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CENTER FOR THE STUDY OF THE ECONOMY AND THE STATE

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THE ETHICS OF COMPETITION:
THE FRIENDLY ECONOMISTS

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Working Paper No. 012

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CENTER FOR THE STUDY OF THE ECONOMY AND THE STATE

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PREFACE

The following paper is one of three Tanner Lectures given at Harvard University in April 1980. I wish to express my gratitude to Gary Becker, Richard Posner and Stephen Stigler for important assistance, and my immense debt to Aaron Director for discussions of these issues both during the preparation of the lectures and in the many years of our friendship. Most of the writing was done while I was a visiting scholar at the Hoover Institution at Stanford University, and I thank Glenn Campbell for providing this attractive setting.

George J. Stigler

The Ethics of Competition: The Friendly Economists

The system of organization of an economy by private decisions on the allocation of resources and the private determination of the composition and distribution of final outputs is variously known as the market system, the enterprise system, competition, laissez-faire, and the Marxian word, monopoly-capitalism. This system has been the main method of control of economic life in the last two hundred years in the western world, but the extent of governmental intervention has increased enormously in both its scope and depth of detail.

I plan today first to discuss the attitudes of the main stream of English economists toward this system -- the measure and content of their approval and disapproval of the enterprise system. I shall dwell only briefly on the pre-modern evolution of their attitudes, and treat primarily with the modern attitudes toward the market. Thereafter, I shall deal with the question of where the economists get their ethics, and the effects of these ethical values on their work.

1. To 1900: The Growth of Caution in the Economists' Defense

Until the mid-nineteenth century, the virtues of the enterprise system were as widely accepted as the belief in its efficiency. Private property turned sand into gold, and no one complained at the loss of the sand or the presence of the gold. The "natural system of liberty" was extended widely. It is true that considerable lists have been compiled of the public tasks which the classical economists assigned to the state to correct or reinforce private actions, but they were not widespread or systematic programs, rather a spattering of bandaids to be put on the body economic. Malthus denounced systems of equality as part of his population essay and Ricardo ridiculed Robert Owen's parallelograms.¹

John Stuart Mill was much more ambivalent on the comparative merits of private enterprise, and various forms of socialism. The ambivalence was attributable to three sources: his remarkable propensity to understand and state fairly any view that many people held; the influence of Harriet, the femme fatale of the history of economics; and the astonishing and absurd deficiencies which

¹For those who are more familiar with the parallelograms of Euclid than those of Owen, the latter proposed a utopia composed of communities of 500 to 2000 people, located in a village "arranged in the form of a large Square, or Parallelogram" with a balanced agricultural and manufacturing economy in which "a full and complete equality will prevail". "Constitution, Laws, and Regulations of a Community," in A New View of Society (1st American ed., New York, Bliss and White, 1925), pp. 162, 163.

he assigned to private enterprise. He asserted that perhaps nine-tenths of the labor force had compensation which at best was loosely related to exertion and achievement, and indeed so loosely that he expressed indignation that the "produce of labour should be apportioned as we now see it, almost in an inverse ratio to the labour".¹ He felt able to assert that a competitive market could not achieve a shortening of hours of work, even if all the laborers wished it.² It has been said that only a highly educated man can be highly mistaken. Mill is no refutation.

Nevertheless, while stating in explicit and implicit ways that political economy did not imply laissez-faire, he initiated a practice that was soon to become widely imitated. After listing several reasons -- chiefly grounded on a desire for individual freedom and development, but grounded also on efficiency -- for a preferring laissez-faire, Mill concludes,

"... few will dispute the more than sufficiency of these reasons, to throw, in every instance, the burthen of making out a strong case, not on those who resist, but on those who recommend, government interference. Laissez-faire, in short, should be the general practice: every departure from it, unless required by some great good, a certain evil."³

The practice of denying laissez-faire as a theorem but asserting the expediency of laissez-faire as a general rule soon became, and

¹Principles of Political Economy, (Toronto edition), I, 207.

²Ibid., II, 956-57.

³Ibid., II, 944-45. The argument is presented fully in Book V, Ch. XI.

to this day (I shall later argue) has remained the set-lecture of the economist. Soon Cairnes, Jevons, Sidgwick, Marshall and J.N. Keynes confirmed the tradition.¹ Monopoly, externalities, ignorance, and other reasons for departing from laissez-faire accumulated, but as individual exceptions to a general rule.

This compromise, in which Pure Science was silent but Heavy Presumption favored laissez-faire, troubles me more than it has most economists. A science is successful in the measure that it explains in general terms the behavior of the phenomena within its self-imposed boundaries. Let me give an example: the science should be able to tell us the effects of a minimum wage law on the employment and compensation of all workers, the effects on consumers through price changes, and so on. The standard analysis, to be specific, predicts that a minimum wage law reduces the incomes of the least capable workers and of the community at large, and various other effects.

One could say that the theory does not lead to an unambiguous rejection of minimum wage laws because of limitations within the economist's framework: for example, monopsony in the labor market or ignorance of workers leads to inefficient market results.

¹J.E. Cairnes, "Political Economy and Laissez-Faire," Essays in Political Economy (London, Macmillan, 1873): "Economic science has no more connection with our present industrial system than the science of mechanics has with our present system of railways" (*ibid.*, p. 257); W.S. Jevons, the State in Relations to Labour (London, Macmillan, 1882), H. Sidgwick, Principles of Political Economy, (3rd. ed., Macmillan, 1901), Bk. III, Ch. II; A. Marshall, "Social Possibilities of Economic Chivalry," Memorials of Alfred Marshall (ed. by A.C. Pigou; London, Macmillan, 1925); and J.N. Keynes, Scope and Method of Political Economy (4th. ed., London, Macmillan, 1930), Ch. II.

Then, however, the economist should analyse the effects reached under (say) minimum wage laws and laissez-faire with monopsony, and reach a definite result or no result. In either event, no presumption is reached.

Alternatively, the theory may be deemed inconclusive for reasons lying outside the economists' domain — in particular, social values not recognized by the theory may reverse the conclusion. We are told that the standard theory, to continue the example, does not allow a categorical denunciation of minimum wage laws because of the presence of other values. For example, a desired income redistribution (or some other social value) may be achieved. Thus the apparent beneficiaries of a minimum wage law are the workers above the minimum wage, and indeed that is the reason the AFL-CIO supports the law. Or the workers in a high wage area may be protected from the competition of a low wage area, preserving a desired distribution of population. (In Mill's view, the freedom from compulsion was the chief value justifying the presumption of laissez-faire; Bk. V, Ch. XI of the Principles is a preview of On Liberty.)

Very well, let these or other reasons be sufficient to explain the informed passage and continuance of the minimum wage law by the community. Is it not then a fair request of economic theory that it include these results in its study of the minimum wage law? Why shouldn't the full range of consequences important to the society be important to the economist? Unless we invoke consequences outside the scope of rational inquiry — say, that the law favors believers.

in the true God, without further identification --, it is not easy to live with both a pure science of economic phenomena and a set of non-derivative presumptions about practice. Of course the neglect of values other than efficiency may be defended on grounds of scientific division of labor, even though no other science seems inclined to assume the neglected share. In that event, one wonders again where the presumption comes from.

I suspect the answer to these questions is that the economists have decided, possibly implicitly and silently, that the other values that might overcome the efficiency presumption are usually weak or conflicting, or even reinforce the conclusion based upon the studied effects. I am in no position to quarrel with this as a working philosophy: no matter how full the explanation of why we have minimum wages -- and it is a study we should complete -- I predict that we economists will not like the law. But the working philosophy should not parade as science.

2. Marginal Productivity Ethics

The decline in open, unconditional praise of the enterprise system by economists suffered one important interruption at the end of the nineteenth century. The occasion was the discovery and widespread adoption of the marginal productivity theory.

The marginal productivity theory states that in competitive equilibrium each productive factor receives a rate of compensation equal to the value of its marginal or additional contribution to the enterprise that employs it. If the productive factor is a laborer, and he works as (say) a service worker with negligible capital equipment, in equilibrium his wage will equal simply the amount of revenue his services add to the enterprise. If, as is usually the case, the product of all factors is commingled, the marginal product may be manifested as a slightly larger crop or a more reliable machine or some other saleable attribute.

If you state to a layman that a certain individual is paid his marginal product, after explaining perhaps more clearly than I have what a marginal product is, and then add, "Isn't that simply outrageous?", I predict that this layman will be amazed by your reaction. In any event, several economists who were among the founders and disseminators of the marginal productivity theory did take exactly the view that the value of the marginal product of a person was the just rate of his remuneration.

The most famous exponent of this view was John Bates Clark. In his magnum opus, The Distribution of Wealth (1899), he stated:

The welfare of the laboring classes depends on whether they get much or little; but their attitude toward other classes — and therefore the stability of the social state — depends chiefly on the question, whether the amount they get, be it large or small, is what they produce. If they create a small amount of wealth and get the whole of it, they may not seek to revolutionize society; but if it were to appear that they produce an ample amount and get only a part of it, many of them would become revolutionists, and all would have the right to do so. ...

Having first tested the honesty of the social state, by determining whether it gives to every man his own [product], we have next to test its beneficence, by ascertaining whether that which is his own is becoming greater or smaller.¹

T.N. Carver of Harvard was also an exponent of productivity ethics:

But if the number of a particular kind of laborers is so small and the other factors are so abundant that one more laborer of this particular kind would add greatly to the product of the combination, then it is not inaccurate to say that his physical product is very high. That being the case, his value is very high. This, therefore, is the principle which determines how much a man is worth, and consequently, according to our criterion of justice, how much he ought to have as a reward for his work.²

I have not sought to discover how many economists joined in this ethical justification of competition. I believe that many economists did so, not so often by explicit avowal as by the

¹Distribution of Wealth (New York, Macmillan, 1899), pp. 4-5.

²T.N. Carver, Essays in Social Justice (Cambridge, Harvard Un. Press, 1915), p. 201.

implicit acceptance of the propriety of marginal productivity as the basis for remuneration. Pigou, for example, wished to define an exploitive wage, and he chose as his definition a wage which fall below the value of the marginal product of the worker.¹

This literature is usually referred to as "naive productivity ethics", with the adjective serving not to distinguish it from some other more sophisticated ethical system but to express disapproval. The classic statement of this disapproval is the famous essay of Frank Knight, "The Ethics of Competition" (1923).² Four charges are made against the claims of the competitive system to be just:

1. An economic system molds the tastes of its members, so the system cannot be defended on the ground that it satisfies demands efficiently.³
2. The economic system is not perfectly efficient: there are indivisibilities, imperfect knowledge, monopoly, externalities, etc.⁴

¹The Economics of Welfare (London, Macmillan, 2nd. ed., 1924), p. 754.

²Quarterly Journal of Economics, reprinted in The Ethics of Competition (Chicago, University of Chicago Press, 1976).

³"... the social order largely forms as well as gratifies the wants of its members, and the natural consequence [is] that it must be judged ethically rather by the wants which it generates. ..." (Ibid., p. 51)

⁴Hence "... in conditions of real life no possible social order based upon a laissez-faire policy can justify the familiar ethical conclusions of apologetic economics." (Ibid., p. 49).

3. The paramount defect of the competitive system is that it distributes income largely on the basis of inheritance and luck (with some minor influence of effort). The inequality of income increases cumulatively.¹
4. Viewed (alternatively) as a game, competition is poorly fashioned to meet acceptable standards of fairness, such as giving everyone an even start and allowing a diversity of types of rivalries.

When I first read this essay a vast number of years ago, as a student writing his dissertation under Professor Knight's supervision, you should not be surprised to hear that I thought that his was a conclusive refutation of "productivity ethics". When I re-read it a year or so ago, I was shocked by the argumentation. Knight made a series of the most sweeping and confident empirical judgments (such as those underlying the first and third charges) for which he could not have even a cupful of supporting evidence. Moreover, why was it even relevant, with respect to his second

¹"The ownership of personal or material productive capacity is based upon a complex mixture of inheritance, luck, and effort, probably in that order of relative importance." (*Ibid.*, p. 56)
 "The luck element is so large ... that capacity and effort may count for nothing [in business]. And this luck element works cumulatively, as in gambling games generally." (*Ibid.*, p. 64)

charge, that real world markets are not perfectly competitive in his special sense: one can define a perfect standard to judge imperfect performance, and assuredly real world performance under any form of economic organization will be less than perfect by any general criterion. Knight kept referring to the objections to competitive results under any "acceptable ethical system" but never told us what such a system contained in the way of ethical content. His own specific judgments do not seem compelling, as when he asserted that "no one contends that a bottle of old wine is ethically worth as much as a barrel of flour." Dear Professor Knight, please forgive your renegade student, but I do so contend, if it was a good year for claret.

I shall have more to say about acceptable ethical positions shortly, but for the moment I wish only to assert that the appeal of a productivity ethics for income distribution commands wide support not only from the public but also from the economists when they are watching their sentiments rather than their words. Ethical values cannot be counted by a secret ballot referendum, but the support for a productivity ethic is indeed widespread. Even Marx, like Pigou, defined surplus value as the part of a worker's product that he was not paid. The fact that more than skill and effort go into remuneration -- that in Knight's example bearded women get good circus jobs simply by not shaving -- is not enough to dismiss productivity ethics.

3. The Ethics of Economists

I have postponed as long as possible the question: where do economists get their ethical systems? My answer is: wherever they can find one.

One occasional source has been a widely accepted philosophical system. The most important such system in the history of economics has been utilitarianism, which was strongly influential on Bentham's circle, Sidgwick, Marshall, Pigou, and above all Edgeworth. I have already referred to Edgeworth's Mathematical Psychics (1881), which is in good part a reproduction of his earlier monograph, New and Old Methods of Ethics (1877). Edgeworth presents the utilitarian ethic in full grandeur:

'Mécanique Sociale' may one day take her place along with 'Mécanique Celeste,' throned each upon the double-sided height of one maximum principle, the supreme pinnacle of moral as of physical science. As the movements of each particle, constrained or loose, in a material cosmos are continually subordinated to one maximum sum-total of accumulated energy, so the movements of each soul, whether selfishly isolated or linked sympathetically, may continually be realizing the maximum energy of pleasure, the Divine love of the universe.¹

Edgeworth's calculus and Sidgwick's Methods of Ethics represent the high point of the utilitarian ethics in neoclassical economics.

It proved to be a major obstacle to the explicit use of the utilitarian ethic that it required additional information, particularly about the efficiency of different persons in producing utility,

¹Mathematical Psychics, p. 12.

that admit of no objective determination. Recall that Edgeworth was led to recognize the possibility that an aristocracy might be the best of all societies.

Even when the difficulty of comparing utilities could be overcome, and it was generally overcome by consensus rather than by argument or evidence, the systematic ethic led to an embarrassing consequence. Let me explain by example.

When one traces out the applications of a general ethical system one encounters problems such as one that Alfred Marshall faced. He examined the properties of good excise taxes in a chapter suitably entitled, "Theories of Changes in Normal Demand and Supply in Relation to the Doctrine of Maximum Satisfaction."¹ According to the utilitarian theory, it is more desirable, Marshall stated, to tax necessities rather than luxuries because the demand for necessities is less elastic and therefore an excise tax will occasion a smaller loss of consumer utility (surplus).² Of course he rejected this recommendation of regressive taxation because it ignored ability to pay taxes.

It might be argued that if Marshall had properly weighted the marginal utility of income of the poor as greater than that of the rich, he would be freed of embarrassment. Possibly, although

¹Principles, Bk. V, Ch. XIII.

²Ibid., p. 467n.

he would then have needed to compare the magnitudes of utilities with taxation of luxuries and taxation of necessities. In any event, other embarrassing implications are readily found, for example, that the utilitarian goal would imply cosmopolitan income redistribution.

And that is the trouble with a comprehensive ethical system: it leads to conclusions which are unpopular with the community, and therefore unpopular with the economists. I believe, although I have not undertaken the substantial task of verifying, the proposition that wherever an ethical system has clashed with widespread social values, the economists have abandoned the implications of the ethical system. If that is indeed the case, it strongly argues for the acceptance of the community's values with whatever inconsistencies they contain.

John Rawls once proposed a way out of this impasse -- a method of deriving general ethical values that were both inductive and capable of consistent application. His proposal was as follows. Select a set of competent judges and ask them to decide many and varied specific conflicts that arise between individuals in the society. Given their decisions, seek an explication or principle that correctly predicts these decisions on average, and call that principle the ethical principle. Any implicit ethical principles that had been followed by the competent judges would be recovered by this procedure. One might complain at the elitist nature of the procedure, and a fundamental question is of course whether any

principles would be found to exist.¹ Rawls' later and influential presentation of a modified utilitarian theory of justice has no such inductive basis, which suggests that he also found an inductive ethics difficult to systematize, and possibly difficult to accept.²

If economists have been content to base their goals upon the ruling views of the educated classes, as I believe to be the case, that is not quite the same thing as saying that they have simply taken an implicit opinion poll on ethical values and either accepted the majority view or distributed themselves in proportion to the frequencies of views held by these classes. Their own discipline has had its own influence.

Members of other social sciences often remark, in fact I must say complain, at the peculiar fascination that the logic of rational decision-making exerts upon economists. It is such an interesting logic: it has answers to so many and varied questions, often answers that are simultaneously reasonable to economists and absurd to others. The paradoxes are not diminished by the delight with which economists present them. How pleased Longfield must have been when he showed that if, in periods of acute shortage, the rich bought grain and sold it at half price to the poor, the poor were not helped. How annoyed the ecclesiastical readers of Smith must

¹See "Outline of a Decision Procedure for Ethics," The Philosophical Review, LX (1951), 177-97.

²A Theory of Justice (Cambridge, Harvard University Press, 1971).

have been to learn that the heavy subsidization of clerical training served only to lower the income of curates. How outraged even some economists are with Becker's "rotten kid theorem", which demonstrates that altruistic treatment of a selfish person forces him to behave as an unselfish person would.

Economic logic centers on utility maximizing behavior by individuals. Such behavior may be found in every area of human behavior, and my just mentioned colleague, Gary Becker, has analysed it with striking results in areas such as crime, marriage and divorce, fertility, and altruistic behavior; but the central application of economic theory has been in explicit markets. The power of self-interest, and its almost unbelievable delicacy and subtlety in complex decision areas, have led economists to seek a large role for explicit or implicit prices in the solution of many social problems.

As a result, in a period of rapid and extensive movement away from reliance on competitive markets to allocate resources and to distribute income, economists have not led the trend but rather followed it at substantial distance. They have sought persistently to employ prices to abate pollution or to ration energy or to incite safety conditions. They have been at the forefront of what presently appears to be a modest policy of deregulation of certain areas of economic behavior.

It would take a wiser person than me to determine the shares of this market orientation of economists that are due to professional training, to attachment to a demonstrably efficient machinery for

allocating resources that is largely (but not completely) independent of the goals being sought, and to ethical values in the market organization of economic activity. But this last component, the ethical attractiveness of voluntary exchange, plays at least some part in our attitudes, and I shall give an example of its role.

Market transactions are voluntary and repetitive. These traits are much less marked in political transactions, or military transactions, although perhaps not in religious transactions. Because the market transactions are voluntary, they must benefit at least one party and not impair the other. Because they are repetitive, they (usually) make deceit and non-fulfillment of promises unprofitable. A reputation for candor and responsibility is a commercial asset — on the enterprise's balance sheet it may be called goodwill.

Nothing in rational behavior precludes the formation of habits, which economize on decision-making costs. One such habit according to Marshall is probity.

The opportunities for knavery are certainly more numerous than they were; but there is no reason for thinking that men avail themselves of a larger proportion of such opportunities than they used to do. On the contrary, modern methods of trade imply habits of trustfulness on the one side and power of resisting temptation to dishonesty on the other, which do not exist among a backward people.¹

¹Principles of Economics (8th. ed., London, Macmillan, 1920), p. 7.

A still stronger, and much earlier, extension of the same argument was made by Smith:

"Whenever commerce is introduced into any country, probity and punctuality always accompany it. These virtues in a rude and barbarous country are almost unknown. Of all the nations in Europe, the Dutch, the most commercial, are the most faithful to their word. The English are more so than the Scotch, but much inferior to the Dutch, and in the remote parts of this country they (are) far less so than in the commercial parts of it. This is not at all to be imputed to national character, as some pretend. There is no natural reason why an Englishman or a Scotchman should not be as punctual in performing agreements as a Dutchman. It is far more reducible to self interest, that general principle which regulates the actions of every man, and which leads men to act in a certain manner from views of advantage; and is as deeply implanted in an Englishman as a Dutchman. A dealer is afraid of losing his character, and is scrupulous in observing every engagement. When a person makes perhaps 20 contracts in a day, he cannot gain so much by endeavouring to impose on his neighbours, as the very appearance of a cheat would make him lose. Where people seldom deal with one another, we find that they are somewhat disposed to cheat, because they can gain more by a smart trick than they can lose by the injury which it does their character. They whom we call politicians are not the most remarkable men in the world for probity and punctuality. Ambassadors from different nations are still less so: they are praised for any little advantage they can take, and pique themselves a good deal on this degree of refinement. The reason of this is that nations treat with one another not above twice or thrice in a century, and they may gain more by one piece of fraud than (lose) by having a bad character. France has had this character with us ever since the reign of Lewis XIVth, yet it has never in the least hurt either its interest or splendour."¹

¹Lectures on Jurisprudence (Cambridge Un. Press, 1978), pp. 538-39.

I do not know whether in actual fact the participants in economic transactions behave more honestly than those in diplomatic exchanges or in primitive barter, and I am reasonably confident that Marshall and Smith also did not know when they wrote these passages, whatever they have since learned. But I do believe that they, and most modern economists, accept the substance of their position on commercial morality.

This belief is based not upon some pool of opinion but on our daily practice. Modern economists almost invariably postulate transactions free of fraud or coercion. This postulate is partially presented in mathematical versions as the budget equation, which states that for each economic agent the sum of values received equals the sum of values given up. No transaction therefore leaves anyone worse off, ex ante, than he was before he entered it -- almost a definition of a non-coercive transaction.

There is no inherent reason for us to make this assumption, and two good reasons for not doing so. The first reason for including fraud and coercion in economics is that they are probably impossible to distinguish from honorable dealing. Assume that I take a shortcut home through a park each night, and once a week on average I am robbed of my trousers -- I have learned not to carry money. Is this not a voluntary transaction in which I pay a toll of one-fifth of a pair of trousers per day for access to the shortcut? Assume that I sell to you a plot of land which you erroneously believe to cover an oil

pool, and I know the truth. Am I being fraudulent? If so, modify the circumstances so that you know there is oil and I don't. Clearly we can find situations in which the presence of fraud is rejected by half the population.

Secondly, even when fraud or coercion is unambiguous in the eyes of the society, that is no reason to believe that ordinary economic analysis is inapplicable. Fraudulent securities will be supplied in such quantity that their marginal costs, including selling costs, equal their marginal revenue. One would not expect criminals to earn more than they could obtain in legitimate callings, proper allowance being made for all costs of doing business. The ordinary propositions of economics hold for crime.

I conclude that we economists have customarily excluded fraud and coercion because we have thought that they are not empirically significant elements in the ordinary economic transactions of an enterprise economy.

Although economists have displayed a larger affection for the system of private enterprise than has the remainder of the educated public, this is not to say that prevalent social views are not influential even in technical economic writing. Consider the enormous attention that is devoted to monopoly in modern economic theory, an attention so vast that it has virtually taken possession of the literature on industrial organization. The evidence that monopoly is important is negligible, and the evidence that it is a quite minor influence

on the workings of the economy is large. I have slowly been approaching the view of Schumpeter, that the eminent role of monopoly in economic literature is due to the influence of general social views.¹

4. What is Ethics?

Economists, I have just said, believe that economic transactions are usually conducted on a high level of candor and responsibility, because it is in the interest of the parties to behave honorably in repetitive transactions. Hence honesty pays.

Against this view we may set that of Archbishop Richard Whately, himself something of an economist as well as a noted logician and divine. The man who acts on the principle that honesty is the best policy, said his Grace, is a man who is not honest.² He did not elaborate but the meaning is clear: he who behaves honestly because it is remunerative is simply an amoral calculator; an honest man is one whose principles of right conduct are adopted independently of their consequences for him.

If every person in a society shared the utilitarian goal of maximum utility for the society, all would presumably behave honestly because there is a large deadweight loss to society in erecting defenses against dishonesty and punishing its manifestations. If even

¹The recent attention paid by economists to conservation of resources and all varieties of pollution also represents a response to popular discussion of these matters rather than the result of autonomous professional economic research.

²Nassau W. Senior, Journals, Conversations and Essays Relating to Ireland (London, Longmans Green, 1868), II, 271.

one person did not share this ethic, it might well pay him to engage in acts of dishonesty — indeed it would hardly pay the society to take defensive steps against him or her. One may therefore conclude that honesty would be an utilitarian ethic for the society as the whole, even though honesty did not pay (was not utilitarian) for an individual.

Do people possess ethical beliefs which influence their behavior in ways not dictated by, and hence in conflict with, their own long run utility-maximizing behavior? This question is not free of ambiguity: if we allow unlimited altruism in the individual's utility function, we are back to social utilitarianism. Less to avoid this result than to attain a position that seems empirically defensible, I shall assume that the altruism is strong within the family and close friends and diminishes with the social distance of the person — very much the position Adam Smith advanced in his Moral Sentiments.¹ This interpretation does not assist in answering the question whether people act on ethical principles. Indeed it eliminates both the tautological answer, "of course", and the self-evident contradiction, "they gave to charity."

The question of the existence of effective ethical values is of course an empirical question, and in principle it should be directly testable. I recall reading of one such experiment in which stamped and

¹See Ronald H. Coase, "Adam Smith's View of Man," Journal of Law and Economics, XIX (1976), 329-46.

addressed but unsealed envelopes with a small sum of money were scattered in the streets, and records were compiled of which envelopes were mailed to the designated recipient. My faint recollection is that more envelopes were mailed when the designated recipient was a charity, but that most sums were appropriated by the finder.

One could quarrel at the design of this test, as I recall it, for it gave no information on the finders: perhaps those who were conversing with their clergymen when the envelope was found behaved differently from those who were conversing with their bookies. Still, it is an interesting line of inquiry that would be a better employment of the recent doctorates in philosophy than the employments which are reported.

Let me predict the outcome of the systematic and comprehensive testing of behavior in situations where self-interest and ethical values with wide verbal allegiance are in conflict. Much of the time, most of the time in fact, the self-interest theory (as I interpreted it on Smithian lines) will win. In a set of cases that is not negligible and perhaps not random with respect to social characteristics of the actors, the self-interest hypothesis will fail, at least without a subtle and unpredictable interpretation of self-interest.

I predict this result because it is the prevalent result found by economists not only within a wide variety of economic phenomena, but in the investigations of marital, child-bearing, criminal, religious, and other social behavior. We believe that man is a utility-maximizing animal -- apparently pigeons and rats are also -- and to date we have

not found it informative to carve out a section of his life in which he invokes a different goal of behavior. In fact, the test I have just proposed has very little potential scope, I shall argue, because most ethical values do not conflict with individual utility maximizing behavior.

I pursue this dangerous line of thought in my final lecture.