

Integrating Ethics and Altruism with Economics

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December 2004

MIDDLEBURY COLLEGE ECONOMICS DISCUSSION PAPER NO. 04-28



DEPARTMENT OF ECONOMICS  
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## **Integrating Ethics and Altruism with Economics**

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Modern economics evolved out of the writings of Adam Smith, John Stuart Mill, and Henry Sidgwick, among others. Each of these writers had a strong moral foundation for their thought; for example, Smith in his *Theory of Moral Sentiments*, Mill in his *On Liberty* and *Utilitarianism*, and Sidgwick in his *Method of Ethics*. I point this out simply to remind the reader that the integration of altruism with ethics is not a new topic, but a longstanding issue in economics.

I see Morris Altman's article as an attempt to update the integration of ethics and altruism into some modern frameworks. While he does a nice job with that integration, I'm not so sure what the effort ultimately accomplishes. (I suspect that my assessment is as much a reflection of me and my interests as it is of Altman's work. I'm just not very interested in general theoretical integrations unless I can see practical applications that flow from them.<sup>1</sup>) In recent years, I've become very sympathetic to W.C. Mitchell's

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<sup>1</sup> My trajectory of interests has followed Alfred Marshall's trajectory, and, as I have aged, I have become less interested in formal, or even semi-formal, specifications of issues, and more interested in the kernel of the idea.

preference for concrete, rather than abstract, problems. As Mitchell noted, all formal economic theories "are rather crude affairs."<sup>2</sup>

Taking this position does not mean I regard theory as useless. Theory can be useful, but its usefulness comes primarily in providing a backdrop—a framework for thinking about concrete problems. This pragmatic approach to theory characterized the view of Classical economists such as Smith and Mill. For them theory served as a backdrop for policy, and economic policy was an art that involved ethical, social, and political, as well as economic dimensions. Since economic theory dealt only with the economic dimension it provided little direct guidance for policy. As Classical economics evolved into neoclassical economics, the moral and ethical dimensions of policy were moved further and further into the background, as early neoclassical economists struggled to get the logic of the pure economic theory down cold. A reconnection is necessary and Altman's article is a positive step toward that end. With that introduction, let me now discuss aspects of Altman's arguments.

### **Ethical Production as a Characteristic of a Good**

Altman's argument that ethical production has value to consumers makes sense to me; it is simply suggesting that firms are selling a joint product, not a single product. I find this compatible with my thinking since I think of the commodities that firms sell as multidimensional, with Lancaster-like characteristics (Lancaster 1991). Within Lancaster's framework, which is broader and more inclusive than those Altman

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<sup>2</sup> He explained his reasoning by noting that "the technical part of the theory was easy." He wrote: "Give me premises and I would spin speculations by the yard. And I knew that my 'deductions' were futile." (Cited in J.M. Clark 1936: 410-411.)

discusses, one has no problem incorporating ethical production as one of the many characteristics of a good.

That said, I do have a problem with Altman's assertion that he has developed a framework in which ethical production is considered. I see firms supplying their customers with the "perception of ethical production," not actual "ethical production". If firms can supply that perception cheaper in an unethical fashion—producing the good unethically but selling it as an "ethically produced" good—than they can in an ethical fashion, then the unethical--or what is more likely, the "somewhat ethical"--firm will have incentive to supply only the "perception of ethical production" not "ethical production". (Example: Drug companies advertise how they are helping people, while at the same time hiding negative test results in a fashion that many would describe as unethical.) The difference between "perception of ethical production" and "ethical production" has long been known; for example, Marx (Groucho, not Karl) said, "The secret of success is honesty and fair dealing, and that if you can fake those you've got it made."

### **Incorporating Ethics into the Production Function**

I also see Altman's approach of incorporating ethics and altruism into the production function as quite reasonable. Since theory, for me, is just a backdrop to analysis, one can and should do just about anything with theory. The issue is the usefulness of doing so, and that depends on how one is going to use the theoretical backdrop. Can one bring the theory to the data? Can one gain insight into a problem with the theory that one could not with theory structured in a different way? Does the new

theory tell one something one didn't already know? Altman doesn't address these questions, let alone answer them.

For me the degree of self-interest and altruism one chooses to integrate into the theory is not predetermined. One's choice among the many possible theoretical frameworks depends on the costs and benefits of a particular framework for the problem at hand. The benefit of focusing on a theory based on self-interest and material welfare is that it is easier to bring such a theory to the data. The benefit of focusing on a theory based on utility functions that include altruism, and production functions that include ethical behavior, is that such theories are more consistent with most people's perception of the real world. But I see no hard and fast rule for choosing between the two that is not problem specific.

If the purpose of one's theory is to provide a framework for structuring one's thinking about a problem, then ethical issues and altruism can easily be, and should be, incorporated into economics. But if one is trying to work on a theory that can be brought to the data, then one has a much harder task since once ethics and altruism are part of either the production or the utility function, it is much more difficult to bring the model to the data. With recent developments in experimental economics, and in statistical analysis of data, the ability do so is enhanced, but it is still a difficult task.

### **The Need for an Ethical Fixed Point**

My final point is that even if one does incorporate ethics and altruism into the theory along the lines that Altman discusses, one has not solved the ethical integration problem. The reason is that one needs an exogenous ethical reference point from which to

judge theory and policy. The fact that you can bring some ethical issues into the model does not mean that one can use the model in policy without incorporating one's own ethical standards. David Hume noted this long ago, and I see no way of escaping Hume's Dictum that you cannot derive a "should" from an "is". Thus, I have always been at a loss to understand Friedman's claim that firms "should" maximize profits simply because doing so might lead to efficiency. Efficiency is not desirable for its own sake; it is simply a description of achieving an externally specified goal in the best way possible.

### **Conclusion**

In his paper Altman argues that economic theory can include ethical considerations. I agree. But I also believe that doing so in an abstract formal way does not gain one a whole lot. The hard question: "In what context of argumentation is it preferable to include ethical consideration?" remains unanswered.

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