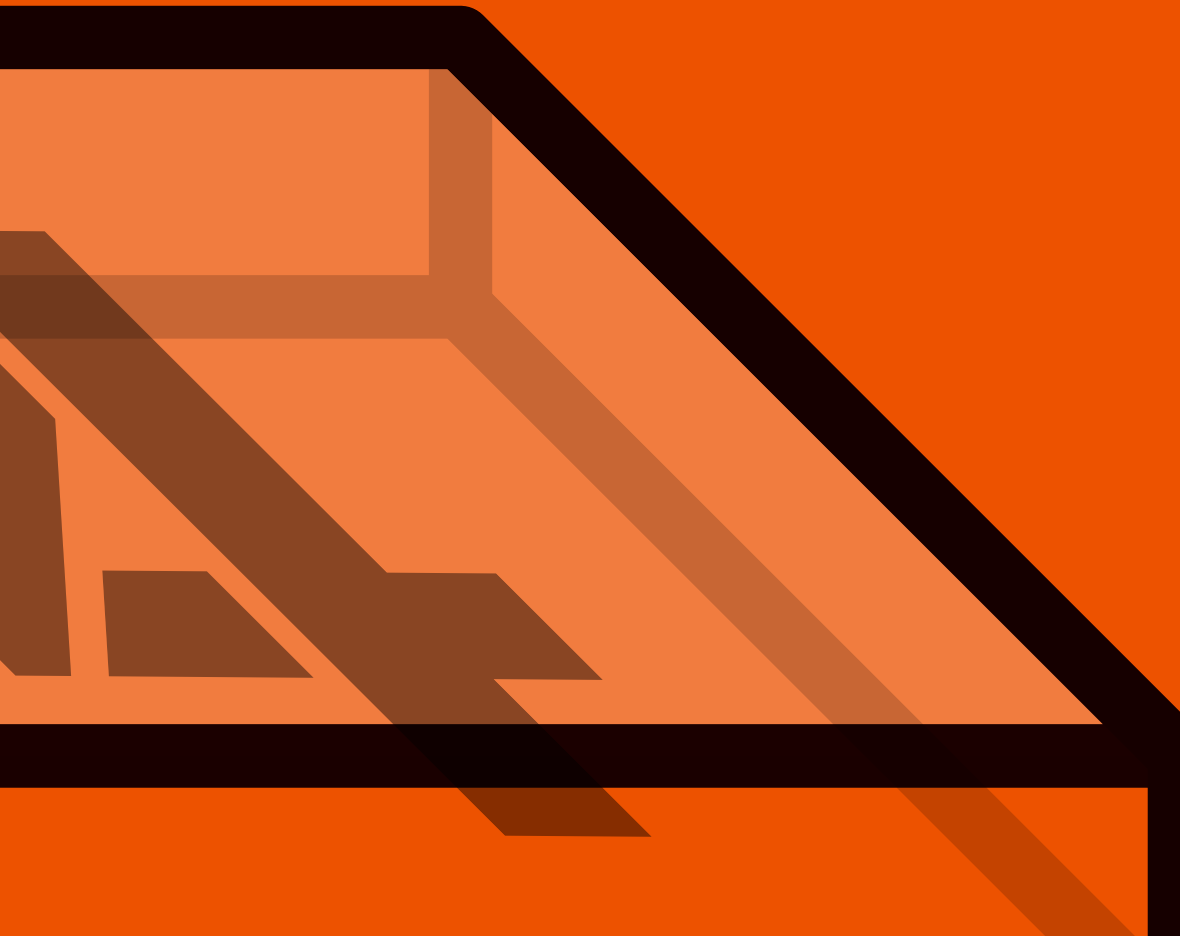
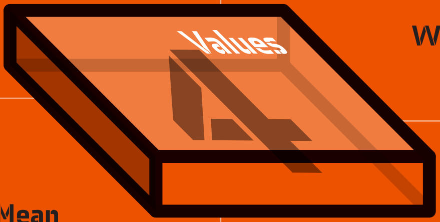


Foundation 4

Values

Value judgements are at the core of economic questions. Students should learn to distinguish between different values and learn to discuss them rather than sweep them under the carpet.

1
Positive vs Normative?



3
Where in Economics
Do Values
Play a Role?

2
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Understand Values

Economics, at its core, is about sustaining life and enhancing its quality through improving economic systems. What quality of life is, however, depends on value judgements. Values are thus at the core of economics. It is crucial that economics students develop a strong understanding of the role of values in economic systems and in any analysis they make of these systems. From this understanding, they can inform those making decisions on the relevant values at hand, and are aware of any values embedded in their own theories and methods.

An understanding of the values that are at play in economic questions can be gained in part through thought experiments and mental exercises, but ethical philosophy in itself is not enough. Students should be confronted with real-world scenarios, challenges and policy decisions and asked to assess them against a range of value standards to see that contrasting conclusions can be reached by economic analysis when the foundational values are changed. In addition, we believe that economists' work needs to be grounded in the concerns of actual people, through conversations and surveys of them. This habit starts at the undergraduate level.

The chapter starts with an overview of the various reasons for teaching students to understand and highlight values in their economic work. In the next section, we engage with various counter-arguments. The third section sets out three ways in which values play a role in economics: as outcomes of economic processes, as causal factors in economic processes, and as embedded in academic tools. Finally, we provide a number of practical suggestions for implementing this principle in economics courses.

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"Economics, as it has emerged, can be made more productive by paying greater and more explicit attention to ethical considerations."

Amartya Sen (1987, p. 9)

Economic problems are never merely intellectual puzzles. At their core, economic problems are problems because they impact people's lives and the Earth's ecosystem more broadly. The ultimate goal of economists' work is to improve economic systems of resource extraction, production, distribution, consumption and waste disposal through which societies provision themselves, so that people can better achieve what they find important. In other words, what they define to be a higher quality of life. To be able to determine what constitutes an *improvement* in the quality of life and thus to the economic system however, we need to make judgments about values (Wilber, 2004). Therefore, it is crucial that economists are able to understand the different values that play a role in an economic issue. Values are an integral aspect of economic dynamics. Keynes, for this reason, wrote that *"Economics is essentially a moral science. That is to say, it employs introspection and judgement of value."* (1938, p. 2). An organising principle of economics education should thus be to teach students to understand the role of values in economies and in economics as a discipline.

By values we refer to *notions of what is important or good*. It is useful here to distinguish between values (abstract concepts about what is good or important) and norms (how one should act in concrete ways). This is also different from the more narrow concept of economic value (Mazzucato, 2018), although the two are related to each other. Ideas about economic value are at the core of economic theories, making them an important aspect of teaching theory. However, in this chapter we focus less on economic theories, and more on the different values that are involved in economic processes.

1 Positive vs. Normative?

Current economics programmes often begin with juxtaposing normative and positive economics. Normative economics, being concerned with the 'what ought to be' questions, is said to be for philosophers and politicians, while economists, as true objective scientists, are said to concern themselves solely with positive economics, the technical 'what is' types of questions (Butler, 2009). Frequently cited in this regard is the following statement in Robert Solow's essay *Science and ideology in economics*, pushing back against those arguing for explicit inclusion of values in economic analysis: *"It is as if we were to discover that it is impossible to render an operating-room perfectly sterile, and conclude that therefore one might as well do surgery in a sewer"* (1994, p. 240). The metaphor in the above quote is frequently presented in class as an argument that values are something filthy and dangerous that are to be kept out at all costs.

If we read on, it becomes clear that Solow did not intend any such thing. His suggestion is rather to try to differentiate between value judgements and scientific analysis, and to show both clearly in their own right. The final sentence of the essay sums it up: *"[T]here is sense in a determined effort to see both that issues of value-conflict do not get smothered in smooth pseudo-science and that conflicts susceptible of a scientific answer not get submerged in a flood of ideology impervious to analysis and evidence"* (Solow, 1994, p. 251). Both are crucial, both deserve the attention of the economic researcher. And it is vital to teach students to see the difference between them.

So why do we frequently hear economists say that their work is non-normative, that they are objectively performing positive analysis? You never hear chemists saying that: it is very hard to imagine such a thing as normative chemistry. Nor do you hear literature reviewers say it, because they are expected to make value judgements. The reason we as economists say this is because our terrain is so intensely normatively charged, and so we attempt to abstract from value judgements, as we explore in more detail later. The outward appearance of positivity and objectivity can be sustained as long as all economists use the same set of normative assumptions to underlie their work (such as that prices reflect value), but that does not make economics value-free.

This is not to say that we economists are consciously cheating everyone. Most economists we know have strongly internalised this professional ethic of the 'technical' advisor: they honestly attempt not to impose their private views. It is merely to say: the fact that many of us pride ourselves on being 'positive' scientists does not mean that normative considerations do not play a large role in our field of expertise. It is rather the reverse: because it involves *so many* thorny normative issues, we try to limit and flag our subjectivity wherever we can.

We agree that economists should try not to let their personal views affect their analysis. But we believe that the best solution is not to blind ourselves to the normative, to treat it as toxic. We should rather put it into the limelight. In other aspects of our society, we have also found that with

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difficult issues, transparency and active engagement are more effective than burying it and pretending it does not exist.

The idea of the economist as a neutral technical advisor carries within it another danger: advisors generally work for those in power. Most of us do not see ourselves as servants to kings and CEOs, and would rather be seen as serving *'the people'*. But the distinction is a fine one. If we do not carefully watch whose interests are being served, but instead focus on limiting our analysis to the technical, rather than the normative, we can easily find ourselves simply reproducing or even exacerbating the existing power relations in society (Roncaglia, 2017).

A productive approach to teaching students to be aware of values is to openly discuss them in class. Through discussing normative issues, students sharpen their analytical skills and critical thinking on the role of values, inside and outside their own minds, when studying economic topics. Doing the opposite, making values into a taboo or relegating them into a single course on ethics, makes students blind to values when doing their analyses. The goal of economics education should not be to train students to quietly or tacitly hide value-judgements. This leaves students unable to discuss and analyse them properly, teaching them at best to play hide and seek with regards to value. Instead, it should be standard practice in economics courses to uncover (potentially difficult to identify) values and openly discuss them. In turn, this transparency and clarity can help society in its economic decision making.

2 Common Misconceptions: What We Do *Not* Mean

To prevent misconceptions, we briefly explain what we do *not* mean by teaching understanding the role of values in economies.

First and foremost, we are not advocating to teach students certain values. Academic education should teach students how to think critically and independently. Trying to instil normative ideas in them would amount to indoctrination (perhaps with the exception of professional codes of ethics). A key difference between education and indoctrination is that the former tries to present a complete picture, with pros and cons, strengths and weaknesses, the status quo and alternatives, while the latter one-sidedly and uncritically presents arguments to convince the audience of something.

When discussing policies, ideas, or ways of organising the economy, it is crucial that teachers do not try to convince students of the superiority of one, but instead present a broad range of evidence, arguments, and alternatives, to allow students to critically assess and evaluate choices for themselves. And perhaps most importantly, students should be allowed to question and examine any assumption and argument.

This is not merely a theoretical notion. Today, there are lobby groups actively working to promote certain political ideas within economics education. To give an example, one of the most important organisations focusing on economics education in the US is the *Foundation for Economic Education* (FEE). It is partially funded by the billionaire brothers Charles and David Koch and promotes according to its own mission statement *"individual liberty, free-market economics, entrepreneurship, private property, high moral character, and limited government"* (FEE, 2021, p. 1). While some of these notions are fairly empty or open to interpretation, such as 'high moral character' (who could be against that?), others form a very specific and politically motivated package of economic thought.

In doing so, the FEE made *"the case against pluralism"* in economics education, arguing only free market ideas should be taught. Using a politically charged Whig history argument, they claim that their favoured ideas are simply scientifically better than other ideas (see also the box *Whig history: Is the mainstream of the moment always the best?* in chapter *Foundation 2: Pluralism*). They stated that left-wing, but theoretically very different economic thinkers, such as Marx and Veblen, were rejected *"not because of political views, … but rather because their theories were seen as fatally flawed"*, while conceptually distinct but both *"free market economists, like Milton Friedman and Friedrich Hayek, … rose to prominence by using logic and evidence"* (FEE, 2017, p. 1).

This is just one illustration of an interest group. We equally oppose the monopolisation of economic education by for example Marxian ideas, as was the case in several communist countries. Such politically motivated campaigns to exclude ideas from being taught to students have no legitimacy and should be rejected by any economist, irrespective of their personal political views or theoretical preferences.

Secondly, while we acknowledge that it is impossible to fully separate positive and normative issues, we do not advocate blending the two together. Like Solow (1994), we think it is best to distinguish positive from normative where possible and treat them independently. As such, we firmly oppose treating normative issues as taboo and instead argue for explicitly including them in economics education. When teaching a course on a topic, the values concerned should be treated as a distinct and important element. A course on labour, for example, would be incomplete without explicitly discussing and treating the different values that are involved in labour processes and arrangements such as equity, autonomy and efficiency.

Thirdly, we do not think economists should be the ones making normative decisions for society. In a democratic society such decisions should be made by citizens, either directly or via elected representatives. Therefore, we do not advocate training economics students to make normative decisions and defend them with sophisticated ethical arguments. Instead, students should learn to inform those who make decisions about the values that are relevant for the economic issue at hand. They need to be able to transparently present different economic decisions together with their underlying values and how these might clash.

Clearly revealing and setting out the values concerned also helps economists to avoid imposing their own value-judgements, even if unconsciously, on society's decisions. It is about preventing normative decisions from being hidden inside complex models, so that value-judgements can be made in a transparent and democratic manner.

3 Where in Economics Do Values Play a Role?

We advocate teaching students three complementary angles to understand the role of values in economics. First, values are found in the (intended and unintended) *outcomes* of economic processes. Second, values are *causal factors* in economic processes. Third, values are *embedded in academic tools*. We will discuss these three in turn.

Values regarding outcomes of economic processes

First, we discuss values regarding economic outcomes: to what degree is the resulting situation just, efficient, fair, sustainable etc.? For many economists this will be the most familiar category of the three. When making a decision, a normative valuation is needed. Values determine what is seen as a desired outcome and what is not. In this way a normative judgement can be combined with theoretical reasoning to construct policy recommendations. To be clear, we do not think this entire valuation process should be done by economists, or that our own personal values should determine economic decision making. We think the values of all those involved should be determinative.

The role of economists in policy making, therefore, is to uncover the values concerned and help others understand how they relate to the potential decisions. In economic research and teaching, normative aspects are too frequently smothered, to use Solow's words, in the notion of *'efficiency'*. Colander (1992, p. 196) explains that textbooks often give *"the impression that discussions of efficiency belong in positive economics"*, while this is clearly not the case. *"[A]chieving economic efficiency is not an end in itself, but is a debatable, normative goal which often will conflict with other normative goals society might have".* We always need to ask: efficiency of what? Yes, least input for most output, but what input and output? And when we deal with more than one category of inputs and outputs, we need to determine their relative importance. Often we assume that the market determines this for us, justly. But we know that requires additional moral and analytical arguments, even within a neoclassical framework as there are market imperfections and externalities (Wight, 2017). Inequities, furthermore, can make efficient outcomes be undesirable, because as Sen put it *"a society or an economy can be Pareto-optimal and still be perfectly disgusting"* (1987, p. 22). For all these various reasons, a good economist needs to see values, name them, and lay them out clearly for the audience, as an integral part of their research and teaching.

A brief example might be helpful here. When the famous pin factory example of Adam Smith is cited, often only the efficiency aspect of the division of labour is discussed. This, however, leaves out the worries Smith had about how the division of labour would degrade and alienate the workers in the pin factory. He wrote that the worker *"becomes as stupid and ignorant as it is possible for a human creature to become"* because of the extreme focus on one tiny task (Smith, 1776, pp. 178-179). He even argued that the division of labour could cause *"the almost entire corruption and degeneracy of the great body of the people. ... unless the government takes some pains to prevent it".* In other words, Adam Smith identified efficiency as only one of the many values of concern when discussing the division of labour. This is a model for teaching and research in general.

This aspect of values is made more concrete in *Building Block 1: Introducing the Economy* and *Building Block 10: Economics for a Better World*.

Values are causal variables in economic processes

The second place of values in economic thinking is as causal variables in economic processes. That is, the values people hold affect their behaviour, and this has systemic consequences. This makes values important drivers of economic action. As such, they cannot remain unstudied if we want to understand how economies work. Recently, this has attracted more attention in economic research and we believe that economics education should follow suit.

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Values are also connected to economic forms of organisation. There is, for example, a well-established literature on how values relate to markets: markets can function only when private property is respected and enforced (North, 1990; Robinson & Acemoglu, 2012), and cheating or hiding of defects, because of information asymmetry, is not prevalent (Akerlof, 1978). But the market is also accompanied by the moral logic of *one dollar one vote*, giving rise to debates about whether markets are morally civilising or degrading (Fourcade & Healy, 2007; Hirschman, 1982). It also important to pay attention how power relations are related to values. For instance, ideals regarding the 'proper' role of men and women can make it harder for women to achieve economic independence and success.

When discussing values as drivers of economic processes, it is worthwhile spending time on the question of how people's values are formed and actively shaped into norms or desires by economic actors. Important examples of this are religion, education and the marketing industry. A lot of time, effort and money is being spent to influence what people value, so this cannot be left out of the picture when educating future generations of economists.

This aspect of values is made more concrete in *Building Block 5: Economic Organisations & Mechanisms*, *Building Block 6: Political-Economic Systems* and *Building Block 8: Economic Theories*.

Values are embedded in analytical tools of economists

Finally, the third category of values in economics are those that are embedded in analytical tools. Normative issues do not only arise when choosing between several policy options. They enter at every stage of the research process: choosing which topic to study, which question to ask, which research methods to use, which statistics to create or study, and which theories to use to get a grip on the complexity of the real world. All these choices have consequences for the conclusions reached by economic analysis. This also shows why pluralism of theories, methods and research foci is important: it helps students to see the different sides to the story.

Take for instance the technique of *cost-benefit analysis* (Boardman et al., 2017). It tries to quantitatively estimate costs and benefits which, indeed, makes it a very attractive instrument to policymakers and one that professional economists frequently work with. But it also has serious drawbacks and reasons to be cautious when applying it, to pay explicit attention to its limitations. Perhaps most importantly: it makes normative trade-offs and decisions invisible, especially for non-economists.

Due to the need to monetize or quantify costs and benefits, CBA has to make normative decisions. To arrive at the estimated costs and benefits, CBA touches upon two normative issues. First of all, by looking at overall net benefits, it is not able to deal with the socio-economic distributional effects of the benefits and costs. Secondly, how to measure the unmeasurable? Some things are difficult to qualify in monetary terms, possibly making use of people's willingness-to-pay. For things, such as human life or the loss of biodiversity and animal species, there are important normative debates about whether it makes sense to *'put a price on life and everything else'*. In sum, only by making many, and often highly debatable, normative decisions about how to value things, it becomes possible to come up with seemingly simple numbers that tell us what the "costs and benefits" of policy options are.

What is often neglected is transparency about the moral dilemmas involved in policy decisions and to pay attention to how different value-judgements might lead to different results in terms of the "costs and benefits". Because the CBA process is opaque to non-economists, economists have to make an effort to highlight the value choices they have used and showcase how alternative value choices would have led to different conclusions.

Additionally, certain value-judgements simply cannot be made when using cost-benefit analysis. For instance, the normative decision not to value a human life in terms of dollars is incompatible with cost-benefit analysis: it requires a single, universal unit of measurement to do the calculations. And even if we do decide to monetarily value human life, how do we determine the price of one? The most common method is to look at wage differentials between more and less risky jobs. We personally do not know a better method. But this is based on assumptions about information and calculation that are difficult to confirm, and it leads straight to the cynical suggestion that the lives of people living in rich countries much more valuable than those living in poor countries. A related issue is that certain normative concerns can less easily be translated into costs or benefits. Take the principles of justice and fairness. Does it make sense to put monetary values on just or unjust punishments, protections or violations of human rights, and fair treatment or discrimination in the labour market?

Again, this is a moral choice, often disguised as merely a technical choice. Do we follow the market logic of one dollar one vote? Or the democratic logic of one person one vote? Or another ethical rule altogether? And how do we value the lives of future generations? Do we use financial market interest rates or some rule of thumb to discount the value of the lives of our grandchildren and their grandchildren?

Valuing human life is far from the only moral issue when doing cost-benefit analysis. It is a normative choice to monetarily value everything as if it were a consumption good, ranging from having a park nearby, to spending time with your children and being physically and mentally healthy. The list goes on.

Even for market decisions, a cost-benefit analysis is not value-free. Is the market price paid by the highest bidder the same as something's value? Is the value of a thousand dollars the same to a rich and to a poor person? There are many highly debated normative issues, so we think it is important for economists to lay these out in the open and discuss them explicitly, helping non-economists to see through the technical equations and models.

To be clear, all this is not an argument against such approaches. We think that a cost-benefit analysis is a very useful policy tool. However, what we suggest is to treat the normative aspects explicitly and teach students how to discuss these with non-economists.

Furthermore, normative issues play a role beyond welfare economics. As described above, simply by choosing to include or exclude something in the analysis, we are already making a value judgement. For example, when looking at the effects of a policy, very different conclusions can be reached depending upon whether one only looks at the aggregate GDP figure, or also at the income distribution, or at how the effects of the policy differ between men and women, ethnic groups or regions. Different theoretical frameworks also highlight different values.

For instance, most economic approaches featured in this book focus their lens almost exclusively on values of *human* wellbeing, which itself is understood in different ways by the various approaches. It is not that they explicitly argue that ecological destruction and resource depletion are irrelevant, but these processes are simply not an integral part of the analysis; they can only be tacked on afterwards. Each approach simply has its own focus points and blind spots.

Does that mean theory has a political stance, left or right? Not necessarily. They just help to identify the relevant values more clearly. Based on the same value of allocative efficiency, neoclassical economists have made a wide range of politically conflicting policy recommendations, basing themselves on a wide range of assumptions. One neoclassical economist, focusing on externalities and market imperfections, may suggest government intervention, while in the same real-world situation another neoclassical economist, specialised in government failures, may suggest a laissez-faire approach.

In the below box, *The normative aspects of theoretical approaches*, we briefly discuss the values embedded in various perspectives. Additionally, this aspect of values is made more concrete in *Building Block 8: Economic Theories* and *Building Block 10: Economics for a Better World.*

The Normative Aspects of Theoretical Approaches

In this box, we explore four examples of theoretical approaches: neoclassical, Marxian, Austrian and ecological, and what they strive towards. Each approach aims to understand the economy. At the same time, they all contain elements of *utopia* and *dystopia*. Here we focus specifically on what this says about their ideals and what pitfalls they caution us to avoid. These normative aspects of theories also allow us to understand the motivation of scholars.

Some theories focus more on utopia, such as the neoclassical school. The notion of 'imperfect' markets suggests that although we may never quite reach it, it is worth striving toward such a thing as a 'perfect' market. To do so, we must remove market 'failures', making them function more 'efficiently', and achieve ever more 'optimal' outcomes.

The optimal outcome for society is achieved when each individual is able to freely and in an informed manner choose the bundle of goods that they prefer given the constraints, and the productive resources are allocated in the most efficient manner (Morgan, 2015). In other words, the neoclassical school is about harnessing market mechanisms to maximize the benefits of the consumer side of humanity. The raison-d'être of neoclassical economics seems to be: we should study markets, because they can be a great force for good, if properly harnessed.

Other schools, such as the Marxian approach, tend more toward the *dys*topian. That is, they show us all the horrible places we might end up in if the dynamics work as they are described. Think for a moment how it feels if someone dear to you has created something special for you personally. This is what Marxian thought warns us about losing. It describes the alienation of living in a system where you have no human connection with the people for whose benefit you work all day, producing clothing, food or other things, nor with the people who in turn work for you, the people with whom you work and even yourself. Marx's scholarly motivation was to warn us about what is lost as capitalist production becomes the standard.

This school has other warnings: the gruesome image of capitalism as an unthinking machine that eats up more and more of society and nature. While the bourgeoisie is frequently portrayed as exploitative in Marxian writing, capitalists themselves are also trapped in this war-like market competition. It should, however, also be noted that Marx at times praises capitalism for its strengths. Take, for example, the *Communist Manifesto* in which he and Engels wrote about the enormous economic progress and innovation capitalism causes: *"It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals"* (1848, p. 6).

The Austrian school also alerts us to a potential dystopia: that of an economic system which is managed too actively, making it a big tangle of bureaucracy. This stifles independent initiative, they say, and does more harm than good. The Austrians also describe utopia. They believe that people themselves know best what is good for them; leave them free to pursue their own goals, and they will creatively organize economic life based on local and tacit knowledge to the benefit of everyone (Schulak & Unterköfler, 2011).

The last example, ecological economics, has a dystopian focus on the vital ecosystem aspects that are at risk of breaking down and also clearly describes the utopian vision of an economy in harmony with nature and focused on broad human wellbeing, rather than material production and consumption. Ecological economists strive to inform how surpassing planetary boundaries wreaks havoc on human society and on planetary life more broadly and simultaneously search for ways to prevent this (Daly & Farley, 2011).

4 Practical Suggestions for Teaching to Understand Values

What are practical ways to integrate thinking about values in economic teaching?

Firstly, it is crucial that values are not only discussed as abstract concepts but discussed in the real world. Students should learn to go out and engage with people to learn what they find important and what concerns them. In this way, students develop the habit of moving beyond armchair philosophy and engaging with the values of the people actually involved in issues. When teaching students to understand values, it can thus be helpful to alternate between teaching different normative principles and visions in class and giving students exercises to find out how citizens think about normative economic dilemmas in the real world.

For instance, when teaching labour economics and discussing the concept of the natural rate of unemployment, or the flexibility of labour markets, it might be informative for students to talk with workers, unemployed people and employers. This will help them to understand the different values that are at stake: in a job we value not only what each month's salary will allow us to buy, but also the dignity of a social identity, a sense of purpose, the community of colleagues, a measure of security, and so on. Conversely, employers care about cost, but also about reliability, long-term continuity, flexibility, workplace relationships, and so on. This is not standard in economics courses today, but sociologists, anthropologists and human geographers are quite used to doing it, starting in year one of their bachelor programmes. One option is to simply ask colleagues from these departments for some practical pointers on how to integrate this in regular economics classes.

Secondly, uncovering values and normative discussions should be integrated into ordinary classes rather than taught separately. Simply ask, when introducing new material on economic dynamics: what values are at play here? Or, when introducing a new theory or research method: what does this tool allow us to see, and what may fall outside our view? Let students think about it for a few minutes, highlight several relevant values yourself, and let the students discuss. And then continue with the analytical and technical aspects. Just as developing methodological skills is best done by both focusing on it in separate methodology lectures and by applying it to specific cases of theoretical and practical interest, ethics should not be an isolated element in economics education but incorporated in the entire programme.

Would such classroom discussions not be a form of indoctrination, by professors forcing their personal values onto their students? We believe the reverse: only by bringing issues of normativity to the fore can students learn to independently think about them. It is a matter of intellectual honesty to openly discuss the values embedded in analytical approaches and economic discussions. By explicitly discussing values, students not only become better able to spot and understand them, they also become better able to articulate them and 'dare' to openly talk about them with each other even when they conflict. This is a particularly important skill because communicating normative concerns and dilemmas involved in economic issues clearly to non-economists is not easy but is nevertheless a crucial aspect of economists' work.