Economics and Ethics: A Tale of Mutual Dependence*

In “Virtues, Ethics, and Introductory Economics Course,” Mark Evans examined the role of ethics education in the economics and business curriculum. Dr. Evans cites a growing body of research to support the hypothesis that economic well-being depends on a widely shared commitment to ethical constraints. In this companion article, I want to examine a complementary thesis: that the emergence of economic exchange is a necessary condition for the genesis of an important class of ethical judgments. Few topics have generated as much speculation as the genealogy of ethical norms. Explanations range from the digestive (Adam and Eve acquire the capacity for moral judgment by eating an apple) to the conspiratorial (Nietzsche saw morality as a trick by the weak to enslave the strong). The problem is not that we lack good explanatory hypotheses, but rather that we have too many origin stories, and not enough historical evidence to decide between them. In this short space, there’s little I can offer to address that problem, but I hope this genealogical tale is plausible enough to merit consideration.

The moral sense tradition of David Hume and Adam Smith drew a distinction between “natural” and “artificial” virtues. This division is not intended to separate the genuine from the fake, but instead speaks to the origins of our moral judgments. The natural virtues are grounded in our basic natural endowment and include such traits as benevolence, pity, and self-love. In contrast, the artificial virtues are acquired by education and enculturation. Included among the artificial virtues are temperance, prudence, honesty, and justice. It is important to see that to call justice an ‘artificial’ virtue is not to debunk it or assign it the status of a mere social convention (like the rules of table etiquette). Instead, justice is an ‘artificial’ virtue because of the way it arises—the emergence of our moral sense of justice depends not only on our natural endowments, but also on conditions in our social environment. From this perspective, the obligation we feel to honor an agreement and to respect the person and property of others (even when doing so is not in our self-interest) is itself a trait in need of explanation—one that relies on social scaffolding in addition to our native moral endowments.

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But what sort of scaffolding will do the job? It doesn’t help to say that binding norms of justice and promise-keeping emerge as a result of a collective legislative process, since any agreement reached via collective bargaining presupposes the very norms that it is meant to explain (viz., what binds the contractors to the terms of their agreement?). Consider two ways a property or trait can emerge. An emergent property is **direct** when it relies on properties of the individual or system itself, with environmental conditions playing only a background role. An emergent property is **indirect** when it requires that the individual or system behavior be scaffolded by active and often quite complex environmental structures.

With this distinction in mind, recall Aristotle’s observation in *Politics* that for creatures which trade, there is nothing that has only one function: a shoe provides protection for the foot but may also be exchanged for other goods; a vase can carry water but it can also be swapped. The advantages of doubling the functionality of one’s resources are considerable. The cognitive ethologist J.J. Gibson wrote of objects in our ambient environment offering different “affordances” to organisms depending on their life-ways. In a life-world that includes economic exchange, resources offer novel affordances; without these socio-economic structures, these affordances would not be there for us—they are indirect emergent properties. Can our commitment to binding ethical norms of justice, property, rights, obligations, and promise-keeping be explained in a similar manner (i.e., as indirect emergent properties)? And if so, what conditions count as necessary for the emergence of these commitments?

In outline, the account begins by positing the payoffs of trade, i.e. the fitness gains that accrue to organisms able to exploit the double functionality of objects in the context of exchange. In his great work *The Wealth of Nations*, Adam Smith showed why trade and exchange is beneficial for beings like us. The reasons he adduces include the availability of natural resources somewhere between extreme abundance and extreme necessity, of non-zero sum exchanges that provide relative advantage to all parties, of increased efficiencies via the division of labor and specialization (e.g., Smith’s famous example of the pin factory), etc. These benefits exist on the fitness landscape, but access to these rewards requires cooperation. Yet cooperators are vulnerable to cheaters and exploiters, as the prisoner’s dilemma shows.

Without some way of avoiding interactions with bullies and cheats, cooperators will be overrun and the incipient economic cooperation will collapse. If cooperation is to stand a chance, cooperators must recognize each other and detect, shun, and punish cheaters and bullies. Reputation (for honesty or its opposite) is one important signal cooperators can use to find other cooperators, but reputations can be manipulated to deceive. Cooperators can be stymied by a Machiavellian strategy that inflates the appearance of virtue, but acts selfishly whenever possible. In such a competitive environment, strategies for exploiting the naïve and counter-strategies to avoid cheater-exploitation vie for dominance, with each stage fueling further escalation.
Eventually, the easiest way to appear honest and trust-worthy is to be honest and trust-worthy. Intense scrutiny of potential exchange partners offers an advantage to the agent who is truly committed to the norms of justice and promise-keeping over those who merely seem so but will defect or cheat when they can get away with it. This advantage, understood as increased opportunities to accrue the benefits of exchange, explains how genuine moral commitments to justice, honesty, and rights can evolve. Lastly, education becomes an essential tool for instilling a commitment to universal norms of justice and promise-keeping in the next generation.

While undoubtedly sketchy, if the tale told here is anywhere nears the mark, the laws of economic exchange play an essential role in the emergence of our commitments to universal justice, rights, and promise-keeping.