

DO ECONOMISTS NEED VIRTUES?

David Lipka¹

Anglo-American University, Prague; International Center for Economic Research (ICER); UJEP

david.lipka@aauni.edu

Abstract: In many works Deirdre McCloskey criticizes professional economics for ignoring virtues. Even though I disagree with details of her analysis I concur with her general conclusions. In the paper I sketch my own perspective on how economists could profit from the virtue discourse as developed by Adam Smith. My argument is intended for economists who believe economics is about implications of individual choice. I distinguish behaviorist and mentalist interpretation and criticize the former. We all should be mentalists and admit the existence of the problem of interpretation. I briefly discuss neuroeconomics and evolutionary psychology as theories of interpretation and show that moral psychology can be viewed as one in morally relevant situations. I read Adam Smith's *Theory of Moral Sentiments* as an important contribution to the moral psychology. I outline the Smithian system and show what economists can learn from it. They can improve their interpretive skills but also cultivate their general outlook of the world by understanding how knowledge of the market process shapes interpretation of the choice problem. Their general outlook can do better provided that it is balanced with the complete array of virtues. If not it may provide a distorted picture of reality.

Key Words: Moral sentiments, Adam Smith, Virtue, Interpretation, mentalism, behaviorism

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INTRODUCTION

McCloskey believes that economics veered upon a wrong path. At least since Paul Samuelson, it has become a pure theory of prudence. However, she says, prudence is not the only virtue; there were four more in Adam Smith and six more in Aquinas. Ignoring them is a pitiful scientific mistake.

I have some doubts. Where McCloskey sees a ‘Machiavellian-Hobbesian-Mandevillian-Benthamite-Samuelsonian-Beckerian maximizer of utility specializ[ing] in the one virtue of prudence only’ (McCloskey, 2011), I only recognize a no-virtue machine (Lipka, 2013). Economists do not specialize in prudence as McCloskey claims; at least not in a prudence of Aristotle, Aquinas, or Adam Smith. Virtues are no longer a part of their toolbox.

Important question remains, however, whether such loss makes economics better off or worse off. McCloskey believes it is a change for the worse and urges her colleagues to ‘go back to the blessed Adam Smith... and humanistic economics’ (McCloskey, 2006, p. 514); humanistic economics, which is rooted in the long tradition of virtue ethics.

For unsympathetic Samuelsonian economists, McCloskey’s recommendation sounds like an attempt to smuggle some redundant obsolete psychology into science. They believe the practice of economics requires no psychology at all (Gul & Pesendorfer, 2008; Levine, 2012) and accuse McCloskey of fighting a straw man (Binmore, 2009). Or, if they admit that psychology is necessary – as behavioral economists do – they follow Robbins who argued that economics and ethics cannot be logically associated by any form but mere juxtaposition (Robbins, 1984, p. 132).

They express contempt for the seemingly anti-scientific normative vocabulary of virtue; or rather, they would express it if they cared at all.

Some do care, for sure.² Most importantly Daniel Klein (2012) pleads for economics rooted in Smithian moral philosophy and Vernon Smith (2012) discovers in Smithian moral theory important behavioral insights that scientifically outperform the Max U model. And even people from outside the profession are now invited to voice their concerns about the separation of virtues and economics. In a recent symposium hosted by the Journal of Economic Perspectives the philosopher Michael Sandel called for ‘economic reasoning that is bound up with moral reasoning’ (Sandel, 2013, p. 122).

All such calls notwithstanding, the gap separating economics and Smithian moral philosophy looms almost as large as before. I share the view that it is for the worse. McCloskey’s idea of humanistic economics or humanomics promises a rich and productive intellectual project. In what follows I offer some arguments for a return to the ‘blessed Adam Smith’ and humanistic economics. I show that a shift in such direction would make the discipline more relevant to social affairs and scientifically more productive.

The question of virtues’ relevance for economics should not be addressed without first spelling out what I mean by economic theory. Portraying a discipline as a whole is always difficult and

² Criticism of the separation of economics from ethics is not new. Edward Glaeser (n.d.) in a popular piece acknowledges that behind all the algebra economics does have a moral spine – the belief in freedom. Peter Boettke (2007) claims there is a presumption of liberty in economics. Earlier Etzioni (1986), Nussbaum (1997), Sen (1977; 1988), Hechter (1992, 1994) and others have criticized economics for too simplistic a treatment of human preferences and pleaded for more complex utility functions, acknowledgement of the incommensurability of utility, discerning commitment and other-regarding preferences or postulating multiple sources of valuation. Still others have found inspiration in evolutionary psychology (Kanazawa, 2001). None of them, however, proposed a return to virtue ethics in general and Adam Smith in particular.

may slip into fabricating a straw man. The practice of economics is by no means homogeneous, and even the hints of homogeneity break apart when it comes to its interpretation.

I am only modestly ambitious here. My argument is intended for people in the profession who would feel comfortable being described as mainline economists (Boettke, 2012, p. xvii). A mainline economist buys into core propositions that were born in the Scottish, and as argued by John Robertson (2005), also the Neapolitan enlightenment. She focuses on how diverse individual interests dovetail through the market process. Her explanations invoke exchange (Boulding, 1969; Buchanan, 1979) rather than value and allocation (Kohn, 2004).

My argument is not necessarily intended for people who adopt an *externalist* interpretation of economics (Satz & Ferejohn, 1994), disregarding implications of individual choice. In their view economic agents, strictly speaking, do not choose and the individually optimal outcomes are believed to be imposed by the structure. In Elster's words (1989, pp. 14–15), under such an interpretation the opportunity set is reduced to a single action, the filter of individual preferences becomes unnecessary – agents either 'choose' the only feasible alternative or they cease to be part of the social or sometimes even natural structure.³ How exactly they adjust to what is structurally required is of secondary importance. What matters is that from the observing scientist's perspective all agents – individuals, firms, or governments – behave as if they optimally responded to the challenges posed by the environment.⁴

³ Binmore (2008, p. 12 ff.) argues that the rational choice approach can be productively used in studying animals or even molecules in evolutionary process.

⁴ Whether or not externalist interpretation is legitimate is beyond the scope of this paper. For a detailed criticism see Hausman (1995, 2001).

My implied reader should at least accept that economics is about implications of individual choice. From there it is still a long way to seeing economics as a humanistic project embedded in moral philosophy. Yet it is a manageable distance. How easily manageable depends on what evidence the reader believes is admissible in economic explanation. Dietrich and List (2012) would divide my potential readers into two groups: behaviorists and mentalists. Mentalists consider mental entities as real phenomena and allow for evidence that is not revealed in choice. Behaviorists deliberately forfeit any such evidence and confine their attention to observed choices (2005; Gul & Pesendorfer, 2008). What happens in the mind of an agent is of no interest to behaviorists. Only evidence revealed in choice is permitted to test theories and calibrate models.⁵

In my argument I will proceed in two steps. I will first argue why behaviorists should become mentalists and subsequently why all economists should accept Smithian moral philosophy as a source of relevant evidence that can improve their scientific practice. Finally, I will challenge the positive-normative divide and show that economics shapes the way we see reality and therefore cannot be separated from moral discourse.

REVEALED EVIDENCE AND THE PROBLEM OF INTERPRETATION

Let us consider a human being whose behavior we want to interpret. In line with launching this new approach, let us call such being Adam. In describing his behavior in economic terms, we have to combine the axioms of choice theory with auxiliary assumptions about Adam's

⁵ Dietrich and List (2012) argue the radical behaviorism denying the existence of mental concepts used in economic theory while holding the theory true is a contradictory position. Similar criticism is raised by Hausman (2000). Binmore (2008, p. 20), however, contends that the behaviorist interpretation does not constitute a causal theory but rather only a useful description and thus could be immune from such criticism.

preferences and beliefs. Behaviorists think they will learn what auxiliary assumptions to invoke from observing Adam's choice in different situations. They will not, I am afraid. It could only work if the observed situations belonged to the same decision problem and if both Adam and the observing economist had correct beliefs about all facts relevant to the decision problem. Let's assume that Adam's purchase behavior may be perfectly rational on Monday through Friday. Then, on Saturday he acts inconsistently, and on Sunday again. While on Monday through Friday he preferred a banana to an apple on weekend he chose apples even though bananas were available. What did we learn about Adam? Did he change preferences? Did he change his beliefs? There is no way to find out just by observing his behavior (Hausman, 2000).

At this moment most behaviorists would be ready to admit some additional evidence. Gul and Pesendorfer (2008, pp. 22–23) show a possible defense strategy when discussing notorious example of American tourists in London. The tourists suffer injuries because they look only to the left before stepping into streets. In Gul and Pesendorfer's view the tourists do not reveal a preference for being hit by cars. They believe to choose between crossing the street carelessly and crossing only after having looked to the left to see whether it is safe to cross. That there is an alternative strategy to look to the right is unknown to them. They face a 'subjective constraint' on the feasible strategies (Gul & Pesendorfer, 2008, p. 23).

Such an explanation is plausible. And mentalistic, I must add. By saying the agents were subjectively constrained, or that they had erroneous beliefs about the actual state of the world, Gul and Pesendorfer are admitting evidence about mental states of the tourists that was not revealed in the observed choices. They assume to know how the decision problem appears to the tourists and conjecture that the tourists only failed in ascertaining the correct value of a

relevant variable included in their decision. They missed a bit of information and did not realize the cars come from the right. They suffer from asymmetric information.

Economists with behaviorist inclinations usually want to treat similar situations as rare anomalies and not a major challenge to their approach. Their interest lies in studying situations where choices are carried out by experienced agents who do not tend to make mistakes (Binmore & Shaked, 2010; Köszegi & Rabin, 2008; Levine, 2012).⁶ If so, the problem of wrong beliefs is interesting but largely irrelevant.

However, the problem goes deeper. What undermines behaviorism is not only the possibility of asymmetric information but also of asymmetric interpretation. People can vary not only in how accurately they ascertain facts but also in what counts as facts. All facts reside in some interpretive frames (Klein, 2012, p. 145). Where I see my grandmother, a physician may see a female suffering from macular degeneration. What we both see are facts in the contexts of our perception. They differ because the contexts differ. Another equally old lady suffering from the same disease will very likely count as the same case for the doctor but a completely different case for me. What counts as relevant distinction separating one fact from another depends on the interpretive frame.

Returning to Adam and his apparently inconsistent decisions, it might have been possible that he had no subjective constraints at all. He might have had perfect information and still manifest what appeared as behavioral inconsistency. Maybe on weekends, unlike on Monday through

⁶ In principle the same problem may occur on the part of the observing scientist, too. Levine (2012, p. 90) provides an example from psychology.

Friday, he was just not shopping for a restaurant he works for but rather for himself. The two sequences of actions were not manifestations of the same decision problem. Adam on work days played a role different than on the weekend. The apparent inconsistency was an artifact of the economist's interpretation. She was on board with Adam's world till Friday but departed in her interpretation on the weekend. Hers remained the same, Adam's changed. For her the two sequences of actions belonged to the same decision problem, for Adam they did not.

Whether any two cases are the same is not a matter of objectively measurable qualities but rather subjective interpretation (Hudik, 2011; Salant & Rubinstein, 2008). As Hayek (1943, p. 3) pointed out seventy years ago: '[i]n the social sciences the things are what people think they are.' And what people think may differ from what economists think. Where an observing scientist sees a rabbit, to use a famous Wittgenstein's example, the observed individual may see a duck. Where an economist sees a series of identical ultimatum games the players may take different interpretation and reach different equilibria (V. L. Smith, 2010). Where an economist may regard as inconsistent a situation where a person who chooses an apple over nothing if two apples are available while abstaining from an apple if only one is in the basket (A. Sen, 1993, p. 501), the observed individual may in fact include moral consideration to arrive at a consistent interpretation of both choices. Alternatively, where an observing economist may see a profit opportunity to sell blood for transfusion the blood donor may actually see a threat to a perceived moral obligation (Sandel, 2013). Andrew Schotter (2008, p. 73) summarizes the point from an experimentalist's perspective: "The problem we face as social scientists is that when we observe choice data we do not always observe the frame used to elicit it. If that is the case, then

the inferences we can make from these choices are very likely to be limited and unreliable unless we are able to observe the actual frame used.”

Interpretive frames are mental phenomena that may not be revealed in observed behavior. We use them to organize the observations. What behaviorists tacitly advocate is the use of their own working interpretive frames instead of the frame of those they observe. Behaviorists are like a man who is looking for keys under a lamp even though he lost them elsewhere. Yes, the light may be brighter there and behaviorists’ own interpretive frames may also be right at hand. It does not mean they are useful, though. Economists should use what is appropriate, not what is easily available. They should become mentalists and admit that interpretation is a problem worth talking about.

MODELS OF INTERPRETATIONS

The problem has many solutions. In Adam’s example economists would probably do best if they asked Adam about what he did. They can also use folk psychology that evolution inscribed into our minds (Cosmides & Tooby, 1995, p. 90). In other words, they could use a common sense approach humans employ every day in understanding their partners, students, shop assistants or cab drivers. It usually works reasonably well and it would be absurd to refrain from the evidence it can bring. As noted by Barry Smith (1995), the common sense concepts provide a direct contact with the world, and while they may be modified by the advance of scientific knowledge they are the most meaningful starting point of our explorations.

They are far from perfect, though. We all see that the folk psychology may lead us astray. In order to relieve the problem of interpretation, I mention two sources of systematized evidence

that go beyond the common sense. The first and the most radical one is neuroeconomics. It ultimately tries to eliminate the folk psychological concept economics operates with. The link between a choice situation and behavior is provided by a causal theory of the brain. As Colin Camerer (2008, p. 46) writes: 'The neuroeconomic theory of the individual replaces the (perennially useful) fiction of a utility-maximizing individual that has a single goal, with a more detailed account of how components of the individual—brain regions, cognitive control, and neural circuits—interact and communicate to determine individual behavior.' It is still an open question how successful the quest for the neural explanation can ever be. But even if it fails in the ambitious ultimate goal, it can provide some welcome evidence on choice.

The second option is for economists to keep their explanation on the level of mental states and processes and learn from evolutionary psychology. It explains how different domain-specific machineries in a human mind are triggered by certain environmental cues (Cosmides & Tooby, 1994, 1995, 2008). Upon activation the machineries impose '[s]pecial and privileged representations during the process of situation interpretation, define specialized goals for reasoning tailored to their domain, and make available specialized inferential procedures...' (Cosmides & Tooby, 2008, p. 66). Deliberation of interpretation does not arise because it is automatic, unconscious and to a large extent species-specific (Fiddick, Cosmides, & Tooby, 2000; Sperber & Mercier, 2012).

The limit of evolutionary psychology is that it operates on macro level of species, not social groups or individuals. It thus satisfies only a fraction of features we expect from a theory of interpretation. It is too crude a tool for understanding concrete historical facts or events. To paraphrase McCloskey (2006, p. 439): if I want to explain the difference between the music of

humans and dolphins, I should stay in natural sciences. If, however, my interest lies in the difference between Mozart and rap music, I need something more. The distinction between socialism and liberalism, between self-organizing and command systems – issues economists want to explore – requires a micro-theory of interpretation.

MORAL PSYCHOLOGY

Moral psychology provides a more nuanced account of interpretation in morally relevant situations.⁷ Haidt (2001, p. 828) argues that the automatic responses generated by environmental cues can be modified by human reasoning, both individually and in a social context. Haidt and Joseph (2008, p. 8) describe our brain as prewired rather than hardwired and sketch how the innate capacity to make crude, global judgments based on a small number of intuitions transforms in social linguistic interactions into highly sophisticated and differentiated perceptions, beliefs, emotional responses and judgments.

Haidt (2007, p. 999) demonstrates that intuitions can be overridden in three ways: by verbal reasoning invoking costs and benefits of our actions; by reframing of a situation which triggers a second flash of intuition; and by talking to others whose argument again triggers new flashes of intuition, possibly followed by further reasoning. He concludes the first two paths are rare. Evolutionarily older automatic processes account for most cognitive activity. The human cognition using language is there, to borrow Haidt's metaphor, only as a rider on an elephant who can try to steer the elephant if it has no particular desire to go one way or the other (Haidt, 2013, p. 870). Yet it is there. An important implication of moral psychology is that one's

⁷ By morally relevant I mean any situation that contains triggers of our 'moral taste receptors' (Graham et al., 2012, p. 7) or what Haidt and Joseph (2004) describe as foundational moral domains.

judgment about a situation is only partly automatic, partly culturally conditioned and partly individually construed. Moral psychology provides a toolbox for interpretation that is applicable to the level of details economists could be satisfied with.

Adam Smith fits perfectly well here; or rather, current moral psychology fits into the edifice of virtue ethics. Moral psychologists agree. Haidt and Joseph (2004, 2008) acknowledge that virtue ethics is the most psychologically sound approach to morality and Casebeer (2003) argues that moral psychology underlying traditional virtue ethics shows consilience with current neuroethics.

Virtues mean ‘dispositions to respond appropriately – in judgment, feeling, and action...’ (Kamtekar, 2004, p. 477). They stand for skills of social perception and action (Churchland, 1998, p. 88; Haidt & Kesebir, 2010, p. 798) or dispositions to see a situation in a certain distinctive way (McDowell, 1979, p. 347). They hinge on interpretation. Virtue ethicists believe people care about what sort of person they are (Hursthouse, 2002, p. 17); they care about adequate interpretive schemes they apply in behavior. People in their view are not satisfied with the immediate response offered by their natural makeup and are ready to learn to respond better. Achieving excellence through cultural experience and cognitive reflection gives rise to virtue. Of course, the main purpose of scientific moral psychology and virtue ethics is different, but their understanding of psychological processes at work in making morally relevant decisions is broadly the same. If I use Haidt’s metaphor again, virtue ethicists focus on how the rider can learn to ride the elephant. They stress not only knowing but also teaching.

All of that holds for Adam Smith, too. McCloskey (2008) characterizes Smith as the last of the former virtue ethicist. For him, too, moral philosophy was built on moral psychology (Griswold, 1999, p. 50), psychology that can inspire even today. But Adam Smith stands out in another important respect. Unlike other virtue ethicists of the past and present, Smith integrated into his system of moral philosophy that which later became separated as the science of economics. He shows, I argue further, that very knowledge of economics shapes our interpretation and thus our moral practice.

SMITHIAN MORAL PSYCHOLOGY OF MORAL SENTIMENTS⁸

Adam Smith developed his ethical system in the *Theory of Moral Sentiments*. He insisted that there is a substantial difference between employing our reasoning to objects that do not directly affect us and those that do. With objects of the science and tastes (A. Smith, 1982, I.i.4.2) there is no need to use sympathy to see the propriety of sentiments of the observed individual. Writes Smith: “[t]he various appearances which the great machine of the universe is perpetually exhibiting, with the secret wheels and springs which produce them; all the general subjects of science and taste, are what we and our companion regard as having no peculiar relation to either of us. We both look at them from the same point of view, and we have no occasion for sympathy, or for that imaginary change of situations from which it arises, in order to produce, with regard to these, the most perfect harmony of sentiments and affections (A. Smith, 1982, I.i.4.2).

⁸ Parts of this section are adapted from Lipka (2013).

The perspective on reality is given; no problems with asymmetric interpretation may ever arise. We may be differently affected but we share the interpretation. In morally relevant matters, however, an interpretive frame is not given and there is no guarantee that the observing scientist sees the situation in the same way as the acting individual. Haidt (2013, p. 287) similarly argues that there is a difference between judgments about non-moral and moral issues. The distinctive feature of morality is that we feel obliged to provide reasons for a particular decision, not just cite our tastes.

Smith believed that primary causes of actions were our affections, today we would say intuitions. Yet intuitions do not provide unambiguous guidance for action. The very same situation may evoke different affective responses. Generally, argues Smith, human beings experience a tension between affections that are 'private, partial, and selfish' (A. Smith, 1982, VII.ii.1.47) and the desire for approbation from their fellow men. There is a tension between natural, undisciplined, untaught feelings (A. Smith, 1982, III.3.28) and the equally natural search for approbation, a tension that instructs us to adjust our passions to 'that pitch of moderation, in which the impartial spectator can entirely enter into them' (A. Smith, 1982, I.i.5.8). Smith shows that we feel uneasiness with our natural take on a decision problem. We want it to be interpreted in such a way that others could approve of it. Says Smith: 'nothing pleases us more than to observe in other men a fellow-feeling with all the emotions of our own breast' (A. Smith, 1982, I.i.2.1).

For Smith the interpretation is about finding the appropriate position from which the agent can see her decision problem less partially. It is a knowledge problem even though not one of exact knowledge, codified in algorithms and axioms. Smith emphasizes that the rules we formulate to

guide our behavior are usually inexact. They are 'loose and inaccurate, admit of many exceptions, and require so many modifications, that it is scarce possible to regulate our conduct entirely by a regard to them... To affect... a very strict and literal adherence to them would evidently be the most absurd and ridiculous pedantry' (A. Smith, 1982, III.6.9). McDowell (1979, p. 336) ascribes the same attitude to Aristotle and argues that however subtly we draw up the code of conduct, we will encounter cases in which mechanical application of the rules would strike us as wrong. Knowledge about finding the adequate interpretation is tacit.

Tacit does not, however, mean arbitrary. Knud Haakonssen (1981, p. 53) explains how the search for appropriate interpretation operates in three distinct sympathetic moves. We first put ourselves into the shoes of a spectator of our situation. The second move consists in imagining the extent to which the spectator can sympathize with our take on the situation and approve of our sentiments. We try to discover which of the possible interpretations the spectator would adopt and what intuitions triggered by the interpretation would thus be appropriate. We try to gain a less partial perspective on the propriety of our motives but also imagine gratitude of our future self who will bear the consequences of our action. In the last move we sympathize with the spectator's approval or disapproval of the original sentiments and thereby make the spectator's sentiments our own.

In search for a more adequate interpretation we do not look for a fundamental principle or formula. We try to reach 'certain correspondence of sentiments and opinions, ... certain harmony of minds, which like so many musical instruments coincide and keep time with one another' (A. Smith, 1982, VII.iv.28). We try to visit other people's hearts and invite others to visit ours. All this can only happen in a process of 'free communication of sentiments and opinions'

(A. Smith, 1982, VII.iv.28). Just like current moral psychology, Smith also sees interpersonal communication as the key source of reinterpretation.

MULTIPLE SOURCES OF MORALITY

One of the postulates of virtue ethics in general and of Smith in particular is that human beings do not have access to any non-distortive lens to correct their picture of reality, only to lenses of other individuals. There are no standards outside of the practice; there are no other appetitive sources of judgment than the passions arising in our breast.⁹ And yet we can meaningfully talk about improving the interpretation. Just as the guidance of a wine expert can help us discover myriad of nuances in wines and thus unveil quality and distinction where we did not see it before, entering into the perspectives of men of virtues can improve our moral judgments.

For Smith the referees judging our behavior are our sentiments. The role for the rider is to manage the elephant (or more accurately a flock of elephants) in a way that other riders could approve of. But there is more than the other-oriented sympathy that guides the rider. In the *Theory of Moral Sentiments* Smith enumerates four sources of moral approval of actions (A. Smith, 1982, VII.ii.3.16). Besides sympathy with the motives of the agent, we enter into the sentiment of those who are affected by the action and we also take into account agreeableness of the conduct with the general rules of virtues. The fourth source is somewhat distinct and especially important for economists. Writes Smith: '[w]hen we consider such actions as making a part of a system of behaviour which tends to promote happiness either of the individual or of

⁹ It is fair to say that Adam Smith was not relativist about moral judgments; he identified 'a]ll-seeing Judge of the world, whose eye can never be deceived, and whose judgments can never be perverted' (A. Smith, 1982, III.2.33) but at the same time argued, in my reading, that people do not have access to the knowledge of the Judge in their earthly lives.

the society, they appear to derive a beauty from this utility, not unlike that which we ascribe to any well–contrived machine’ (A. Smith, 1982, VII.ii.3.16).

Considering our actions as part of a system requires intellectual effort. Smith argues that human society ‘[a]ppears like a great, and immense machine, whose regular and harmonious movements produce a thousand agreeable effects’ but only ‘[w]hen we contemplate it in a certain abstract and philosophical light’ (A. Smith, 1982, VII.iii.1.2). The stress on ‘abstract and philosophical light’ is crucial. There is nothing automatic about seeing the agreeableness of what Hayek (1998, p. 107 ff.) called catallaxy. Smith argued it is reserved only to men of reflection and speculation (A. Smith, 1982, IV.2.11) which is again consistent with Haidt’s observation that abstract moral reasoning is rather rare.

The interesting question is whether the sentiments and utility always provide compatible instruction for behavior. Smith thinks they do. He conjectures that ‘Nature, indeed, seems to have so happily adjusted our sentiments of approbation and disapprobation, to the conveniency both of the individual and of the society’ and concludes that what we approve as virtuous is generally what brings the highest utility (A. Smith, 1982, IV.2.3).

It is an evolutionary argument. Our sentiments are adaptations to environmental challenges we have faced in the long process of evolution (Haidt & Joseph, 2004). The social environment is changing fast, though, and what once was well adapted need not be adapted today. Sperber (cited in Graham et al., 2012) distinguishes between a proper domain of cognitive modules which contains a set of original triggers and the actual domain which happens to trigger the module nowadays. Socialism can be seen as a consequence of a development in which the

actual domain triggering our atavistic morals (Friedrich A. von Hayek, 1998, p. 147) became substantially different from the proper domain. Just as our evolved craving for salty and sweet food may be maladaptive in rich societies so can be our moral intuitions. If the tie between utility and virtues breaks apart, reasoning about the working of society gains extra prominence in overall moral judgments.

Then comes economics. Economics can be understood as a systematic intellectual effort aimed at understanding concatenate coordination of individual behavior (Klein, 2012, p. 37 ff.). It provides the abstract and philosophical reasoning necessary to discover spontaneous order in human interactions. Smith's message in the *Wealth of Nations* is that prudent men honestly pursuing their interests within the limits of commutative justice promotes general happiness (A. Smith, 1904, IV.9.51). Such man promotes utility which formed no part of his intention. His motives were proper and the consequences are pleasing. But as we know from economics, harmony between motives and consequences need not always occur.

Smith portrays moral interpretation as a complex process involving passions and judgments. For him, moral judgments are enshrouded in sympathy but the process of moral reasoning is rather complex. Most importantly regarding the theme of this paper, Smith shows how interpretation is affected by reasoning about the working of the whole system of human interactions. Such reasoning is not the primary source of moral approval but it should not be neglected.

THE NEED FOR VIRTUES

Thus far I have argued that economists could benefit from various disciplines providing evidence on interpretation. Any knowledge about how environmental cues shape the perception of a

choice situation should be welcome. I claimed that the Smithian theory should count as an important contribution. Not only is it largely consistent with findings of modern moral psychology, it also provides insights that alternative approaches cannot offer.

Unlike other virtue ethicists Smith shows how our understanding of the workings of society, which economists boast to be providing, contributes to interpreting reality. Being an economist and understanding the workings of the market process allows for better interpretation. Overall moral excellence cannot be achieved without economic understanding. It pertains to the man of virtue. Not as the only attribute, for sure. Understanding of economics does not make one virtuous. It is only a necessary condition, not a sufficient one. Being virtuous requires much more. But economics must be there, without it our interpretations are deficient.

For many economists the proposed link between virtues and economics is disturbing. It should not be. Values and facts are not clearly separable (Klein, 2012, p. 246 ff.). The answer to 'what should I do?' depends on the answer to 'what is the problem I face?' Most economists believe that the only 'ought' statements they can make as economists would necessarily combine the knowledge of economics with some kind of private subjective tastes. And they naturally ask why their private tastes akin to tastes for a chocolate or vanilla ice cream should trump anyone else's opinion. Fair enough. Yet there seem to be situations where the 'oughts' are implied by the interpretation of the decision problem (Searle, 1964). If you promised to give me an ounce of gold, you should give me an ounce of gold. If you believe to play soccer, you should abstain from playing the ball with your hands. If you say you see a tortured child, you should try to help her. You should do it as a matter of fact, not because of your actually arising tastes. The situation

could have been interpreted otherwise but if we accept the interpretive frame, normative structure comes part and parcel with it.

Interestingly, economists frequently admit that rational choice theory has a straightforward normative application (Binmore, 2008, p. 22 ff.). A full description of a choice problem implies the one optimal choice. Individuals may err and economics helps them improve their decisions. It is part of what economists teach their students under the label of economic way of thinking. The cost of our decision is the opportunity cost. Sunk costs do not matter. When an economist says that Adam's decision took into account sunk cost and was therefore wrong, she is not expressing her taste for rationality. Saying that Adam might have had a taste to err is generally meaningless. If Adam and the economist shared the interpretive frame, Adam would have no option but to admit he had made a mistake.

The lesson from Smith is that there is more to the economic way of thinking. Economic way of thinking involves interpretation, not just analysis of an already interpreted problem. Economists may in theory indeed know better what the choice problem faced by Adam is. We can have doubts to believe it will occur frequently but it can occur. If both Adam and the observing economist have their sympathy fine-tuned to reach the level of virtue, if they are close enough for the economist to see all the details of Adam's particular situation and if Adam, unlike the economist, knows nothing about the beauty of the complex social order, then the economist's interpretive frame may be better precisely because she is an economist. Her economic knowledge may impose a different normative structure on the situation and it may be a more adequate one. She can tell Adam that he erred because his interpretation was inferior.

Griswold (1999, p. 49) argues that the goal of Smith was to ‘persuade us to view things in a certain light, to refine the ways in which we judge and feel, and perhaps to encourage us to act in a certain manner.’ The main line of economics provides us with a special outlook, with certain interpretations of reality; it teaches us to see things from a very particular perspective – the perspective of exchange. When looking at the problem of kidney shortage, economists see it as a problem of prohibition inflicted on a market. There was an opportunity for exchange and it was blocked by policy. The conclusion that prohibition implies shortage is trivial. And so is the moral implication for the policy maker. It naturally follows the interpretation. Whether it is superior to alternatives I keep open here. The question of organ donations certainly triggers other moral domains and it requires much reasoning to show what economists believe to be a starting point of the argument. Smith knew the exchange perspective was focal. But seeing only the exchange perspective would be a serious simplification.¹⁰

Economists are often frustrated by the fact that people ignore obvious gains from trade (Šťastný, 2010). Bryan Caplan (2008) identified an anti-market bias that captures the cause of such frustration. He argues people focus on the motives of business rather than the outcomes of market competition (Caplan, 2008, p. 30). Students of Adam Smith should not be surprised by such human inclination. Judging the motives seems to be the way we are prewired. People do not naturally see the world as a place that abounds with opportunities for exchange. Is it wrong? Are the allegedly biased individuals applying their crude intuitions in domains where

¹⁰ Interestingly, Vernon Smith (1998) believes that the multiple perspectives provided by Adam Smith in his writings can be unified under the label of ‘social exchange’. I think such reductionist interpretation is highly problematic. For a detailed critique see Ryan Hanley (2010).

they lead them astray? In many cases they do, I believe. In many cases economists' interpretations are better. Better but not necessarily right. Economists should acknowledge that the interpretations they considered to be an uncontroversial starting point of argument are just moral claims, not an axiom. Daniel Klein characterizes Smithian outlook by epistemic humility (Klein, 2012, p. 253). The standards of interpretation for Smith were often loose, vague, and indeterminate. Economists should keep this in mind, they should become more Smithian.

CONCLUSION

McCloskey criticizes the loss of virtues from economics and urges her colleagues to return to Adam Smith and humanistic economics rooted in sound moral philosophy. I concur with the thrust of her argument and explain why it would be a meaningful move at least for economists who identify with the mainline of the discipline and who proudly see themselves as students of Adam Smith. In my view Smithian moral psychology can make economics more productive by helping it to overcome what I call the problem of interpretation.

My narrative was aimed at economists who believe economics is about implications of individual choice. I first engaged with a behaviorist interpretation and argued that behaviorism relying exclusively on revealed evidence was even from a purely pragmatic viewpoint rather weak. In explaining individual choice behaviorists have to rely on their own interpretation of reality rather than interpretation of those they study. Such naïve mentalism is counterproductive. Fully-fledged mentalism is no less scientific and does not close the door to evidence necessary for understanding what economists see.

I then argued that in interpreting reality economists should use all the common sense tools people are endowed with; but they should not be content with them. They should aspire higher. I briefly discussed how neuroeconomics and evolutionary psychology could alleviate the problem. I singled out moral psychology as the most elaborate approach to interpretation in morally relevant situations and showed that the long tradition of virtue ethics could be understood as a direct precursor of recent developments in the field.

But all that was only a long prelude. My main goal was to suggest that, in the *Theory of Moral Sentiments*, Adam Smith, who is deservedly praised by economists for many achievements, offered more than a sound theory of interpretation. By allowing for multiple sources of moral approval Smith opened space for economics to enter moral reasoning. In the Smithian system, economics unveiling the web of unintended consequences of human action is part of moral interpretation. It informs our judgments and makes us see the sentiments in a different light.

In the title of the chapter I ask whether economists need virtues. I think they do. At first, I argued they need the moral psychology which underlies virtues to address the problem of interpretation. But should they really reach the excellence that virtues require? Should they be dissatisfied with merely understanding the interpretation of others and aspire to cultivate their own interpretation? My answer is again affirmative. By studying economics, they mastered a new and powerful tool for interpreting reality which could bring sharper and more detailed picture of social interaction. It would be absurd not to use it. But the sharper and more detailed picture can only be obtained if the tool is integrated with other tools of interpretation. We must not forget the sentiments. People who can only light a fire but not control or extinguish it, should keep away from matches. Partial knowledge can cause much harm. Economics without

virtues is not much different. If economists want to use what they have learnt they must become aware also of the other parts of being human.

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