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# Introduction

## Why Ethics Is Important to Economics

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If economics involves the search for truth about the world — why the price of gasoline rises or why the unemployment rate falls — aren't such scientific matters immune to personal ideals of right and wrong?

These lessons provide opportunities for teachers and their students to explore this question. Our thesis is that ethics — consideration of right and wrong — does matter to economics. Economics grapples with how societies deal with limited resources and how exchange plays a part in this process. Why do strangers return lost wallets? Why are doctors concerned about their patients' best interests? Why does fairness seem to produce higher economic returns than greed? Ethical values and moral frameworks permeate exchange.

The study of ethics in economic life is growing exponentially. This is partly because of recent scandals at major energy, health-care and other firms. These scandals highlight the destructive power a few immoral managers can wreak on a company and on the market. These same moral failings also cause problems in government and nonprofit sectors of the economy.

However, the renewed interest in ethics actually began after the fall of the Soviet Union in 1991, when it became clear that simply unleashing markets, without first creating a workable system of justice, would fail to create conditions for social development. Justice matters to economic life in many ways. Courts and judges are needed to enforce contracts and uphold private-property rights. But formal justice pales in comparison with informal justice: the moral code every citizen carries around in his or her head while going about daily life as an employee, business owner and customer.

As economists, we need to understand how ethical conduct reduces transaction costs, enhances productivity and creates the social capital that lubricates exchange. The lessons

in this book propose that certain absolute ethical standards play an important role in economic life. Perhaps for this reason parents and teachers struggle to develop the character of young people in their charge. Holding students accountable helps them to understand their duties to family, community and nation, just as learning self-control provides a foundation for achievement and personal fulfillment.

Finally, economists play an important role in trying to improve society. Normative economics examines the costs and benefits of alternative policies. Deciding among these alternatives requires people to rank goals, and their rankings are determined by ethical values. While economists typically examine only consequences, they are mistaken in judging that only consequences matter. Most religious and philosophical traditions ask, "Do the ends justify the means?" and "Are there duties that people should uphold, regardless of consequences?" Some people might also ask, "Would the proposed policy help or hurt the development of virtue in our community?" These questions are not distractions in society — or in an economics class. Rather, they encourage people to exercise their moral imaginations and develop an analytical perspective, which will enhance students' capabilities in a complex world.

These 10 lessons pose provocative questions about sweatshop labor, the sale of human organs, efficiency and equity in health care, the meaning of justice, the morality of markets and the moral limitations of markets. They allow the students to explore important issues in various engaging ways, often through interactive exercises. Ultimately, these lessons ask the students to develop the critical-thinking skills necessary to explore economic and public-policy issues within a wider moral context. It asks them, in short, to become leaders.

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