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PROFESSIONAL CODE OF ETHICS: NO REMEDY FOR WHAT AILS ECONOMICS

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In early January a small group of economists, in the main academics, strongly urged the president of the American Economic Association in writing "to adopt a code of ethics that requires disclosure of potential conflicts of interest that can arise between economists' roles as economic experts and as paid consultants, principals or agents for private firms." This request was supported by their finding that 13 of 19 economists who played important roles in recent public policy discussions had affiliations suggestive of possible conflicts of interests but only 5 publicly disclosed their affiliations.

The signers of this letter suggest a code that might read as follows. "Economists should maintain the highest degree of integrity in their professional work and avoid conflicts of interest and the appearance of conflict. Moreover, economists should disclose relevant sources of financial support and relevant personal or professional relationships that may have the appearance or potential for conflict in public speeches and writing, as well as in academic publications."

Well-intentioned as their proposal may be, Mayo Research Institute objects for three principal reasons. First, for years mainstream economists have resisted associating economics with ethics and the teaching of ethical concepts in economic affairs. A session on economics as a moral science at the recent AEA meetings in Denver displayed an appalling deficit regarding the connecting linkages between ethics, religion, and economics. Overwhelmingly economists do not know enough about ethics to draft a *truly meaningful* code of conduct for their profession with standards of conduct that are clearly understood and accepted by all and that will allow them to navigate safely in ethically dangerous currents and through morally treacherous straits.

Second, taking Adam Smith's "invisible hand" argument as their own moral sextant, economists are convinced that the public good is served best by pursuing their own self-interest. Thus, economists perceive no need to be governed by a code of ethics in their professional affairs. Given their basic ignorance of the fundamental principles of ethics and their strong perception that a new system of ethical governance is unnecessary, any code of ethics likely would be irrelevant, unenforceable, or both.

Third, and most important of all, calling for a professional code of ethics draws attention away from the very real and serious problems within the profession. Specifically, economic theory is taught from two basically different points of departure. Microeconomics addresses economic affairs from the perspective of the economic agent acting as a single individual. Macroeconomics, on the other hand, attends to economic affairs from the vantage point of the agent acting as a member of a large economic sector such as the universe of households or firms. As faculty members economists often are specialists in one of these two major divisions of economic theory and typically ask to be assigned to teach in one of the two while refusing to teach in the other. As a consequence, a silo mentality has developed in the teaching of the basic principles of economic theory. In other words, there is no overarching theory that integrates these two divisions and eliminates the two silos. Indeed, these silos have been in place so long in economics that there seems to be little awareness on the part of economists that economic theory cannot stand as a house divided in two.

Quite apart from the challenges originating in heterodox economics, there other silos within mainstream macroeconomics as represented by the noninterventionist neoclassical school and the monetarist, Keynesian, and supply-side interventionist schools. The fundamental divisions between them have surfaced for all to see in the contentious public discourse regarding how to address the near collapse of financial markets in 2008 and the continuing hardship represented by millions of bankruptcies, foreclosures, and massive and persistent unemployment.

Should we bail out failing financial institutions or let them collapse? Should we increase government spending or reduce taxes in order to stimulate the economy? Should we extend unemployment insurance benefits knowing that extended benefits probably contribute to higher unemployment? Should we erect barriers to imports produced under sweatshop conditions in order to protect the jobs of American workers? Should we devise new interventionist ways to keep people in their homes when the unpaid balance on their mortgages is greater than the market value of those homes? Should we stand aside while entrepreneurs bring forth creative ideas and new opportunities or rein them in to ward off their destructive side effects? Should we saddle future generations with even more borrowing and public debt in order to relieve some of our current economic troubles or live within our means and soldier our way through those difficulties?

It's time for economists to get back to the pick and shovel work of better understanding and explaining how a complex market economy works in order to speak with greater clarity regarding whether, how, when, and where to intervene in next great recession. Even if it could be made relevant and enforceable, a professional code of ethics does absolutely nothing to resolve the current crisis in economic thinking. It is not the inadequacies of professional economists in ethical matters that failed us most recently. It is their confused and incongruous thinking in economic affairs.

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