

# Ethics: perspective from an economist

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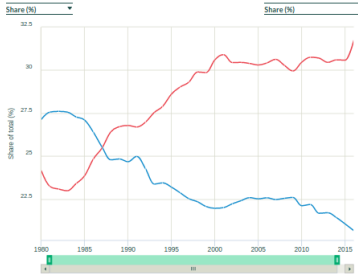
# Some food for thought

- Object of today's lecture: most of you are not economists, yet some clichés or myths are much popular. Let's challenge them
- (perfect) Rationality in Economics
  - ▶ Experiment
- Where economics cannot deliver. Some problems of coordination: “The tragedy of the Commons”
  - ▶ The problem of Hardin cannot be solved with a simple (economic) technique
- Efficiency and (in)equality
  - ▶ Allocative efficiency in perfect competition and monopoly
  - ▶ Externalities

# (in)Equality

- Distribution of income
- Determinants of income inequality (figure: decreasing labor share)
- Trade-off efficiency-equality?
  - ▶ New evidence against the existence of a trade off, [VoxEU by Ostry et al](#)

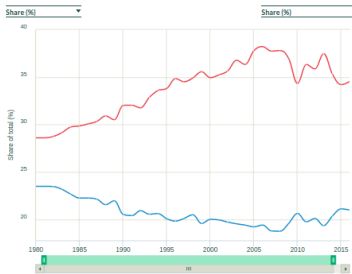
### Income inequality, Italy, 1980-2016



Pre-tax national income | Top 10% | share | ADULTS | EQUAL SPLIT

Pre-tax national income | Bottom 50% | share | ADULTS | EQUAL SPLIT

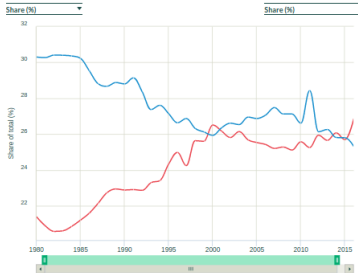
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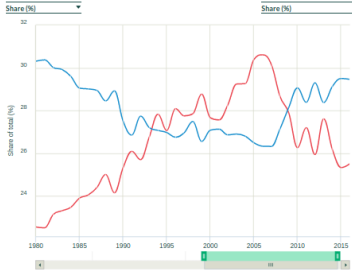
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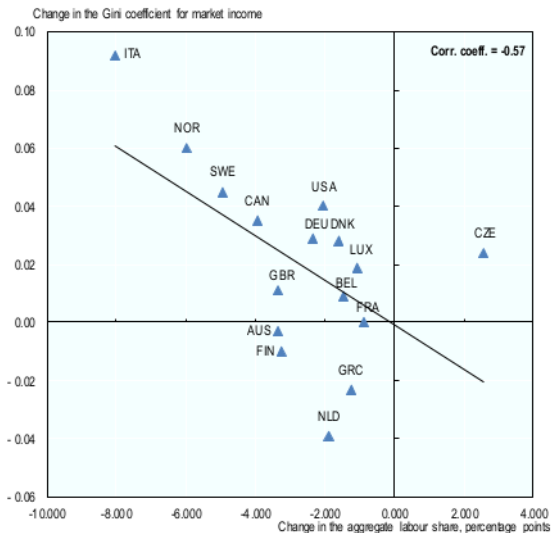
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Figure 6. Changes in the labour share and in income inequality in OECD countries, 1990s to mid-2000s<sup>a</sup>



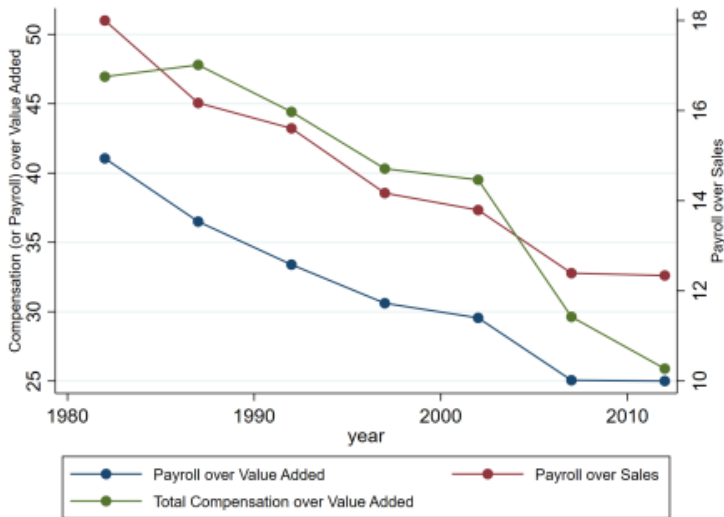
# Declining labor share, analisi comparata, Autor et al., 2020

Figure 1: International Comparison: Labor Share by Country



# Declining labor share, Manufacture (US), Autor et al., 2020

Figure 2: The Labor Share in Manufacturing



# Markets and determinants of economic behavior

- Among the many other, **self-interest**
- Adam Smith, [Wealth of Nations, Book 1, Ch 2](#)

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.”
- Self-interest, still according to Smith, is not the only driver. Yet much neglected [Theory of Moral Sentiment, Part III, Ch. 4](#)

“The sole principle and motive of our conduct in the performance of all those different duties, ought to be a sense that God has commanded us to perform them. [...] That the sense of duty should be the sole principle of our conduct, is no where the precept of Christianity; but that it should be the ruling and the governing one, as philosophy, and as, indeed, common sense directs.”
- Still today building block: “max profit” or “max utility”



# Markets and determinants of economic behavior

- Dominant perspective: as long as the market does not shows explicit limit: *laissez-faire*
- Policy intervention only when market failures have occurred and are apparent (externality (environment), public good, high inequality)
- How you would describe main characteristic of a market? Hint: dec...

## Main simplifying hp (some reasonable, some not)

- No role of the state
- Markets are complete (no externalities, asymmetric info)
- Voluntary exchange only
- Institutional framework: private property
- Only private goods (rivalrous, excludable)
- Many agents on both sides (demand and supply)
- Production: decreasing return to scale with respect to single factor of production; CRS at aggregate

# Markets Vs Institutions/ Organizations

Is the market the only mechanism? From Simon, 1991

A mythical visitor from Mars, not having been apprised of the centrality of markets and contracts, might find the new institutional economics rather astonishing. Suppose that it (the visitor) approaches the Earth from space, equipped with a telescope that reveals social structures. The firms reveal themselves, say, as solid green areas with faint interior contours marking out divisions and departments. Market transactions show as red lines connecting firms, forming a network in the spaces between them. Within firms (and perhaps even between them) the approaching visitor also sees pale blue lines, the lines of authority connecting bosses with various levels of workers. As our visitor looked more carefully at the scene beneath, it might see one of the green masses divide, as a firm divested itself of one of its divisions. Or it might see one green object gobble up another. At this distance, the departing golden parachutes would probably not be visible.

# Markets Vs Institutions/ Organizations

Simon's quote JEP (1991, p. 27-28)

No matter whether our visitor approached the United States or the Soviet Union, urban China or the European Community, the greater part of the space below it would be within the green areas, for almost all of the inhabitants would be employees, hence inside the firm boundaries. Organizations would be the dominant feature of the landscape. A message sent back home, describing the scene, would speak of "large green areas interconnected by red lines." It would not likely speak of "a network of red lines connecting green spots.

[...]

When our visitor came to know that the green masses were organizations and the red lines connecting them were market transactions, it might be surprised to hear the structure called a market economy. "Wouldn't 'organizational economy' be the more appropriate term?" it might ask.

## (environmental) sustainability in economics

UN definition: “meeting the needs of the present without compromising the ability of future generations to meet their own needs.” [Link](#)

Several domain of application

- Environment
- Business: sustainable advantage, at least since Ghemawat, 1986
- Financial: as referred to a project / impresa start-up; Base Erosion Profit Shifting of MNCs ([link](#))
- Inclusion / technological unemployment
- Business ethics / CSR

# UN - Sustainable Dev. Goals [Link](#)

**SUSTAINABLE DEVELOPMENT GOALS** **1** NO POVERTY



**DONATE WHAT YOU DON'T USE.**  
More than 700 million people still live in extreme poverty.

Goal 1: No Poverty

**SUSTAINABLE DEVELOPMENT GOALS** **2** ZERO HUNGER



**WASTE LESS FOOD AND SUPPORT LOCAL FARMERS.**  
A third of the world's food is wasted, yet 821 million people are undernourished.

Goal 2: Zero Hunger

**SUSTAINABLE DEVELOPMENT GOALS** **3** GOOD HEALTH AND WELL-BEING



**VACCINATE YOUR FAMILY.**  
Vaccinations resulted in an 80% drop in measles deaths between 2000 and 2017.

Goal 3: Good Health and Well-Being


**SUSTAINABLE DEVELOPMENT GOALS** **4** QUALITY EDUCATION



**HELP EDUCATE THE CHILDREN IN YOUR COMMUNITY.**  
617 million children and adolescents lack minimum proficiency in reading and mathematics.

Goal 4: Quality Education

**SUSTAINABLE DEVELOPMENT GOALS** **5** GENDER EQUALITY



**EMPOWER WOMEN AND GIRLS AND ENSURE THEIR EQUAL RIGHTS.**  
1 in 3 women has experienced physical and/or sexual violence.

Goal 5: Gender Equality

**SUSTAINABLE DEVELOPMENT GOALS** **6** CLEAN WATER AND SANITATION



**AVOID WASTING WATER.**  
Water scarcity affects more than 40% of the world's population.

Goal 6: Clean Water and Sanitation

**SUSTAINABLE DEVELOPMENT GOALS** **7** AFFORDABLE AND CLEAN ENERGY



**SUSTAINABLE DEVELOPMENT GOALS** **8** DECENT WORK AND ECONOMIC GROWTH



**SUSTAINABLE DEVELOPMENT GOALS** **9** INDUSTRY, INNOVATION AND INFRASTRUCTURE



## Perfect rationality and *homo economicus*

- Rationality: structure of preferences (completeness, transitivity), expected utility
- If all agents were perfectly rational (and hence, to some extent, all equal) there would be no issues in making forecast on human behavior
- However:
  - ▶ a) Humans make mistakes (bounded rationality)
  - ▶ b) Humans are heterogeneous (and make different sort of mistakes)
- If hp are violated, theoretical models are less reliable
- experiment (*two-third*)
- Short critique to perfect rationality: Thaler, 2000, [From homo Economicus to Homo Sapiens](#)

## *Homo Economicus* and incentives

- In presence of a perfectly rational agent, how to “manage” interpersonal relations?
- Central role of incentives (Gneezy et al., 2011)

Let's consider the critical reading from Camerer and Fehr, 2006, [link](#)

*Most economic analyses are built on two major simplifying assumptions about human nature: Individuals are assumed to be rational decision makers and to have purely self-regarding preferences. The modeling of complex social phenomena often involves simplifying assumptions like these; otherwise, models may quickly become mathematically intractable. The rationality assumption consists of two components: first, individuals are assumed to form, on average, correct beliefs about events in their environment and about other people's behavior; second, given their beliefs, individuals choose those actions that best satisfy their preferences. If individuals exhibit, however, systematically biased beliefs about external events or other people's behavior or if they systematically deviate from the action that best satisfies their preferences, we speak of bounded rationality.*



## *Homo Economicus* and incentives

- if all hp are valid, *perfect rationality* and *purely self-regarding preferences* than it is possible to put forth a model for the economic behavior of humans
- If it works for economic matters, why not applying it at large?

Dying to Save Taxes: Evidence from .... [link](#): “This paper examines data from U.S. federal tax returns to shed light on whether the timing of death is responsive to its tax consequence”

Torture and the Commitment Problem [link](#): “We study torture as a mechanism for extracting information from a suspect who may or may not be informed. We show that a standard rationale for torture”

(and pushing the reasoning to the extreme) What role for individual responsibility? Is it all delegated to supposed economic laws?

# References I



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