumption were truly descriptive and human beings exclusively pursued their selfish interests, the community would break down. A city or a nation worth living in depends on citizens feeling a responsibility and devotion to the community and sur-
mounting their purely selfish individualistic ends. The very existence of a
society and nation is threatened when people come to believe that the insti-
tutions that are supposed to serve them are serving other ends.

As Hobbes foresaw, if individuals apply a purely selfish calculus and
disregard their obligations to the wider community, the society and econ-
omy will dissolve into chaos. The bloody anarchy in Lebanon in the 1980s
and the warlord-caused famine in Somalia in the 1990s exemplify this.

A classic frightening instance of this is plight of the Ik tribe of northern
Uganda. The tribe’s culture collapsed when it was moved from its
ancient hunting grounds. The members of the tribe became atomistic indi-
viduals concerned only with individual survival. Neighbor raided neighbor,
parent kept food from the child. As selfish self-interest reigned, people
died (Turnbull 1972).

The breakdown of Roman law and order resulted in the Dark Ages.
When community norms collapsed, people could survive only at subsis-
tence levels.

After Sears introduced incentive pay for auto repairmen tied to the
amount of charges to the customer, investigators in California, Florida, and
New Jersey discovered in 1992 (and Sears acknowledged the fact) that the
company’s auto shops were charging customers for repairs that had not
been made. This behavioral response on the part of the mechanics—uneth-
ical but correct according to the fundamental assumption—cost Sears mil-
lions of dollars in direct reparations and probably much greater sums in
damage to the reputation and goodwill of the company. The firm
announced in page-length advertisements that it would reinstitute the old
system of fixed salaries for its auto repair staff in the attempt to win back
the confidence of its customers.

The leading character in the Louis Auchincloss novel *Diary of a Yup-
pie* strongly believes that in the modern American economy there are no
ethics to govern behavior. His law partner and his wife feel that honorable
practice rules out certain behavior no matter how profitable. He maintains
instead that in the moral climate in which we live today, “It’s all a game, but
a game with very strict rules. You have to stay meticulously within the law,
the least misstep, if caught, involves an instant penalty. But there is no par-
ticular moral opprobrium in incurring a penalty, any more than there is
being offside in football.” Therefore, any action that serves your ends is
acceptable if it is legal or if you can get away with it.

The “me-first” psychology of 1980s yuppies was merely an exaggera-
tion of an old American traditional attitude. Benjamin Franklin’s Poor
Richard expressed it in his proverb “God helps those who help themselves.”
There is no mention of any moral obligation to help or have compassion for
anyone else. But Franklin himself found it desirable (and probably essential
to himself as a human being) to devote a substantial portion of his energies
to service to the community. As demonstrated by Franklin, the other side
of American individualism and selfishness is the intense and widespread
American activity of organizing, working for, and financing volunteer asso-
ciations to provide services to one or another part of the community.

Classical humanism is still an important ethic not only in recruiting
college faculty—including economists—but even in influencing some cor-
porate decisions. Donations to support community activities by some
unusual corporations, like Cummins Engine or Merck ($256 million in
1999, equal to over 3 percent of pretax earnings), for example, often out-
weigh any possible financial benefit.

Ethics can be more powerful than the drive of selfish self-interest. The
environmental movement, based on ethical considerations, has succeeded
in destroying the nuclear power industry in the United States and other
countries. In the past, religious values were a strong element in securing the
universal education of children and in the abolition of slavery.

Under the influence of the prevailing culture, ethics and the standard
of acceptable behavior may differ from country to country. The difference
in behavior between Japan and other industrialized countries in this regard
is striking and has economic consequences.

The day-to-day functioning of economic organizations and markets
depends on the honesty, trust, and goodwill shown by people. The degree
to which economic agents carry out their responsibilities without the need
for external supervision and policing to keep them in line has a direct eco-

nomic impact. One outstanding economic consequence of differences in
moral commitment is the size and importance of the underground econ-
yomy in different countries. Others are the amount of resources that has to
be devoted to policing behavior (e.g., to combat shoplifting, employee
theft, abuse of perks by management, or management manipulation of its
power against stockholders’ interests). How much has to be spent on polic-
ing to make streets safe for people is directly related to the ethical practices
of the community. If the decisions of judges were to favor the side that
offers the biggest bribe, reliance on contracts would suffer and much eco-
nomic activity would soon come to a halt.

Research has found that the economic performance of societies is
directly affected by the level of trust that people have in one another. The
higher the degree of trust, the greater will be the ability of people to coop-
erate with one another, even if they are strangers. The higher the level of
trust, the better a society and economy functions: there is less corruption,
better functioning bureaucracies, better corporate performance, greater tax
compliance, superior infrastructure, and lower inflation. Countries with the highest levels of trust were found to be in Scandinavia and the lowest were in Latin America (La Porta et al. 1997).

Unlike law and medicine, there is no established code of ethics included in the study of economics. In recent years, graduate business schools have found it wise to provide courses in ethics in order to get students to pay attention to underlying purposes and values. No such requirement has been made of economists, even though they exert great influence on decisions affecting social choice and human welfare.

The fundamental assumption is flawed in not recognizing that the pursuit of self-interest can have both a self-serving and an other-regarding dimension. It may include selfishness and/or altruism; regard for oneself and/or for the other, including the community. A good society and a productive economy depend on the mass of human beings behaving with a necessary minimum of virtue, accepting certain standards, and sufficiently abstaining from destructive vice. As Aristotle put it:

As man is the best of animals when perfected, so he is the worst when separated from law and justice. For injustice is most dangerous when it is armed, and man, armed by nature with good sense and virtue, may use them for entirely opposite ends. Therefore, when he is without virtue man is the most unscrupulous and savage of the animals. (1926, 29)

Most economists would recognize that as professionals they are subject to certain binding standards of conduct that put some moneymaking activities beyond the pale.

Most people now take it for granted that public officials are an important exception to the general assumption that an individual should properly always be working for his own advantage. In industrialized countries in recent times, the assumption can be fairly made that the corruption of public officials is so rare an occurrence that economists can ignore it without any major impact on the conclusions of an analysis (but see chapter 8). This was not true of these countries earlier. When Samuel Pepys was appointed to the British Admiralty in 1660, he was a poor man. He was told by his patron that it was not the salary of a place that made a man rich but the opportunity to line his pockets while he was there. Pepys took advantage of this situation and reaped a golden harvest of bribes and gratuities while supplying the Royal Navy. In the process, he built one of the most sizable fortunes of the seventeenth century (Latham 1983, 130–37).

As a public office could be a source of enrichment, it was understandable that it was often bought and sold. Even as late as the nineteenth century, when civil service reforms in Britain were being directed toward
establishing a service based on merit, the duke of Wellington introduced the purchase and sale of commissions into the British Army. For him, this was a reform measure—a way of making sure that officers would be men of means and not susceptible to revolutionary temptations. Modern economists today are less courageous than the Iron Duke. Although most economists today advocate the privatization of many government-run services, no one to my knowledge has yet argued for the auctioning of government offices to the highest bidder.

Economics generally recognizes that there are certain classes of needed goods and services that will not be provided by individuals driven by personal interest and must be supplied through the public sector. These include public goods such as defense and merit goods such as public education.

**Crime and Ethics**

If the only motivation for individual behavior were selfish self-interest, as postulated by economics, then crime should be accepted as just another type of economic activity and no opprobrium should be borne by criminals. This is essentially the standard economic model: criminals are rational, self-interested agents whose behavior is an optimal response to the incentives set by government through its efforts in law enforcement and correction. An individual should rationally commit a crime if it presents an economic payoff. As Professor Becker explained: “The essence of the economic approach to crime is amazingly simple. It says that people decide whether to commit crime by comparing the benefits and costs of engaging in crime” (1995, quoted in Saffran 1996, 182).

Bluntly, it is simple: ethics plays no role.

Consider an individual who would obtain a gain from committing a harmful act. If he does commit it, he will be caught with some probability and then possibly have to pay a fine or go to jail. In general, he will commit the act if and only if his expected utility from doing so, taking into account his gain and the chance of his being caught and sanctioned, exceeds his utility if he does not commit the act. (Polinsky and Shavell 2000, 47)

Accordingly, a person who commits a crime does not deserve opprobrium and, compared to an honest citizen, is perhaps merely an individual who has a higher discount rate in postponing gratifications, is less risk averse, and perhaps is capable of a better (or worse?) judgment of the personal risk of getting caught than honest citizens do. Freeman has shown
that there is a relationship between crime and the collapse of the job market for unskilled labor and that a collage of evidence supports the notion that young men respond substantially to the economic returns from crime (1996).

A striking example of what purely economic selfish behavior—uninfluenced by ethical considerations—leads to is the rash of espionage cases in the United States since 1978. The director of the FBI has reported that in every case in which Americans betrayed national secrets to foreign powers “money has been the reason” (Bacon 1986). This has continued to be true for all the Americans caught spying for foreign powers in the last fifteen years.

Among the Americans who have sold their country’s secrets are members or former members of the most sensitive agencies of the American government: the National Security Agency, the CIA, and the FBI. Ronald Pelton, a former employee of the top secret National Security Agency, sold some of the United States’ most sensitive eavesdropping secrets to the Soviet Union for a mere $35,000 (Walcott 1987). Aldrich Ames, chief of the Soviet counterintelligence branch in the CIA, for around $2.5 million, virtually destroyed the entire American spy network in the Soviet Union.

John A. Walker Jr., an active political right winger, recruited his brother, his son, and a friend to sell U. S. Navy codes, coding machine details, and other intelligence secrets to the Soviets over a period of seventeen years. When the judge sentenced Walker in November 1986 to life imprisonment with no parole, he completely disregarded Walker’s exemplary behavior as an economic man, declaring instead: “You and the others who participated in this scheme were traitors for pure cold cash. . . . I look in vain for some redeeming aspect of your character” (Hunter 1999b, 195).

In 1997, Earl Edwin Pitts, an FBI official who worked at headquarters on top secret records and personnel security, received a prison sentence of twenty-seven years for selling security information to Moscow for more than $224,000 between 1987 and 1992. In the same year, Harold J. Nicolson, a CIA official even higher in the agency hierarchy than Ames, was sentenced to twenty-three years in prison after he confessed to selling the names and positions of a large number of CIA officers to the Russians for $300,000.

Economics can explain much crime—but not all. Ethics do matter. Most people do not approach a crime opportunity in the way economic theory assumes. Most people do not refrain from crime simply because their economic analysis shows that it will not pay but because they feel that it is wrong or unethical.
One comprehensive study of criminal behavior concluded that conscience is a major force keeping people from committing crimes (Wilson and Herrnstein 1985). Conscience is related to relationships and feelings of responsibility to other people and the community. People obey the law because of their own inner voices or because they want the approval and fear the disapproval of their social groups or communities. People obey the law because they generally regard themselves as moral beings who want to do the right thing as they see it. Of the three main motives for avoiding criminal behavior (fear of being caught and punished, social pressures, and personal moral commitment), only the first fits into conventional economic theory. Like the time discount of benefits and punishments, of course, social and moral forces are matters of degree and are related to the different circumstances and cultures.

While economic theory sees crime only as rational self-interested behavior, there is no follow through. Logically, with this economic approach, crime should be one of the sectors covered in the national accounts. One could argue that “victimless” crimes should be treated differently from those that have victims (whose losses or harm would have to be regarded as an offsetting deduction).

Of course, in real life this is just another example of cognitive dissonance, of theory clashing with the recognition in practice of the importance of ethics and social factors in human behavior. Most sensible economists do not act in accordance with theory and do not really regard crime as acceptable behavior. One can be sure that Professor Becker would never dream of carefully locking all the family valuables in a safe before house guests arrive. Polinsky and Shavell, after a thoroughly masterful exposition of “The Economic Theory of Public Enforcement of Law,” in a bow to reality, admit that the theory leaves out social norms (ethics and external social sanctions) "as a general alternative to law enforcement in channeling individuals’ behavior" (2000, 73).

The Commons

Nearly every society in the premodern stage of development held its land in common or regarded it as a resource open to all. Whether the land was nominally regarded as the king’s, as belonging to a god or gods, or as part of nature like the air or the sea, there was no private property in land. In most of today’s tropical Africa, this is still true. In New England villages, the Common is the relic of these earlier times. In Switzerland, most alpine
pastures are owned in common, as they have been for centuries. The Swiss grazing commons survive because the rules for determining the size of the group of legitimate users and the level of use by each are well defined and obeyed, with fines imposed for violations. Other longtime common properties continue to be viable today: Japanese forests, irrigation systems in Spain, and the Filipino Zanjera (Ostrom 1990; Stevenson 1991).

The so-called “tragedy of the commons” should rather be called the “tragedy of lost ethics” or the “tragedy of becoming economic man.” This is illustrated concretely by what often happens to a pastoral society when it is affected by the modern acquisitive world. Such societies, like some of those in the Sahel south of the Sahara in Africa, appear to have worked relatively successfully for thousands of years. The people grazed their cattle or goats on common land, and generally there was grass or other vegetation enough for all. The system worked because each person felt enough social responsibility to ensure that the total number of cattle did not surpass the carrying capacity of the land. A man voluntarily restricted the number of his cattle to his fair share—what was regarded as appropriate for his position. If someone was selfish and started to become too rich, he was brought into line by various means. Some tribes had people who specialized in “smelling out witches.” Obviously, anyone whose cattle herd was growing too large must be a practicing witch.

The tragedy occurs when the social constraints break down. When each person is motivated solely by selfish self-interest, each tries to put as many cattle on the commons as he can. If anyone restrains himself, it does no good because others, driven by selfishness, do not. In short order, the Commons becomes overgrazed, the vegetation cannot renew itself, the land turns into semidesert, the cattle starve, and famine ensues.

Friedrich von Hayek correctly observed that within small groups cooperation is the instinctive and dominant mode behavior. There are various ways in which groups work out the best way to use a common resource and the governance or sanctions to be applied if anyone tries to take advantage of the others. It is only as the group gets larger that altruism gets stretched too far to be a dominant motive. This is certainly true of primitive tribes, small communities, and human beings in many circumstances. It is far less true today. When numbers get large, innate altruism can no longer cope with demands and cultural reinforcement is needed.3

The example of the Commons has wide applicability and importance. Much of the environmental issue is a Commons-type problem. Pollution of the oceans, rivers, and lakes, depletion of the ozone layer, global warming, and the decline in ocean fisheries are all Commons problems.
According to the Pareto principle, a policy or action is desirable if it can make somebody better off without anybody else becoming worse off. While this appears to be an ethics-free rule, it is not. It accepts the ethical principle that Schadenfreude, though it may contribute to an individual’s selfish enjoyment, is to be disregarded in the economic calculus and that envy should not be taken into account in arriving at the optimum (Boulding 1982, 14–15).

In real life, there are very few instances in which in a choice among alternatives one is clearly Pareto-superior, that is, when an economic change will benefit someone while leaving everyone else unaffected. In the dynamic world in which we live, each change will be better for some, worse for others. Pareto-optima consequently have little relevance in cost-benefit analysis, wherein the costs and benefits of investments or policy changes have to be assessed in arriving at a judgment or decision. Any attempt to compute the compensation necessary to ensure equality of benefits or costs founders on the inability to evaluate the justice of what is proposed without embarking on making interpersonal utility judgments. And, since according to mainstream economics it is impossible to make interpersonal utility comparisons, an economist can remain ideologically pure only by being useless. The solution, of course, is to disregard the psychological problem and apply the standard of material welfare, which is computable.

But cost-benefit analysis is a vital activity for any responsible government economist. In fact, many welfare economists and economist-practitioners have gone on to advocate the extension of cost-benefit analysis into “social C/B analysis.” In social cost-benefit analysis, the project analyst assumes that the purely economic calculus of material welfare has to be supplemented with community values. These may include the desirability of reducing unemployment, giving greater weight to increasing the income of the poor, reducing regional imbalances, and so on.

Economics tries hard to be an objective, positivist science, and economists who bring any consideration of values into analysis are generally scorned. However, this does cripple economics. Paul Streeten has argued persuasively that without some value judgments national accounting becomes largely meaningless. Nuisances, or “bads,” force us to expend resources and energy to remove or eliminate them. For example, dumping chemicals into the ground and polluting drinking water is a bad that may be eliminated only after a considerable expenditure. Including both the income from the polluting activity and that derived from cleaning it up in
the national accounts is clearly misleading. But not all expenditures that are called forth by some one else’s unasked-for activity can be classified as “antibads.” An organ grinder may produce such discordant sounds that we pay him to leave us in peace. On the other hand, he may produce such lovely melodies that we reward him for the involuntary enjoyment he provided us. In short, a value judgment has to be made (Streeten 1986,140–41).

Contemporary Society

One of the results of the emergence of Europe from the Middle Ages was the sea change in perceptions of society. People began to perceive that existing law and institutions were not immutable laws of nature but human constructs, which, if unsatisfactory, could be changed. The American and French Revolutions, the new metric system, the Napoleonic Code, and Benjamin Franklin’s whole career are good examples of this new view of life. Along with this came a moral change in many people. The feeling of concern that stemmed from altruistic self-interest widened beyond the family and the small community to encompass the nation. Bismarck in Germany with his invention of social insurance and Benjamin Disraeli in Britain with his concern for the working classes show that this development was even profoundly conservative. Particularly since World War II, the circle of concern felt by some has been extended to the whole of humanity. This is one of the important forces behind the growth and spread of foreign aid programs. It is also seen in the outpouring of assistance to any country that suffers a major disaster.

There is some indication that the cultivation of the altruistic motive needs to be encouraged at this stage of development in the industrialized world. Dutch prime minister Lubbers has complained that the main problem in Dutch society is the loss of a sense of the meaning of life. Members of the younger generation in particular, as a result of the country’s general prosperity, are frustrated, even though they have everything material they desire. One of the appeals of the Green movement is that it gives people a goal outside of themselves. It gives people a meaning in their lives by appealing to that part of them outside of their self-interests.

Human behavior is the result not only of instinct but of culture. While altruism is as innate as selfishness in human beings, how we actually behave is strongly influenced by education in the home and school and the culture in which we live. Altruism, regard for others and the community, can be cultivated or suppressed. Families, schools, universities, and the media do much to inculcate goals and standards of success and accepted social behav-
ior within a community. A successful society works to encourage those propensities that help and discourage those that are harmful. To the extent that economists are successful in convincing people that selfishness is an acceptable, dominant, natural motive, people will be influenced to behave accordingly and repress their innate altruism. Unfortunately, the present fundamental assumption of economic theory encourages selfishness and downplays other-regarding behavior.

As the familiar quotation from Keynes illustrates, the views of economists have far-reaching consequences for the way the world works. In his words, “the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed, the world is ruled by little else” (1936, 383). The culture in which we live and are raised establishes for most people what is regarded as acceptable and desirable behavior. Average persons have only a limited sample of other people’s experience to help them learn what they can reasonably expect of other people and what they should expect of themselves in relation to other people.

For the English classical school of economics, Viner remarked, economic man was neither ideal nor real: the classical economists did not really believe that even in the marketplace men acted only out of self-interest, nor did they believe that economic interest, the maximization of income or the minimization of unpleasant effort, was the sole form of self-interest (1991, 75).

In one of Keynes’s often overlooked works, he identified “the Benthamite tradition,” that is, emphasis on quantitative methods and regarding people simply as utility maximizers as the worm gnawing within modern civilization and responsible for its moral decay. He called this an economic bogus faith (1949, 96–97).

There is evidence that contemporary economists’ teaching that self-interest is the dominant drive for people does have a significant effect on behavior. Economists tend to acquire what the French call a déformation professionelle. Several behavioral studies have shown that students of economics tend to become significantly more selfish than students in other fields. In one experiment, three sets of students were compared. The first was composed of students who took a course in microeconomics taught by an instructor specializing in industrial organization and game theory. Members of the second group took a similar course with an instructor who specialized in development in Maoist China. The third group contained students who took a course in astronomy. The experiment measured whether the students became more or less “honest” after completing their courses. The results were consistent across a range of questions: the first set
of students had the largest proportion of individuals who became less honest, the second set was in the middle, and the astronomy students had the smallest proportion. The same results were found in other experiments: economics students in prisoner’s dilemma games defected 60 percent of the time, while noneconomists defected 39 percent of the time. Economics professors, although generally earning higher salaries than other academics, give a smaller proportion of their incomes to charity than other faculty members do (Frank et al. 1993; see also references in Hausman and McPherson 1993, 674).

Economic forces obviously do influence the way families are formed and function. But this is not to claim that The Communist Manifesto was right a century and a half ago in declaring that “The bourgeoisie has torn away from the family its sentimental veil, and has reduced the family relation to a mere money relation.” Nor is this correct when it is clothed in modern economic reasoning by a respectable conservative economist who was awarded a Nobel Prize for using an economic calculus in family relationships.

When the primacy of economic incentives is encouraged through such symbols as Nobel laurels, it is not surprising that some individuals do not hesitate to put satisfaction of their own desires above responsibility to children, spouses, and the community. While there are other forces involved, the legitimacy given to selfish self-interest probably has a substantial responsibility in recent years for the increase in the breakup of families, the rise in divorce rates, and the evasion of child support.

An economist, like every other human being, cannot avoid questions of personal morality. First, in our work as professionals we strive to be objective. We cannot allow any taint of self-interest to affect our findings. While a golden rain of grants and profitable lecture fees may shower upon economists who would shape their theories and arguments to serve the interests of those who will pay, anyone succumbing to this temptation is known to have violated the ethics of the profession. But economists have a deeper and more important obligation to the community—to strengthen and not undermine the public morality required of a democratic society. This society, with all its faults and shortcomings, is the best that humanity has so far developed.

The economics of a democratic society requires avoiding the Hobbesian war of all against all. The fundamental democratic principle stresses that everyone should be equally free to pursue his or her own good in his or her own way within a framework of regard for the rights of others. People have to be other regarding as well as self-regarding for the society to endure successfully and remain democratic.
For the economist, this means that altruism cannot be ruled out of the fundamental assumption of the rational pursuit of self-interest. It means more. In John Rawls's theory of just institutions for a society, a basic principle is that the worst-off members of society must be protected against the worsening of their situation. This principle can almost be regarded as a classic moral principle of economics. The modern emphasis on the purely technical aspects of economic reasoning has nearly eliminated the ethical component of earlier economics. For Adam Smith, the founder of modern economics, selfishness was to be controlled by conscience, stemming from our feelings for others and our reactions to their disapproval. John Stuart Mill denied that it is normal for human beings to trample, crush, elbow, and tread on each other's heels. He felt that the best state for human nature is that in which no one is poor, no one desires to be richer, and no one fears being thrust back by others pushing themselves forward (1892, 453–54).

Marshall maintained that economic studies call for and develop that rare sympathy that enables people to put themselves in the place not only of their comrades but of other classes. He went on to say that nearly all the founders of modern economics cared for the wide diffusion of wealth among the masses. Marshall himself was in this tradition, putting the objective of making wealth “more equal in its distribution” on a par with the production of wealth itself ([1920] 1952, 38–39, 207).

The Smith-Mill-Marshall approach is not unknown even today. Jacob Viner, for example, described his idea of utopia as a society with as completely free and competitive a market as was attainable in a welfare state in which there was no mass poverty, the business cycle was under control, and opportunity was made as equal as was consistent with the survival of private property and the natural differences in capacities and motivations among human beings. Herbert Stein, chairman of the Council of Economic Advisers under presidents Nixon and Ford, repeatedly advocated that policy emphasis should be placed on positive government measures intended to reduce poverty and increase equality of opportunity.

Rawls's principle is reinforced by the analysis shared by many that the unmitigated operation of a capitalistic free market economy is unsustainable, for the resulting inequalities, insecurities, and sacrifices imposed on large numbers of people would lead to political upheaval. A nakedly capitalistic Hobbesian economy could only hope to continue with a Hobbesian absolute ruler. It is not only modern liberals who believe that naked capitalism would be intolerable; modern conservative thinkers such as George Will in the United States and David Willetts in Great Britain agree. They emphasize that a capitalist economy must have a feeling of community if it is to survive. Willetts argues that the welfare state produces the necessary
sense of community to complement individualism. Without the welfare state, the insecurity intrinsic to capitalism could not be borne and would destroy the system. The modern Catholic philosopher Michael Novak also believes that capitalism cannot survive without a moral order that constrains the full working of the market system.

Conclusion

In this period in history, when the former communist countries are trying to establish market economies, economists are confronted with the pointed challenge of discovering what the prerequisites for a successful economy really are. Communist ideology called on individuals to subordinate themselves, to sacrifice themselves for the sake of the commonwealth. Conventional economics, at the opposite extreme, calls on the individual to pursue his or her own interests and disregards concern for others. Both are wrong.

In the transition from centralized planning to market economies, the former communist countries have experienced a wave of crime. The initial economy emerging in Russia has many aspects of robber capitalism. In 1995, the heads of the Proftekhhbank, Tekhno-Bank, Pragma-Bank, Mosbizesbank, Kuzbassprombank, and Eurasia-Bank and the top officials of several other institutions were murdered in mafia-style attacks. Criminals own or control a large part of the banking system. The Main Economic Crime Department of the Interior Ministry estimates that 2 to 3 trillion rubles (equal to the Moscow city budget) are stolen or diverted annually from the financial system (Zhilin 1995, 9–10).

The elimination of discipline from above and from police terror exposed a Russian society and economy that lacks much of the ethical foundation needed for a market economy and democracy. Fear of the police had controlled behavior. With this gone, the new acceptable materialistic drive lacks a tempering sense of individual civic responsibility. The philosopher-president, Vaclav Havel, of the Czech Republic, has emphasized the need for the fostering of ethical values as a cure for the moral poisoning the countries now reveal as prevalent in their midst.

Pure individual selfishness leads to misery of the individual and is bad for the community. A successful society requires both the pursuit of self-regarding action and regard for the interests of others. A market economy gives such high monetary rewards to successful profit seeking that it provides a corrosive environment for social cohesion and personal responsibility. And yet a feeling of civic duty, regard for ethical values, and concern for the community are necessary for a society to be worth living in. An irre-
ducible minimum of these virtues is even required for the economy itself to flourish. Efficient markets depend on the participants observing certain ethical norms.

For the desired open society to exist, there must be a democratic form of government that ensures orderly transfers of power, acceptance of minorities and unpopular opinion, and the rule of law. All of this is necessary in a free market economy. Unfortunately, the narrow concept of self-interest is concerned only with advancing the well-being of the individual and neglects any consideration of preservation of the whole system.

Not only is the fundamental assumption wrong as a description of and a guide to human behavior, but the anomalies in the application of the fundamental assumption in mainstream economics illustrate the need to change the theory. Modifying the assumption to take into consideration the altruistic element in self-interest will make the theory more true to reality. Accepting the fact that human actions are not exclusively driven by rational selfish motivations will make economics appear less deterministic and less susceptible to calculative rationality. This, however, will make economics more consistent with reality—a gain, not a loss. Making economics more realistic in its understanding of human motivations will improve its’ predictive ability and make it a better guide to public policy.

If mainstream economists (and Marx and Engels!) were right that in our market-capitalistic society there is no nexus between man and man other than naked self-interest, then Hobbes’s dilemma for society would be real: a choice between chaos and absolute rule. But following selfish self-interest is not an inevitable rule for human beings. Humans are naturally both selfish and altruistic. As Lewis Thomas notes, we are biologically a social species. We are more social, more interdependent, and more inextricably interconnected than the social insects (Thomas 1980, 20). The world is not composed of individuals standing alone but of relationships; it coheres through human connections. Our survival and success as a species depend on social cooperation. We only fall into Hobbes’s dilemma through cultural choice, not by nature.