The Economic and Labour Relations Review Vol. 22 No. 1, pp. 131–144

Book Reviews

Mark D. White and Irene van Staveren (eds) ***Ethics and Economics: New Perspectives***, Routledge, New York, 2010
ISBN: 978-0-415-55055-0 RRP AUD 125

This is a significant book, which deserves to be read widely by economists and others. A central theme in the book, the desirability of reinstating the entanglement of fact, value and theory that existed widely before the dominance of the neoclassical school, is particularly important in a world economy still struggling to cope with the global financial crisis.

The eleven chapters in the book were first published as symposia in the *Review of Political Economy* and the *Review of Social Economics*. Each symposium is not published separately but articles from each are presented in themes, beginning with broad methodological issues, progressing into theory and modelling and finishing with a discussion of policy issues. Nevertheless the two symposia were not identical in their aims. The first symposium aimed to contribute to the discussion of Sen's work, and that of ethics and economics more generally, in two ways. 'First it shifts the debate from the methodological level to the level of economic analysis. … Second, it goes beyond utilitarian means of addressing ethics in economics' (van Staveren 2008: 159–160). All the articles in this symposium reject the now traditional positive/normative dichotomy in economies, implicitly arguing that this rejection is the way forward for economics. The editorial introduction to the book makes this explicit.

> A more subtle, methodological emphasis of the book deals with the entanglement of fact, value and theory. Ethics is not outside economics, in a separate normative realm, but is part and parcel of it. Contrary to a common belief held by economists, facts and values are not mutually exclusive categories. (pp. 1–2)[1]

The second symposium was more limited in its aims. The editorial introduction notes that sometimes economists

> … use the language of philosophical ethics merely to lend authority to their own personal feelings about right and wrong, without exploring the philosophical foundations of these intuitions, much less admitting this to their readers. The danger here is that readers without philosophical background themselves will take the author's ethical presumptions as given. (White 2009: 1)

The symposium then offers a counter example of five articles which discuss ethics and economics with explicit references to specific philosophers or schools of philosophy. Thus, the symposium is itself a positive exercise, an example of the correct way of doing things. However, presumably White hopes that it will encourage others to avoid the dangerous habits warned against in the above quotation.

Some of the eleven chapter authors are well known to economists, notably Deidre McCloskey and Vivian Walsh. Others will be known only to those specialising in methodology or with interests in moral philosophy. The eleven authors are diverse in their interests and all are well qualified to write on their chosen topics. Nevertheless, rather than devote a paragraph or so to each, this review will comment at greater length on the chapters which bring out the underlying emphasis on the entanglement of fact, value and theory. Various others will be mentioned more briefly when appropriate.

The chapter with the most emphasis on entanglement of fact, value and theory is that of Vivian Walsh. Indeed the opening section of his chapter is entitled 'Rationality: entanglement of fact, theory and value' (p. 86).The title of the chapter itself is 'Freedom values and Sen: towards a morally enriched classical economic theory'. Walsh argues that he, Putnam and Sen share a definition of rationality which implies that the 'treatment of rational choice in neoclassical economics is in need of serious revision' (p. 87) and claims that Sen has shown this is just as much the case for social choice as it is for individual choice. Moreover, Walsh is completely dismissive of those who claim Adam Smith as the patron saint of self interest. Walsh claims that central to Sen's achievements is the demonstration that the reintroduction of ethical concerns and concepts into economic discourse is 'a *reintroduction* of something that was everywhere present in the writings of Adam Smith and that went hand-in-hand with Smith's technical analysis' (p. 88, italics in the original).

After the first section on entanglement there is a wide-ranging discussion of Sen's work. The unifying theme of this is rational choice theory (RCT) with Walsh discussing how Sen argues for changes in conventional RCT: changes that are necessary because this theory has been developed to avoid any explicit ethical content whereas entanglement is an inevitable part of any worthwhile theory. A large proportion of this discussion is based on a consideration of material in Sen (2002) but the discussion goes beyond that in three major areas. One is Sen's acknowledgement of his debt to John Rawls and his discussion of issues Rawls' work raises. A second is the somewhat surprising choice of Sraffa's work to discuss as representative of logical positivism. Walsh adds an ironic twist to this discussion by quoting (on p. 114) Signorino (2005) who argued that in his lectures of 1928–31, Sraffa maintained that historically, economic theorems are a joint product with debates on policy issues, if not sometimes a by-product of such debates. Finally, more surprising and very perceptively, Walsh discusses Pasinetti's growth theory as the best alternative to the sterility of neo-classical growth theory. Quoting himself, Walsh argues that Pasinetti's growth models are 'inspired by Adam Smith' (Walsh 2003: 372). While it can be argued that Walsh has a somewhat limited view of Pasinetti's work, he has certainly grasped an essential part of it, namely, to quote Pasinetti himself, the introduction of capital goods into Pasinetti's concept of vertical integration yields 'a series of relations of the Harrod-Domar type … [e]ach relation] linking the sectoral rate of growth, sectoral investment and the sectoral capital output ratio [with] each relation being specific to each (vertically integrated) sector' (Pasinetti 2007: 303). Walsh argues that this is the way forward for Sen, quoting a remark Putnam made to him in 2005 in a phone conversation: 'capability theory needs to be cashed out by supplementing it with the kind of socially responsible growth theory provided by Pasinetti' (p. 117).

In her chapter entitled 'Not by P alone: A virtuous economy', Deidre McCloskey also argues for a substantial revision of neoclassical rational choice theory: 'segregating the goals or purposes of life into a ghetto of sheer unanalysed taste, as economists led by Paul Samuelson have done rigorously since the 1930s, has been a scientific mistake' (p. 47). McCloskey calls P variables (P for Profane) those variables prominent in modern economics, e.g. price, profit, property and prudence. She then contrasts these with S variables (S for Sacred) or, in traditional Christian terms, faith, hope and love. S variables can be cultural as well as religious and McCloskey instances tipping habits 'as an easy-to-observe outcome of a sacred decision' (p. 50). McCloskey finishes her classification of virtues by introducing O variables. These are virtues purely secular in origin. Concerns for justice, the secular parts of love and the self-sacrificing parts of courage, are given as examples. While McCloskey does not mention this, perhaps because she thinks it self evident, what are O variables for one person may be S variables for another. McCloskey does, however, point out that others besides economists use P-only analysis with a hard hitting attack on evolutionary biologists and psychologists.

McCloskey's chapter is a pleasure to read, but despite the attractive rhetoric her conclusion can be baldly summarised. Unlike Walsh, McCloskey thinks that the neoclassical approach has value and 'has produced a lot of good science, but there is a great deal more to be had by building into our thinking the virtues of O and S' (p. 62). Or, if one is prepared to think about the implications of a wittier summary, 'economists want the world to be P only. The world is not buying' (p. 59).

The chapter following that of McCloskey is entitled 'Virtue and behaviour'. The author, Jennifer Baker has a very different approach to the subject to that of McCloskey. The chapter has two aims. The first is to defend Sen's concept of commitment 'by placing it in an account of moral psychology (specifically the one on which traditional virtue ethics is dependent)' (p. 66). This is of course only one of many ways to explain why commitment occurs, but shows Sen's claims about the nature of commitment are supported by a respected tradition in philosophy.

The second, and I would judge the major, aim of the chapter is to demonstrate that the Stoic version of virtue ethics 'can accommodate Sen on commitment *without* requiring the alteration of the methodological assumptions [of neoclassical RCT]' (p. 67, italics in the original).This is done by utilising a distinction in Stoic thought between indifferents, or what McCloskey calls P variables, and motives based on moral considerations (O and S variables). Baker argues that a sensible division of labour is for economists to concentrate on the study of indifferents. 'Let the standards that guide the development of RCT be those of the field [of economics]' (p. 83). Ethics is the field concerned with moral issues. When, as is usually the case, choices concerning indifferents have moral and

https://doi.org/10.1177/103530461102200108 Published online by Cambridge University Press

political relevance, it should be the ethicists who guide our thought. What is needed is that 'the ethicists must merely speak up' (p. 84).

It is probably unwise for one who is a professional economist but a very amateur philosopher to comment on this conclusion. Nevertheless, it seems to me that Baker denies that there is any need for economists to be concerned at all with moral issues, contradicting a point central to Sen's thought.[2] The three articles discussed form a continuum. Walsh believes entanglement always is necessary, McCloskey believes it often is necessary and Baker believes it never is necessary. The continuum covers the whole book. The remaining chapters can be placed either between Walsh and McCloskey or McCloskey and Baker.

This does not mean that the remaining chapters can be disregarded. 'Communitarism and the market: a paradox' by van Staveren and 'The efficiency of equity' by Klassen are the ones that I would particularly recommend. However, the remainder of this review is about the book as a whole, rather than individual chapters. A good place to start is the importance of the concept of entanglement, which as we saw is a central theme in the book. In my judgement the neglect of this concept has not only impoverished economics in general but does it in a way that was particularly disastrous in the onset of the global financial crisis and is likely to be equally disastrous as the world copes with the aftermath of that crisis.[3]

A Special Session of the United Nations was held in 2000 to review and appraise the implementation of the commitments and program adopted by the World Summit for Social Development held in 1995 and to re-invigorate the drive for social development. As part of the preparation for the meeting, thirty experts from around the world, including the present writer, were invited to speak at a UN seminar on how the values underlying social development and those of the market economy fit together. Although the term entanglement was not used at that seminar, the concept was. The integration of economic and social values was considered essential for a healthy society. As one participant put it 'When the logic of market transactions invades most spheres of social life, everything becomes a commodity and ultimately nothing is worthy of respect' (United Nations 2000: 9).

At the seminar I predicted that the lack of regulation in the global financial system, plus the belief that the market itself was better able to cure problems as they arose than was any intervention by Government, was a recipe for a severe crisis in the whole world economy. This was not a difficult prediction to make. The global financial crisis that occurred some seven years later had several joint causes, including excessive greed in the international financial sector, but the low level of regulation in that sector was important among these causes. The emphasis on free markets at any cost, which became the mantra of highly paid participants in the finance sector, was both self-serving and bad economics. The seminar as a whole agreed with my prediction. Though they were not debated due to lack of time, a number of recommendations about international economic institutions were made at the seminar, including 'increasing regulations particularly to hinder deliberately destabilizing speculation by hedge funds and others … [and] putting more of the costs of international financial crises on international lenders'

(United Nations 2000: 14). If these and similar suggestions are ignored, and the belief that the international financial sector needs to be subject to no constraints beyond those imposed by the market again holds sway, the world economy will remain in a perilous state.

While Baker is an extreme case, other places in the book assume that, however undesirable it may or may not be, it is possible for economic analysis to be purely in terms of P variables. This is of course trivially true in the case of pure theory, though the theory may also be trivial. But the claim is also made with respect to applied economics. For example, in a chapter which otherwise has much to commend it, Klasen claims that 'the empirical case for the relevance of equity for efficiency can now be made largely staying within the tradition of positive economics, and does not need to rely on arguments coming from a normative view point' (p. 229). However, despite the belief among most economists that it is possible to separate the positive from the normative this is never possible in applied economics.[4] In economics, applied work involves an appeal to empirical studies in some shape or form. Moreover, these empirical studies are not carried out in carefully controlled conditions in a laboratory. They are facts thrown up by real world situations and judgement is important in interpreting the facts. This judgement is usually heavily influenced by the values of the person making the judgement. A common example is the desirability of regulation and other forms of government intervention in an economy. The case for reducing government regulation of, and intervention in, the economy rests on the empirical judgement that cases of market failure are uncommon, that is, if left to itself, it is very unusual for the market not to produce an efficient outcome. Those who place a high value on political and personal liberty are suspicious of government intervention and regulation, which they see as reducing personal liberty. It is perhaps not surprising that such economists generally make the professional judgement that market failure is rare.

Other economists are more concerned about the costs of the government not intervening when to do so will be beneficial to the economy. If there is market failure, the people who suffer are usually the economically weak, who may well experience very real poverty. Economists who put a high value on economic security for all, on preventing anybody falling below a certain level of income, are more likely to make the professional judgement that market failure is an important problem in an unregulated capitalist economy. Not all examples of applied economic studies involve values held so passionately as is often the case in the above example. Nevertheless, the principle about the involvement of values remains the same.

One final point about the book is the readership at which it is aimed. As discussed at the beginning of this review, the two symposia that comprise the book are somewhat different in their aims, in that the *Review of Social Economy* was designed to give examples of discussion of ethics and economics which avoid the danger of economists using the language of moral philosophy to claim authority for their own ethical positions without any indication of the extent to which these positions are supported by moral philosophers (White 2009). The chapters from this symposium in the book, those by Baker, Davis, van Staveren, White and Wight have no other unifying purpose. This diversity is not in itself undesirable, but it does mean that these chapters are likely to appeal mainly to those interested in ethics and economics who have a knowledge of the literature of moral philosophy.

The other symposium does have a unifying theme. This is provided both by the attention paid to the work of Sen and the emphasis on the importance of the concept of entanglement. Given Sen's reputation both as an economist and a philosopher the book chapters from this symposium are likely to attract a wider readership. Many economists with no professional interest in philosophy would probably enjoy, and benefit from, reading large parts of it. It is to be hoped that a large number will. But the publisher's claim that the book 'provides a comprehensive introduction to the cutting edge of interdisciplinary research between ethics and economics' (p. i) does not help. This statement, combined with an approach in much of the book summed up in the words that '[t]he chapters in this book involve a rigorous emphasis on the work of moral philosophers' (p. 2), may significantly reduce the number who do read at least parts of the book. This would be unfortunate to say the least.

Reviewed by **J. W. Nevile**
Centre for Applied Economic Research, UNSW

Notes

1. Page references with no other reference relate to the book under review.
2. Joan Robinson (1966) commented on two Nobel-prize-winning economists 'After putting the rabbit into the hat in the full view of the audience, it does not seem necessary to make so much fuss about drawing it out again' (p. 308). Baker appears to go one better and after putting the rabbit into the hat claims that actually rabbits do not exist. Also Joan Robinson, and many others, would argue that the choice of P variables itself involves normative issues.
3. Stiglitz (2010), with the authority of a Nobel-prize-winning economist, sets out at length the arguments supporting this judgement and places them in the context of the complex collection of factors responsible for the global financial crisis. Stiglitz is an American writing for Americans and to a lesser extent Western Europeans. Nevertheless, much of the book is relevant to Australia with chapters 1, 3, 8 and 9 particularly important in this respect.
4. The rest of this paragraph and all of the following one are based on material in Nevile (1990).

References

Nevile J. (1990) *Economics and Ideals: Has the Age of Chivalry Gone?*, The University of New England, Armidale.

Pasinetti L. (2007) *Keynes and the Cambridge Keynesians*, Cambridge University Press, Cambridge UK.

Robinson J. (1966) 'Comment on Samuelson and Modigliani', *Review of Economic Studies*, 33, pp. 307–308.

Sen A. (2002) *Rationality and Freedom*, Harvard University Press, Cambridge Mass.

Stigletz J. (2010) *Freefall: Free Markets and the Sinking of the Global Economy*, Allen Lane, London.

United Nations (2000) Preparatory Committee for the Special Session of the General Assembly entitled 'World Summit for Social Development and Beyond', 17 March, A/AC.253/24, Seminar on values and market economies, Annex.

van Staveren I. (2008) 'Introduction to the special issue on Ethics and Economics', *Review of Political Economy*, 20(2), pp. 159–161.

Walsh V. (2003) 'Sen after Putnam', *Review of Political Economy*, 15(3), pp. 315–394.

White M. (2009) 'Introduction to economics and ethics', *Review of Social Economy*, 67(1), pp. 1–2.

G. C. Harcourt and Prue Kerr, ***Joan Robinson***, Palgrave Macmillan, London, 2009, x+270pp.

ISBN 978-1-4039-9640-4 RRP AUD 160

Harcourt (GH) and Kerr (PK) have written what they call an 'intellectual biography' of their much admired teacher, colleague and heroine, the Cambridge economist Joan Robinson (1903–83).

By 'intellectual biography' they mean 'a discussion of the development of ideas of, in the main, one person .... We have left the discussion of personal, as opposed to intellectual, interactions to a minimum' (H&K: 203). The authors aim to take the reader on a journey along the scholarly paths of thought followed by Mrs Robinson in the development of her professional writings and commentaries: the motivations, the context, the key theoretical elements, and the contemporary assessments of, (in today's jargon) her various research programs.

Of course, any analysis of Mrs Robinson's work involves the social context of her life. The professional relationships with her colleagues over a period of time she might allow us to call a 'Golden Age' in the development of Economic Thought are crucial in H&K's story. The influence on her works of her membership of the legendary 'Cambridge Circus' of intellectuals, and her discourses and disputes with the eminent names of her profession are documented and explained by H&K.