Virtues, Ethics, and Introductory Economics Course

Diane Coyle’s *The Soulful Science* describes a “remarkable creative renaissance” occurring in economics. In Coyle’s view, these advances are enabling economists to “make huge strides in understanding real human behavior” and “revolutionizing efforts to solve the world’s most serious problems.” As enthusiastic as Coyle is, she laments that “what we teach our students has changed only slowly over twenty-five years … the basic introduction to the subject is still the simplest version of the standard paradigm.” I second Ms. Coyle’s lament and propose that a consideration of virtues and ethics in the introductory economics course is needed and overdue.

Students enroll in Human Sexuality 101 because they want to. They enroll for Economics 101 in droves because they have to. Who are these stakeholders imposing economics on our students? Economics is required by professional programs such as business and public administration. Students from all majors use it to satisfy general education requirements. According to AACSB International – The Association to Advance Collegiate Schools of Business, an accredited business program is expected to include “learning experiences in … ethical understanding and reasoning skills.” For a public administration program to be accredited by the National Association of Schools of Public Affairs and Administration, its curriculum must “enhance the student’s values, knowledge, and skills to act ethically …” The stakeholder for general education is the citizenry at large, which expects the baccalaureate experience to nurture core values such as self-actualization and informed civic engagement. Clearly, an appropriate consideration of virtues and ethics would be well received by the economics course’s constituents.

Still, including this topic in the economics course makes sense only if it is fundamental to economics. The title of Adam Smith’s tome -- *An Inquiry into the Nature and Causes of the Wealth of Nations* -- establishes the subject matter of economics. Quoting from this classic, “It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest … By pursuing his own interest … he is … led by an invisible hand to promote an end which was no part of his intention.” The unintended larger end to which Smith refers is the economic well-being of society at large; the invisible hand is market competition, which limits our capacity to exploit others as we pursue personal gain.

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However, a growing body of research convincingly argues it is seriously misleading to consider *The Wealth of Nations* in isolation of Smith’s earlier book, *The Theory of Moral Sentiments*. This book’s focus is the existence and importance of moral sentiments (i.e., empathic virtues and ethical codes). Most scholars who have studied Smith’s entire body of work conclude he was saying, “Empathic virtues and ethical constraints + self-interest + competition = a high living standard.” As economics currently is taught, ethics is ignored and Smith’s theory is depicted as, “Self-interest + competition = a high living standard.” The difference is profound.

Modern economics is validating the broader conceptualization of Adam Smith’s theory. In 1958, Edwin Banfield’s *The Moral Basis of a Backward Society* concluded that virtues such as a wide radius of identification and trust are an integral component of economic development. Banfield observed that the main cause of poverty in the towns of southern Italy he studied was “amoral familism,” an inability to trust and, hence, cooperate with anyone beyond one’s immediate family. Efficiency requires specialization and exchange on a global scale. The market cannot work its magic if efficiency-enhancing transactions are unduly restricted by mistrust. This trust depends on wide adherence to ethical norms.

Diverse research programs within economics are confirming Banfield’s insight. Development economists now have access to the World Values Survey (WVS) administered every five years to inhabitants of an increasing number of nations. Empirical studies using the WVS and similar data sets show a positive relationship between economic development and social capital (i.e., trust relationships enabling cooperation among large groups). International trade theorists now explain shifting trade patterns using concepts such as “economies of scale” and “external agglomeration economies.” The latter can be viewed as a fancy term for highly functioning social networks (which of course rest on a foundation of trust reinforced through adherence to ethical norms). Economic geographers and regional economists use these same concepts to explain urban growth and to devise economic cluster strategies for regional development.

Fortunately, it is possible to bring this currently neglected insight into the beginning economics course without crowding out anything of importance. Students already are expected to learn that living standards of individuals and regions increase through specialization and exchange. This objective can easily be extended to incorporate the reality that these gains will be larger for individuals and groups with the wide radius of identification and trust brought about through adherence to ethical norms. This insight can be empirically demonstrated toward the end of the course when international economic development is considered. Game theory and the prisoner’s dilemma (recall the movie, *A Beautiful Mind*), already included in the introductory course, can be used to illustrate that ethical norms such as honesty and retaliatory sanctions against cheaters are efficiency-enhancing. The concept of externalities, currently used to analyze pollution, also can be used to discuss how social capital and social networks affect urban agglomeration and regional development.

Does any of this matter? Will our future leaders become more ethical just because they gain knowledge of a positive connection at the societal level between adherence to ethical norms and average living standards? It can’t hurt. The status quo apparently is far from neutral. Robert
Frank’s *What Price the Moral High Ground?* summarizes several experiments that suggest increased exposure to the self-interest model currently dominating economics instruction increases reliance on “go-it-alone” strategies and weakens dispositions toward integrative cooperation. Should we consider ethics in economics? We can’t afford not to.