Economics: Friend or Foe of Ethics

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Ethicists have good reason to suspect that economists are not their friends. I argue that there is good reason for this suspicion in traditional macro economic equilibrium analysis and in the behavioral assumptions of agency theorists and transaction cost economists. However, many concepts in behavioral economics and transaction cost economics are useful for ethicists. I will show how the distinction between high asset specificity and low asset specificity in transaction cost economics can show why codes of ethics are not good indicators of a corporate culture, why many international corporations impose universal standards rather than adopt a policy of "when in Rome do as the Romans do," and why companies do not learn from the mistakes of their peers. I will also show how modifications in agency theory and equilibrium analysis will turn foes into friends. As economists have given up the assumption of perfect information and no transaction costs, they should also give up the assumption that all individuals are utility maximizers. This would allow economists to introduce notions like fairness into their analysis. Concepts like fairness play a more important role in economic transactions than most economists realize.