"Summary of article by Robert S. Goldfarb and William B. Griffith: Amending the Economist's Rational Egoist Model to Include Moral Values and Norms" in Frontier Issues in Economic Thought, Volume 3: Human Well-Being and Economic Goals. Island Press: Washington DC, 1997. pp. 234-237

Social Science Library: Frontier Thinking in Sustainable Development and Human Well-being

"Summary of article by Robert S. Goldfarb and William B. Griffith: Amending the Economist's Rational Egoist Model to Include Moral Values and Norms"

Incorporating moral values and social norms into economic analysis presents various challenges to the traditional model of microeconomic behavior. In this model, human actors are considered to be rational egoists; economists therefore analyze moral values in terms of preferences, and view norms either as decision rules or as constraints on individual choice sets. This paper evaluates the various attempts to integrate moral values and economic preferences, and discusses the efforts of economists to explain the development of moral values and social norms.

NORMS AS DECISION RULES

Norms are generally considered to be shared rules of conduct that constrain the aggressive pursuit of self-interest. Economic models that fail to incorporate the influence of norms will lack predictive accuracy and will be unable to provide a satisfactory analysis of market function.

Researchers in a variety of disciplines, including economics, philosophy, political science and sociology, have treated norms as decision rules akin to those governing strategic interactions in repeated, two-person Prisoner's Dilemma situations. This treatment of norms has two important problems. First, in more realistic situations involving many participants, norms are more likely to break down since cheating is less likely to be detected, and is thus more likely to occur. Second, this analysis makes the false assumption that all norms are chosen in order to achieve materially advantageous results. As suggested by James Coleman, there is a difference between those norms that are chosen and internally sanctioned and those that are externally sanctioned by others at the time of an action.[1]

NORMS AS CONSTRAINTS

Internalized norms are similar to budget constraints in the sense that they restrict the range of available choices. The difference is that budget constraints are usually perceived to be externally imposed, while internalized norms are absorbed through behavioral conditioning. The interpretation of rules as constraints is consistent with the economist's notion of a rational agent as one who optimizes, given constraints.

This approach to norms gives rise to three major concerns. First, economic analysis traditionally holds that choice is subjectively determined by preferences, and externally determined by constraints. However, norms have both subjective and external characteristics, so it is not clear that they fit into the constraint category. Second, if norm violations result in psychological discomfort, as is commonly presumed, then it seems to follow that it feels better to obey norms. If so, then it is hard to distinguish norms-as-constraints from norms-as-preferences. Third, the interpretation of norms-as-constraints is not useful in making predictions unless there is some explanation about the conditions under which norm-constraints appear. Research in this area is ill-suited to economic analysis.

MORAL VALUES AS PREFERENCES

The effort to incorporate values as preferences requires a more complex economic model of humans as rational egoists. Some economists have found it useful to analyze moral values as preferences, while challenging the assumption that individuals act to maximize the satisfaction of all preferences, which are understood as given, exogenously determined, and not subject to dispute. Albert Hirschman, for instance, forcefully points out that economists typically focus on unchanging, unreflective tastes, such as a taste for oranges, and ignore the endogeneity of values-as-preferences, that is, the fact that experience and rational persuasion can influence or change values.

Values-as-preferences may also necessitate a change in the standard form of utility functions. For instance, Amartya Sen has argued that values can be analyzed in terms of metapreferences, which are those preferences an individual rationally desires to be the case, for himself or for others.

The values-as-preferences approach also implies a modification of the egoistic aspect of the rational egoist economic model. Moral values such as honesty suggest that actors do not always act selfishly, since honesty implies restrictions on the pursuit of personal advantage. Also, the inclusion of the moral value altruism, which by definition is the opposite of egoism, suggests a substantial revision in the model.

GENERATION AND MAINTENANCE OF MORAL VALUES AND NORMS

The emergence of moral values and norms is important for both positive and normative economics. On positive grounds, a theory on the generation of values and norms will increase the accuracy of economic predictions. Many researchers have argued on normative grounds, that such a theory will help explain and/or lead to "better" functioning markets.

In general, economists tend to borrow theories from biological evolution and cultural development in order to explain the emergence of values and norms. Two central issues arise in this tentative and developing literature: the optimality of the norm-generating process and the nature of cross-generational transmission mechanisms for values and norms.

Researchers disagree on whether a social optimum is promoted by evolution through norm generation. Some, notably Dennis Mueller, argue that norms represent a collective effort to maximize the probability of group survival. Thus, evolutionary pressures play a significant role in the adoption of mores and values. Others, notably James Coleman, argue that the process of norm generation need not be optimizing, especially where parents lack incentives to internalize norms in their children. This occurs when parents do not reap sufficient benefits from appropriately socializing children.

Any comprehensive theory of norm generation must take into account the wide variety of possible transmission mechanisms. Some norms are transmitted through behavioral conditioning, while others are chosen and sustained within a cultural context. Still others may be created via an invisible hand mechanism; although it is far from clear that these norms tend toward a social optimum, as is commonly argued in economic contexts. Alternatives to invisible hand accounts focus on group selection and the fact that individuals may adopt rules that favor a group only if they are advantageous to the individual.

CONCLUSION

It is far from clear that treating moral values and norms as either decision rules, constraints or preferences represents fully and accurately their complexity and their relation to self-interest. None of these approaches alone can provide an appropriate analytical framework for understanding moral values and norms. Economists have yet to face head-on the relationship between a self-interested life and a moral life, and to what extent they are consistent with one another. Finally, moral rights are either part of the background social structure within which individuals pursue their selfish concerns or are themselves amenable to change by selfish individuals engaged in rent-seeking behavior. The attempt to fit rights into the rational egoist model obliges us to confront the issue of what conditions justify a particular structure of moral rights.

The attempt to incorporate moral values and norms into economics aims at a more realistic and comprehensive picture which incorporates both the limitations of human knowledge and concern for others, as well as the ways in which humans seek to compensate for these limitations. This effort will undoubtedly complicate the model of economic decision making, and possibly make it less appropriate for prediction. But it may yield a more accurate picture, for example by making clear that the benefits commonly attributed to well-functioning markets are at least in part due to well-functioning moral codes. Interdisciplinary cooperation, with a significant potential payoff both in economics and in moral philosophy, will be required to achieve this improved understanding of social coordination.

Notes

1. James S. Coleman, “Norms as Social Capital,” in *Economic Imperialism,* eds. Gerald Radnitsky and Peter Bernholz (New York: Paragon House, 1987).