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Review of James Halteman and Edd S. Noell's *Reckoning with markets: moral reflection in economics*. Oxford University Press, 2012, 218 pp.

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Halteman and Noell have written a timely book on the role of ethics, values, and value judgments in economic discourse. The recent financial crisis has brought to light many very objectionable business practices, all pursued in the name of money and often at great cost even to those on whose behalf the financial institutions were ostensibly acting. It is an indictment of the current state of economic theory and practice that many of those who instigated these practices never had any idea that they were engaging in unethical behavior. This book shows how economics as a discipline has failed to provide the necessary moral framework by which economic behavior can be judged. This is a shame, and it has not always been the case, for much in the history of economic theory is available to guide moral economic conduct. Halteman and Noell trace the history and development of moral reflection in economic theory, including those instances in its history when economic theory has been devoid of moral considerations.

The book is written for the undergraduate student and would be useful in courses on the history of economic thought, behavioral economics, economic psychology, and business ethics, among others. The authors include illustrations applying the various ethical perspectives of past economists to current economic practices and policies. A set of discussion questions is included with each illustration.

The authors begin the discussion of moral reflection with Plato and Aristotle and the concept of the human *telos*. Halteman and Noell argue that for Plato and Aristotle, as well as for others, the concept of *telos* involved some idea of what people were meant to be. Thus, these philosophers believed that as people struggled with the conflicts between human nature and their ultimate purpose in life, rules of moral conduct, or ethics, developed to maintain order in society. Halteman and Noell claim that in classical Greek thought behavior was measured in terms of right and good conduct; that equitable economic distribution was related to the requirements of one's social station; and that human flourishing within the community was the criteria by which behavior was judged. Thus, in contrast to much modern economic thought, the group, or society, superseded the individual in ancient thought. The formation of a social order was not understood as a natural process. It was a product of dialogue and moral reflection about justice which led to institutionalized laws, rules, and norms for determining and administrating virtuous (right) behavior among the individuals in society.

The authors include examples of economic situations in which the understanding of virtue guides behavior in achieving human flourishing. In Plato, the solution to the problem of scarcity is for people to desire less and recognize the virtue of a simple life. The authors point out that the ancient Greeks and Hebrews, and the Christian Church throughout the Middle Ages, all focused on the problem of human desires rather than on the economic problem of production. As an example of Aristotle's notion of teleology as the guiding principle of economic life, the authors use his example of a shoe, which has the natural purpose of helping one to walk and the unnatural purpose of being an object of speculation for monetary gain. Exchanging shoes for their use is therefore an appropriate reason for trade, while exchanging shoes for speculation is unnatural and morally wrong. Given that this book was published in 2012, a similar point could have been made using the example of a house.

The book continues with a discussion of Scholastic thought on economic justice, and the authors conclude this chapter with a very timely analysis of the relationship between Scholastic thinking on usury, avarice, and unjust gain and the subprime mortgage crisis. Yet, while the authors explain that the Scholastics recognized certain "exceptions to the usury prohibition", they neglect how far this went. The Scholastics made a clear distinction between usury and the legitimate payment of interest on a loan. Usury was the payment of unjustified interest, but not all interest was usurious. In Scholastic thought the payment of interest was justified as long as the interest was to cover some cost to the lender. The cost could be the opportunity cost of the profits not made by the lender's use of the funds, or the cost could be due to risk, either the risk of the venture funded by the loan or the risk of not being repaid. In either case, the loss to the lender had to be real in order for the payment of interest to be justified.

Halteman and Noell's claim that Calvin reversed Scholastic thought on usury and affirmed the legitimacy of charging interest on loans, except to the poor, also misses this distinction between usury and legitimate interest. Usury is still practiced, as evidenced by the sub-prime loan scandal. According to Robert Skidelsky, Maynard Keynes considered the rate of interest set by the market to be the most unjust price in the economic system and used the term "usury" to condemn it (Skidelsky 2009, 149). Nevertheless Halteman and Noell correctly point out that the value-free notion of the market in terms of supply-and-demand overlooks the rich understanding of the ethics of a modern financial system available in Scholastic thought. Their discussion of the Scholastics provides a substantive addition to this understanding.

The chapter on Adam Smith opens with an informative distinction between moral reflection related to a sense of purpose and the role of moral reflection in a mechanistic system. The authors point out that while moral reflection and dialogue are necessary to determining right and appropriate behavior for achieving one's goal(s), such a process of reflection, dialogue, and moral discernment is unnecessary in a mechanistic system which operates according to objective natural laws wholly independent of human interests and purposes. The question then becomes whether the economy is like a great machine, operating with no guiding purpose, or whether the economy does exist for some purpose and requires moral dialogue to function properly. The authors conclude, correctly, that Smith did not separate fact (positive economics) from value (normative economics); that for Smith moral reflection is an integral part of economic thinking; and that the purpose or goal of the economy for Smith was human flourishing and well-being for all.

One of the illustrations applying Smith to current practice concerns Smith's views toward market behavior and regulation. Halteman and Noell conclude that Smith did not appeal to the need for legislative intervention in the market. They argue, instead, that Smith disputed "the ability of governmental authorities to act in a manner consistent with justice to correct these cases of abuse by market combinations" (pp. 88-89). They base their conclusions on Ronald Coase, arguing that Smith would "presumably prefer that self-regulating social forces be given the opportunity to overcome deceitful commercial practices" (p. 89). However, Smith gave more importance to the role of government in enforcing justice that Halteman and Noell appear to allow. Where social forces failed to overcome such practices, it was one of the duties of the legislator, i.e., the State, to impose and enforce the laws of justice by "protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it" (Smith WN, IV.ix.51).

In a fairly brief but important chapter on the secularization of political economy Halteman and Noell trace some of the ways by which economics was changed from a moral science into more of a natural science during the nineteenth century, using Ricardo, Malthus, Bentham, and Marshall as primary examples. The authors make the insightful observation that methodological discussion in economics is often a discussion of the degree to which intentional human action, i.e., policy, can alter economic circumstances. If the market is structured by nature and not by man, then moral reflection and dialogue is unnecessary and policy is of no use. For example, the authors show how Bentham looked at demand as structured by nature's placing "mankind under the governance of two sovereign masters, *pain* and *pleasure*";[1] and how Jevons and the other marginalists showed that value derived from the natural principle of diminishing marginal utility rather than from moral reflection.

The analysis of Marshall's work shows how, although he was uneasy about the separation of economics from moral reflection and did not view economics as a value-free enterprise; his work became the foundation of the formal, mathematical approach to economics which isolated itself from moral reflection. While the authors correctly point out that Marshall's work has been used to promote an approach with which he would not completely agree, they do not expand on this topic and the detriment to the discipline that resulted. That the 'Great Minds Series' edition of Marshall's *Principles of economics* completely omits Book VI on "The distribution of national income" in which Marshall discusses most his policy prescriptions, shows to what extent Marshall has been turned into an advocate for positive economic science.

In the following chapter, Halteman and Noell use the examples of Marx, Veblen, and Hayek to show how moral reflection continues to be an important part of the heterodox tradition. The discussion of the relationship between Veblen and Hayek, and their mutual understanding of institutional development as an evolutionary process, is especially

[1] This is the opening sentence of Jeremy Bentham's *An introduction to the principles of morals and legislation* (1907 [1789]).

insightful. The authors further show how Hayek engages in reflection on the origins of moral norms, but how he, ironically, sometimes refuses to engage explicitly in moral reflection himself, resulting in inconsistencies in Hayek's evaluation of economic theory.

The final three chapters discuss rational expectations theory and show how a broadening of economic discourse can and has brought moral reflection back into the center of economic thought. The authors show how mainstream twentieth-century economists constructed a mathematical system requiring numerous simplifying assumptions and presuppositions, culminating in rational choice economics. They claim that 'rational choice', as the primary and dominant concept of economic theory, has crowded out complementary considerations that would enhance the study of human provisioning. The authors argue for enlarging the economists' tool kit to include concepts from other social and natural sciences, in addition to rational choice theory, in order to consider a wider range of motivations. Adding such concepts as social norms, psychological tendencies, habits, risk-taking, and customs to the tool kit helps to integrate context, understanding, and the possibility of moral reflection into economic thinking. In order to once again include moral issues in economic analysis the authors argue for interdisciplinary research, such as using the resources of neurobiology, psychology, and sociology, to investigate the efficiency of law, cooperation, and the nature of trust in behavior. The work of Paul Zak (2012), such as his discovery of 'the molecule that makes us moral', seems an especially good example of what the authors propose. The concluding chapter sketches a framework for how an interdisciplinary approach to understanding a socio-political economic system can enhance the way we understand economic decisions.

The one important economist who is not much considered in the book is Maynard Keynes, and this is a serious omission in a book dealing with the role of moral reflection in economics. Keynes made a clear distinction of his view of economics from what he called the natural science view advanced by Lionel Robbins in *An essay on the nature and significance of economic science* (1932). In the summer of 1938 Keynes and Harrod corresponded in a series of letters in preparation for Harrod's presidential address to the British Association, given in August, 1938. Keynes wrote "[i]n the second place, as against Robbins, economics is essentially a moral science and not a natural science. That is to say, it employs introspection and judgments of value"

(Keynes 1971-1989, vol. XIV, 296-297). He argued further, in a later letter, that:

> I also want to emphasise strongly the point about economics being a moral science. I mentioned before that it deals with introspection and with values. I might have added that it deals with motives, expectations, psychological uncertainties. One has to be constantly on guard against treating the material as constant and homogeneous (Keynes 1971-1989, vol. XIV, 300).

To sum up, Halteman and Noell's book provides a very broad analysis of how thinking about moral behavior has been an integral part of political economy from the time of the ancient Greeks; how ethical considerations were stripped from economic thinking in the nineteenth century; and how modern interdisciplinary approaches are once again opening the door to including moral reflection in economic thinking. This is an excellent book that will be useful to all economists who view economics as a moral science.

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