



## **Building Block 10**

# **Economics for a Better World**

What normative principles and visions can guide action to make the world a better place and address the major challenges of our times?

**1**  
Normative  
Principles  
for Decision

**2**  
Visions for  
the Economy



**3**  
Practical  
Suggestions

## What

This building block is about normative ideas in economics. That is, the underlying ideals guiding economic thinking and decisions, such as equity, efficiency, liberty and solidarity. It also includes visions for how the economy could and should look, ranging from concrete policy proposals to visions of differently organised economic systems.

## Why

It is crucial that students are taught about the normative aspects of economic thinking. It helps them deal with normative issues in a more conscious and sophisticated way. This is especially important because it prepares them for their later work in which they will have to inform non-economists on the normative dilemmas of economic decisions. If they are never taught to think about and explain these issues, it is very likely that as graduates they will be blind to them. Or that if they do address them, they will likely do so in an inconsistent and haphazard manner. Students thus have to gain experience with normativity during their education.

## Contrast with current programmes

Current programmes generally have two approaches to normativity. Some try to ignore it, along the lines of: *'There is normative economics, and there is positive economics; here we only deal with positive science'*. We think this is an unrealistic and damaging approach, as it in no way prepares students for their future roles in advising others to make decisions. The other frequently found approach is to tuck away all normative aspects in a separate course on ethics. Though more helpful, this is not enough. Besides learning general ethical philosophy, students need to understand its role in economic questions. We suggest teaching normative aspects in a more integrated and applied way, making students aware of normative aspects of theories when they learn them and teaching them to spot the more normative elements of policy advice.

*“The choice between different social arrangements for the solution of economic problems should be carried out in broader terms than this [comparisons of market values] and that the total effect of these arrangements in all spheres of life should be taken into account. As Frank H. Knight has so often emphasized, problems of welfare economics must ultimately dissolve into a study of morals.”*

**Ronald Coase** (1960, p. 43)

The ultimate goal of economics, apart from sheer fascination, is to contribute to a better world. How such a better world looks however, is hotly debated. In fact, normative discussions about economic questions are often at the centre of political debates. Economic questions are thus not simply a matter of intellectual curiosity or academic interest, they are key societal issues. Economists have the vital role of supporting society in making decisions and taking actions concerning these economic questions.

As explained in *Foundation 4: Values*, it is not the job of the economists to make these decisions, but it is our job to inform and support others in making economic decisions, shedding light on their normative and analytical aspects, as well as their implications in the real world. This requires that economics students learn about the normative aspects of economic questions, the focus of this building block.

In other words, in contrast to many of the other building blocks which focus mainly on *descriptive* or *analytical* ideas and knowledge, this building block focuses on *normative* ideas. It is about teaching students to identify the underlying values and moral dilemmas involved in economic issues and to explain these clearly to non-economists. These skills enable economists to minimise their own normative biases in their work and identify weak points in normative arguments and reasoning.

This chapter starts with a section on teaching students to spot and critically assess the normative elements embedded in analytical tools, such as models and measurements. The next two sections are more applied and focus on ideas that can guide action. The second section has a more short-term focus and looks at normative principles on which decisions can be based. The third section has a more long-term perspective focusing on visions of how the economy should look.

# 1 Normative Principles for Decisions

To be able to make a decision, one has to apply normative principles, be it consciously or not. Since the ultimate goal of economics is to help the world make better economic decisions, it is important that students become familiar with the normative aspects of decisions. By being able to uncover relevant normative principles and clearly articulate how they relate to the issue at hand, economists can inform others to better understand the decisions they have to make.

These normative principles are often called ‘welfare criteria’ in economics. It is, however, important to note that maximising the welfare or utility of individuals is only one such normative principle. The different economic approaches described in the online resource *Economic Approaches* ([economy.st/approaches](http://economy.st/approaches)) provides an overview of the assumptions underlying different economic theories. Other principles than welfare include fairness, legitimacy, security, stability, and reciprocity. These principles differ in their translatability into mathematical form and their applicability in practice.

Of particular importance is how normative principles deal with the pros and cons of decisions. Within welfare economics, the principles of Pareto efficiency, ‘do no harm’, and Kaldor-Hicks efficiency, ‘hypothetical compensation’, are well known. These are only two among many principles on which normative assessments can be based. Solely within the utilitarian tradition already, there are, for example, also those who argue the average or minimum utility should be maximised.

Besides utilitarian principles there are also other ideas about how to deal with moral dilemmas, such as the precautionary principle and inalienable rights and liberties. Students need to become familiar with these different ways of approaching normative trade-offs, as they are relevant for many real-world problems.

The goal here is not to teach students how they should independently make value judgments, but to learn how to identify underlying

normative assumptions and trade-offs and clearly communicate them to non-economists. Or in Huei-chun Su's words (2012, pp. 378-379): *"Normative economics in this sense is primarily concerned with exploring the way of making an evaluation, but it does not have to commit to endorsing the evaluation. In this way, normative economics only relates to value judgements but does not make value judgements."* It is not about teaching students 'what is right', it is about teaching them how to clearly see where and how value judgments are being made throughout the analysis.

Since it is not economists themselves who should make normative decisions, students should learn how the general population sees certain central normative trade-offs. This can be done by looking at interviews and surveys of citizens, or letting students conduct new ones. Of course, it is not a matter of learning survey data by heart, nor should students internalise majority opinions on a certain issue as 'the right view'. Rather, learning the habit of looking at the normative choices of people can help students to realise the range of value-judgements that may exist beyond the 'common sense' they personally are used to or automatically adopting the values or interests of their employers – looking outside their own values bubble, as it were.

How can this be done? A course on labour economics, for example, generally covers the topic of unemployment and frequently also discusses the related policy options. When discussing these different social policies, one could explicitly identify the normative questions involved in the different aspects of those policies. Kuhn et al. (2020) and Nicoli et al. (2020), two papers related to one research project, identified the following six questions as main normative issues concerning EU social policy:

- 1** How generous should the unemployment benefit levels be?
- 2** Should there be training and education opportunities for unemployed citizens?
- 3** How much between-country redistribution should there be?
- 4** How much tax are you willing to pay and should there be progressive, proportional or regressive taxation?
- 5** Should it be centrally administered by the EU or decentrally by national governments?
- 6** How much job search effort do unemployed citizens need to do to be able to get benefits?

Surprisingly they found that the majority of the EU population is in favour of such an EU unemployment scheme. But citizens' support depends heavily on the choices made concerning the normative issues mentioned above. Most EU citizens prefer decentralised implementation, more generous programmes, requiring education and training opportunities as well as job search effort

conditions, and low as well as progressive taxation. The point here is not that these are the ‘right’ moral positions, but rather that these are simply the normative choices most EU citizens would make. By looking at the results of such surveys students become aware of the normative choices citizens prefer and develop a feeling for what is generally considered important.

## 2 Visions for the Economy

Next to the normative elements embedded in analytical tools and normative principles for decisions, normative visions and ideas on economies are relevant for economics education. Such economic visions are often at the core of political ideologies and the directions in which societies develop. These visions can range from short-term concrete policy proposals to idealistic visions of utopian economic systems. These ideas about how to structure and organise an economy are thus crucial for any economist to be familiar with. Again, this should not be aimed at turning economics students into believers of those visions. Instead, the goal should be to make students knowledgeable about the wide variety of visions, so they can develop a good understanding of them and are able to inform non-economists about them.

The central challenges of an age generally define its normative discussions. The main societal challenges of our time seem to be climate change, pandemics, rising levels of public and private debt, cultural clashes between nationalism and cosmopolitanism, growing inequality and a concentration of economic power. It is key to teach students something about the range of economic visions on these topics.

Taking climate change as an example, it would be useful to expose students to debates between the ideas of green growth, degrowth as well as growth agnosticism. *Green growth* is based on a future vision in which ecological sustainability is accompanied with a further rise in GDP, often linked to a strong belief in technological progress (Allan & Meckling, 2021; Meckling & Allan, 2020; OECD, 2021). Opposing this idea, the *degrowth* perspective envisions a sustainable future in which GDP has declined, because they argue it will not be possible to fully decouple GDP growth from resource use and carbon emissions (Haberl et al., 2020; Hickel, 2020; Hickel & Kallis, 2020). Then there are those who want to shift the focus of the debate because they argue GDP is not a particularly relevant topic or economic goal. Instead, they argue that human wellbeing should be the goal of economic activity, making them focus on the relationship of sustainability with wellbeing, rather than with GDP (Van den Bergh, 2011; Van den Bergh & Kallis, 2012). As such, they are growth *agnostic*, being indifferent to GDP’s development and focusing instead on human wellbeing.

These economic visions are likely to shape the coming future as they are already influencing political movements and policy decisions. Students need to learn at least their outlines. Besides having strong links to societal challenges, these economic visions are also deeply connected to economic organisations and mechanisms (Building Block 5) and political-economic systems (Building Block 6). Therefore, it is important that students become familiar with the various moral views on ways of organising economies. Given that most economies are currently mainly organised along capitalist lines, it is perhaps no surprise that normative discussions about capitalism are particularly relevant. However, in a master's programme specialising in labour economics for example, it would be particularly important to expose students to the different normative visions on how labour should be organised and rewarded.

In sum, students should learn about the different visions that exist about how the economy could or should look. In addition, it seems particularly promising to connect these discussions about normative ideas to societal challenges as well as ways of organising economies.

### 3 Practical Suggestions

Firstly, meaningful normative discussions require shared reference points: a solid grounding in analytical and real-world knowledge. For instance, when discussing the different visions on the future concerning climate change, it pays to first discuss with students what climate change is and how it has evolved so far.

- What are the main causes of climate change?
  - How far are we from reaching the various planetary boundaries (and by how much have we already exceeded some of them)?
  - How much of our natural resources have already been depleted and how much is left?
  - What are the future scenarios climate scientists think are likely?
  - Which sectors and countries have been mainly responsible for the emissions?
  - What is the state of the different sources of energy?
- etc.

Without such knowledge, students would not learn how to form informed, rather than purely ideology-driven, opinions.

Secondly, we think this building block provides the perfect opportunity to let students practise their communication skills, both in written and spoken form. The most direct method would be to ask students to

write essays and debate about the normative positions they believe in. Additionally, it can be very useful to make students defend normative positions that are not their own. This forces them to consider the strengths of positions that they personally disagree with, and the weaknesses of the position they hold themselves. It is a particularly relevant skill for their careers, as being able to understand others' normative ideas is often a lot more important than convincing others of yours.

Another way to do this could be to give students the assignment to prepare a written argumentation on a normative question and hand this in. Based on their answers, every student is linked to another student who views the issue from a different perspective and arrives at another conclusion. Thereafter, every couple gets a limited timeslot, for example one hour, to explain to each other their argumentation and reasoning. Directly after this, students have to write down the argumentation of the other as best as they can, thereby testing how well they understand their opponents' reasoning. Finally, the teacher compares the original assignments with the written recounts, assessing how many of the key arguments match. Each couple receives one grade so that both their explaining and listening skills are rewarded and teamwork between (intellectual) opponents is stimulated.

Some interesting questions to discuss could be the following:

- Is material consumption the goal of the economy?
- What level of inequality is justifiable if it contributes to economic growth?
- Is alienation a justifiable side effect if the work creates economic growth?
- Do owners or shareholders have the sole moral right to make decisions in firms or should other stakeholders, such as workers and consumers, have a say on decisions as well?
- What should be commodified, and what do we find too sacred or too dangerous to trade or manage commercially? Consider for example, organs, humans, human time, education, housing, citizenship, mind-altering substances, weapons, land, medicine, ideas, techniques, prisons, the right to pollute, or political office.
- Should trade in these items be forbidden, regulated through limiting rules or market mechanisms, or left free? Sandel's *What Money Can Buy* provides great material for such discussions.

Furthermore, taking controversial positions should not be punished, but nor should students be pushed to choose an ideology to believe in. It should be perfectly fine if students take nuanced and complex positions

that are not easily put in ideological boxes. So when giving such randomly assigned normative positions, we think it is important to not only assign ideologically stereotypical positions.

Finally, and connected to the point above, it can help to link such exercises to real historical or recent cases to ground them in reality and link them to specific contexts. This is also what they will be doing in their careers, so it only makes sense to give them experience in doing so.

## Teaching Materials

- *The Oxford Handbook of Ethics and Economics* by Mark D. White, from 2019. This extensive collection of essays explores the many moral dimensions of economics, from different ethical theories and the ethics in schools of thought, to the ethics of money, labour markets, risk, law, civil rights and ecological sustainability.
- *Economic Analysis, Moral Philosophy, and Public Policy* by Daniel Hausman, Michael McPherson, and Debra Satz, most recent edition from 2016. A great introduction into normative economics, covering its many areas and topics from welfare economics and utility theory to liberty, equality and justice.
- *A Guide to Ethics and Public Policy: Finding Our Way* by D. Don Welch, from 2014. A brief but insightful book providing a broad framework for evaluating policy proposals and outcomes, organised around five moral principles: benefit, effectiveness, fairness, fidelity, and legitimacy.
- *The Oxford Handbook of Professional Economic Ethics* by George F. DeMartino and Deirdre McCloskey, from 2016. This insightful collection of essays explores the different aspects of ethics in economics, with special attention to ethical issues related to economic theory, research and policy advice.
- *Political Ideologies: An Introduction* by Andrew Heywood, most recent edition from 2021. A useful and accessible introduction into a wide variety of political ideologies, from liberalism, socialism, and conservatism to feminism, nationalism, and green ideology, that shape much of our normative thinking on the economy.
- *Moral Views on Market Society* by Marion Fourcade and Kieran Healy, from 2007. An insightful overview paper on the key different normative perspectives on capitalism, enabling readers to better understand and place ideas and arguments prevalent in many debates about the economy.
- *Is Capitalism Obsolete? A Journey Through Alternative Economic Systems* by Giacomo Corneo, from 2017. A systematic and sharp overview of different (mainly socialist) economic systems that helps students think analytically about their allocation and coordination mechanisms and

informs them about the possible ways of organising economies and the arguments for and against the various options.

- *What Money Can't Buy: The Moral Limits of Markets* by Michael J. Sandel, most recent edition from 2012. A highly influential and well-written book reflecting on the moral place of markets in society and asking the key question whether everything should be up for sale. The Institute for New Economic Thinking has also launched a video series on the book and topic: <https://www.ineteconomics.org/perspectives/videos/what-money-cant-buy>

Visit the website for a wider range of teaching materials, to provide feedback, and to exchange ideas and ask support from colleagues worldwide.

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