

PHILOSOPHY

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PHILOSOPHY OF ECONOMICS: ETHICAL ISSUES IN WORKS OF MODERN PHILOSOPHERS

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Abstract

Philosophy of economics deals with significant ethical issues that connected with methodological and ontological status of economics. This article is devoted to the discussion what ethical problems are in the consideration of up-to-date researches and the solutions proposed. The tendencies in economic ethics are pointed out.

Keywords: value, well-being, welfare, Nudge, inequality, distributive justice.

Ethical issues of economics have been topical for economists as well as for philosophers. First speculations on philosophy of economics are belongs to Aristotle. Nevertheless, there is an obvious difference between ancient economics and economics after A. Smith. In Ancient Greece as well as in Middle Ages economy and economics were subordinated to society arrangement. Only since 18th century economics has become considered to be an independent area [1].

A serious present problem is the problem of inequality which is strongly connected with the distribution of goods, services, wealth and so on. Last economic crisis spurs interest to analysis of distributive justice and, moreover, to ways out of crisis (policies). Thereupon, works of T. Pickety and Angus Deaton could be pointed out. The former is the author of best-selling book “Capital in 21 Century” and the latter is famous for not only Nobel prize but also “The Great Escape: Health, Wealth, and the Origins of

Inequality". Pickety demonstrated with the rates of return of capital and economic growth that inequality was a feature of capitalism that probably means that government has to interfere economy [14]. Deaton showed that today's interference of states into economy of each other, statistic reports on how good state of affairs is, or unlimited willing to increase income aren't effective [15]. Thus, at present, investigations are being concentrated on policy based on scientific results (like behavioral economics) rather than speculations on normative issues.

Thus, following works were chosen to cover ethical (theoretical) and practical (policy) aspects: demonstrate general view of philosophy of economics, point out ethical aspects (J. Reiss), reflect new economic paradigm of Homo Economicus (P. Dasgupta, Halonen, L. Caldwell), deal with practical issues (L. Bovens), debate some solutions (Daniel M. Hausman, B. Welch).

Firstly, the book of Julian Reiss will be considered [9]. It is devoted to general philosophical issues of economics. Attention is given to what each part of philosophy of economics (theoretical, methodological and ethical) describes.

According to Julian Reiss to examine theoretical foundations of economics means:

- the consideration of underlined axioms and principles of rational-choice theory (as main framework);
- the assessment of their (axioms) justifiability;
- the verification of rational choice and actual choice.

It is claimed that for non-rational choice theories the task is to interpret economic models and laws.

Also the paper points out that examination of methodological foundations of economics consists of:

- finding out how methods (observational or experimental) work;
- discovering under what conditions such methods work;
- clarifying the questions such methods can answer.

Moreover, a careful account is given to ethical foundations.

They are:

- the examination of welfare economics ethical foundations;
- welfare defining;
- the consideration of distributive justice principles.

Partha Dasgupta specify ethical issues based on fare distribution and allocation which Julian Reiss considered:

- trust;
- credible promises;
- incentives to keep promises;

- international cooperation [4].

Analyses of Partha Dasgupta extend the ethical issues Reiss introduced on the level of interaction of economical agents. He asks the following question: “Why trust is so important for economics and economy?” Partha Dasgupta emphasizes that people’s cooperation (in economics – agents/units cooperation) is based on further projects and purposes, but also mutual interests and beliefs of how partner will act and consequences of their actions. They may lead to mistrust non-cooperation and even to exploration. What is more they explain “why international cooperation over the use of global public goods has proved to be so elusive” [15].

It is claimed that trust needs two conditions. On the one hand at every stage of the agreed course of actions, it would be in the interest of each party to plan to keep his or her word if all others were to plan to keep their word on the other hand at every stage of the agreed course of actions, each party would believe that all others would keep their word. If the two conditions are met, a system of beliefs that the agreement will be kept would be self-confirming.

Partha Dasgupta continues his discourse by discussing when the cooperation is possible. To his point of view it requires:

- mutual affection. The author clarifies that this assumption works only in small groups like family;

- pro-social disposition. An attempt is made to reveal reasons of people’s behavior. Partha Dasgupta refer to behavioral economics and marks that there are social mechanisms to push somebody to act in a particular way like approval and disapproval, recognition etc. Other authors whose papers is included in this review develop this statement and examine nudge as a kind of policy based on such mechanisms:

- incentives to keep promises: external enforcement, reputation as capital asset, long-term relationships.

However, this survey would be incomplete without considering issues of cooperation breakdown. The paper suggests that social norms work only when people have reasons to value the future benefits of cooperation. Dangerous situation could occur when false rumors and propaganda create pathways. What is more, such shift takes place unexpectedly, however, a lot of time needs to reverse because of there is a need to rebuild society norms everybody understands and shared. It means that Nudge discussed in other papers works only under the dominance widely shared norms. And cross cultural investigations (Luc Bovens, for instance, proposed) should take into consideration the relative similarity of the norms and values.

Another issue Partha Dasgupta raised in the article is the problem of exploitation in long-term relationships which occurs in situations when unfortunate agents accept the conditions of the long-term relationship only because not to do so would mean that they are driven down to their min-max payoffs for an extended period of time.

The practical aspect of this discourse refers to international cooperation. The use of global public services, such as the ecological services that are provided by the atmosphere and the stratosphere, has proved to be so uneven. According to Partha Dasgupta explanation the social infrastructures that are necessary for cooperation are all too fragile in the international sphere.

In fact, Julian Reiss devotes the whole part of his book (Part 3 – Ethics) to the questions of welfare and well-being, markets and morals, inequality and distributive justice and, finally, to behavioral economics and nudge. Behavioral economics is of great interest for modern economists. Moreover, it is connected with some practice decisions which is an up-to-date trend (to focus on solving not on theorizing). Thereupon, it is reasonable to apply to historical background of behavioral economics, its principles and influences on human lives.

Behavioral economics as Justin Fox points out is “the dominant academic approach to understanding decisions” [5]. However, it is developing owing to the dialog with to other approaches: decision analyses and another one “demonstrating that we humans aren’t as dumb as we look”. Fox describes that approaches to problem solving and conclude that despite their drawbacks it is quite reasonable to use them in practice. It means that there are some situations when decision analyses works better (for big decisions made systematically with long investments horizons and reliable date), so that a decision maker considered being a rational person or when heuristics and biases is the best choice (for some unstable situations, decision is based on experience supported by observation of others behavior) and, finally, for predictable situations the best strategy according to Fox is to rely on the intuition.

Thus, how to define behavioral economics? While Justin Fox focuses on the historical aspects Reiss refers to Mullainathan and Thaler’s “combination of psychology and economics” [13]. Nevertheless, classical definition of behavioral economic could be found in the paper of David Laibson and John A. List [12]. According to the authors “Behavioral economics uses variants of traditional economic assumptions (often with a psychological

motivation) to explain and predict behavior, and to provide policy prescriptions". They specify the difference between traditional economics and a new one. In fact, Fox does the same on the examples.

Laibson and List are more specific in defining of behavioral economics principles than Reiss or Fox. They point out six of them starting from the most obvious, to some extent, "People try to choose the best feasible option, but they sometimes don't succeed" and end with a claim, close to Reiss's one, that paternalism rather prevent from getting good results rather than protect people from their biases. Another issue which has to be considered is a possible purpose of behavioral economics.

Elina Halonen and Leigh Caldwell continue this discourse and describe in detail how behavioral economics make people happy [6]. Nevertheless, they unlike Julian Reiss focus on one specific theory of behavioral economics: the information processing constraints framework [3]. It is curious that Elina Halonen and Leigh Caldwell try to reveal the structure underlying failures of rationality whereas Julian Reiss just describes them. However, Julian Reiss ignores these structures in order to show how they work in Nudge. Like Julian Reiss and Dasgupta Elina Halonen and Leigh Caldwell come to conclusion that the information processing constraints framework allows a researcher to reveal intangible value. This conclusion seems to be very close to Nudge which works only with biases without structuring them.

Elina Halonen and Leigh Caldwell describe such intangible goods as "These intangible goods include psychological goals such as entertainment or reassurance. They include branding, personal or group identity, and aesthetics. They include the desire for completeness, or to know the origin of the product you are consuming. They include the signals of quality we rely on when we cannot directly determine how good something is" [9]. However this is not a definition but rather simple enumeration. Moreover, the question is whether intangible good is an "indefinable" [8].

However, the author's statement that traditional economic theories need to be redesigned to use incorporate intangible goods is rather debatable. For example, logistics theory operates intangible goods, marketing also based on the assumption of something intangible, even merchandising (which is not a theory) take into account people's biases or failures of rationality. Are they non-classical theories?

Attention is also concentrated on the mistake of behavioral economics which Julian Reiss neglects. Elina Halonen and Leigh

Caldwell point out that behavioral economics despite all its advantages deals with Western culture and tries to expand its results to all over the world. However, cultures are different: individualistic or collectivistic (independent or interdependent). According to this division people's choice could not treat equally. So, the authors emphasizes that universality is something that should be avoided.

Elina Halonen and Leigh Caldwell consider behavioral economics mostly for clarifying some theoretical problems however Julian Reiss deals with it as well. Moreover, Julian Reiss connects behavioral economics with nudge, practical aspect. So his work extends the understanding of this theory. He refers to Richard Thaler and Cass Sunstein [10]. To Julian Reiss's opinion most advantage of Nudge is that "it is thought to be based on behavioral science rather than economic or normative theory" [14]. In addition, the author focuses on routes of Nudge (libertarian paternalism) and suggests that despite their connection is quite strong at the same time they are different:

- Nudge is not paternalism due to definition of paternalism it includes coercion. Libertarian paternalism prohibits or decreases possible variants to choose whereas Nudge rejects such policy, although Nudge is a kind of manipulation;

- Nudge interferes with people autonomy (desires, choices) as well as helps states to influence individuals and limit liberties. Nevertheless, Nudge is claimed to be non-limiting because of statement that people should rely on themselves. Moreover, Julian Reiss considers that by informing (it is a part of Nudge), states make them free to choose.

Julian Reiss considers that conditions of Nudge application should be clarified. The author appreciates this theory for:

- adding new policies;
- appealing to real policies rather than idealized model;
- focusing on institutions rather than principals.

Other (Hausman and Welch , Luc Bovens) investigators beware of Nudge. They are more critical about Nudge than Julian Reiss. Their critique concerns not only Nudge as policy (Luc Bovens) but also its concept which Julian Reiss also takes into account (Hausman and Welch).

Hausman and Welch make more peremptory declaration than Luc Bovens concern Nudge as a threat to a person judgment (or "deliberation"). To the contrary, Julian Reiss , for example, is confident that people due to their bounded rationality or willpower

are subject to influences it depends only on subject. To the government (with declared honorable motive) or to somebody else vested interests people will serve. Distinctive feature of Hausman and Welch research is that they discuss limits of Nudge in contrast with nothing about such constraints other authors refer to.

The problem of Nudge Hausman and Welch note that there is no clear definition of Nudge was proposed of the authors of this term (Thaler and Sunstein) [7]. On the contrary, Luc Bovens try to define it: “Nudge aims to change the choice architecture, i.e. the environment in which the choice is made, so that people who are placed in this environment would be less likely to display risky behavior” [1]. Luc Bovens as well as Julian Reiss faces the problem of definition though examples. Hausman and Welch propose own clear definition: “Nudges are ways of influencing choice without limiting the choice set or making alternatives appreciably more costly in terms of time, trouble, social sanctions, and so forth’ [7]. They are called for because of flaws in individual decision-making, and they work by making use of those flaws. When intended to benefit the person who is nudged, they constitute instances of what Thaler and Sunstein call “libertarian paternalism.”

Hausman and Welch’s attention is given to the fact that Nudge sometimes paternalistic and sometimes it is not. It means that Nudge loses its theoretical base. Moreover, Nudge is only supposed to be treated as Nudge if it leaves the choice set essentially unchanged. However, Hausman and Welch point out another problem of Nudge – giving advice and rational persuasion that aims at the good of the advisee could not be counted as paternalistic. The authors as well as Reiss insist that paternalism limits freedom and Nudge is not paternalistic.

Despite such terminological and fundamental problems Nudge is considered to be a good policy. Hausman and Welch comment on what limits should be on architecting of people’s choice:

- if there is no opportunity to avoid choice shaping it should be permissible;
- Nudge counteracts foibles in decision-making without pushing people to a decision is appropriate (as “cooling off periods”);
- cases in which shaping increases the extent to which a person’s decision-making is distorted by flaws in deliberation should be distinguished from cases in which decision-making would be at least as distorted without any intentionally designed choice architecture.

Nevertheless, Luc Bovens arguments against traditional Nudge are worth to be considered. At first, the article [1] is focused on the distinctive features of nudge:

- the choice architecting;
- the assumption that people behave a-rationally;
- the bottom-up character of nudge;
- the usage of common psychological disposition in order to conform to social norms and avoid risks;
- the evidences of nudge are obtained through laboratory experiments conducted by psychologists and behavioral economists;
- coaxing character of polices.

Julian Reiss and Luc Bovens give support information. Moreover, such clarifying is important for better understanding of what Nudge means. However, it seems that Hausman and Welch approach more appropriate in case that reader does not familiar to the subject.

As stated above, Luc Bovens like Hausman and Welch disagrees with authors of Nudge and points out its drawbacks. They consist in following statements: politicising risk (The illusion of being proactive is so attractive for government so that there is a probability of inventing risk), invasion of privacy, threat to liberty, unintended side effects (It is not still clear how interventions will affect behavior and how behavior will affect outcomes), infantilisation (Regulation as well as environmental cues to discourage or encourage certain behavior may leave the agent with a lack of moral strength to implement the target behavior once the regulation or the environmental cues are no longer present) and corruptibility (Nudge may be exploited by self-interested commercial actors or may become mere window-dressing for the government to do nothing about issues of risk in times of austerity).

Some critical issues from the practical point of view could be also found in "The Economist". It is stated that government is afraid of spending a lot on nudge-projects which also connected with some additional costs. To provide good policy government have to make a research of people's behavior they want to affect and, moreover, find some "evidence for doing evidence-based policy" [11].

Advantage of Luc Bovens's article as well as Julian Reiss's book is that they not only enumerate some shortcomings but also give a solution. For instance, Julian Reiss propose to answer the question "What source(s) of information should we consider to

evaluate (or measure) people's well-being?" rather than "What is well-being?" To Julian Reiss's point of view it may help to reveal the situations when and what indicates peoples' well-being. According to Julian Reiss when people's preferences are self-interested and people are good judges of the consequences of a policy, willingness to pay can be a good indicator of well-being. Concerning Luc Bovens's article such endowment consists in offering a Real Nudge. Its difference is considered to be significant. Key points are

- avoiding artificial creation of panic by policies through cross cultural approval. A compulsory condition here is that such cultures must be similar to the original in many other respects;
- providing non - ideological solutions which means to apply to the type of policy that works under particular circumstances;
- starting from actual outcome differences and uncovering causal mechanisms that produce these outcome;
- managing transposability. The issue of transposability will need to be decided on a case by case basis with a sensitivity for cultural singularities and through cautious and small scale experimentation;
- taking into account the role of comparative analyses which should provide the backbone for policy initiatives.

Thus, Luc Bovens gives his own view of how to overcome drawbacks of Nudge theory and strengthen its pros.

In conclusion, it is important to notice that authors are rather critical to ideas they discussed. Even Julian Reiss provided that his book is mostly devoted to some theoretical issues and his aim is to give main framework of philosophy of economics, to reveal some debatable questions and to give his own solution. In addition, he covers questions of culture and economics interconnection and policy making. So, his analysis is rather complete. However, the task to make such analyses is easier when it is a book rather than an article.

Other significant points are covered in Partha Dasgupta's work: problems of trust and cooperation and how they influence people's behavior. Contrary to Julian Reiss research Partha Dasgupta concerns issues of another level and explains their importance in macroeconomic investigations. It connects ethics with practice allowing us to move to behavioral economics and nudge that uses norms, believes and so on.

Elina Halonen and Leigh Caldwell continue his discourse and describe in detail how behavioral economics make people happy. They try to reveal the structure underlying failures of rationality whereas Julian Reiss just describes them. However, Julian Reiss ignores these structures in order to show how they work in Nudge. Like Julian Reiss and Dasgupta, Elina Halonen and Leigh Caldwell come to conclusion that the information processing constraints framework allows a researcher to reveal intangible value. This conclusion seems to be very close to Nudge which works only with biases without structuring them. Nevertheless, the authors avoid giving definition of what intangible goods are and this could be a problem for a reader. The advantage of the article is that universality is something that should be minimized.

Eventually, Luc Bovens like Hausman, Welch and Julian Reiss write a lot about Nudge, about its points and drawbacks. In general, all these papers are of good quality and rather persuasive. Their common conclusion is that Nudge as a policy could be used however it has some problems and questions which need to be solved and answered. So, there is a double tendency in philosophy of economics while considering ethical issues: to reveal theoretical foundations in economics and, at the same time, to find ways their proper applying.

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