

## IS ECONOMICS INDEPENDENT OF ETHICS?

JACK HIGH\*

*George Mason University*

*Economics and ethics naturally come into rather intimate relations with each other, since both recognizedly deal with the problem of value.*

—Frank Knight,  
“Ethics and the Economic Interpretation”

TODAY, ECONOMICS IS COMMONLY REGARDED as separate from and independent of ethics. It is not simply that the two are different subjects, like mathematics and physics, but that they are disciplines unrelated in any fundamental way. So marked are the differences between ethics and economics, that Lionel Robbins, in one of the most influential works ever written on the nature of economics, wrote “. . . it does not seem possible to associate the two studies in any form but mere juxtaposition. . . . The two fields of enquiry are not on the same plane of discourse.”<sup>1</sup>

Because they are seen to be so different from one another, keeping economics and ethics separate is viewed as a highly desirable state of affairs. Economics is a science, and as such is concerned with facts. Ethics, on the other hand, is concerned with values, which are not amenable to the same rigorous treatment as facts. Disputes in scientific theory can be settled by reason, but differences in basic values are, according to one eminent authority, “differences about which men can ultimately only fight.”<sup>2</sup> With this view of facts and values, economists quite naturally want to put as much distance as possible between ethics and economics. Any trace of values can only contaminate the scientific nature of economics. Kenneth Boulding, in his presidential address to the American Economic Association, expressed the sentiment thus: “We are strongly imbued today with the

view that science should be *wertfrei* and we believe that science has achieved its triumph precisely because it has escaped the swaddling clothes of moral judgment. . . .”<sup>3</sup>

Economics did not begin as a science independent of ethics. Adam Smith was both moral philosopher and economist. He made no attempt to draw a sharp line between ethics and economics, or to keep the two separate. Indeed, *The Wealth of Nations* is Smith’s attempt to explain and defend a system of natural liberty.

The ethical roots of economics can still be seen in the modern terminology. Value remains one of the standard subjects of economic theory; economists still speak of scarce resources as goods; welfare is a branch of economic theory that still fares well; and wealth, which many eminent economists have regarded economics to be the science of, comes from the root word *weal*, meaning well-being.

Not only was economics born of ethics, but the two subjects possess obvious similarities. Both take as their subject matter human conduct. Both take as their starting point the fact that man is rational, i.e., that (within limits) we can choose among alternatives; finally, both are fundamentally concerned with human values. Pointing out these similarities does not deny that economics and ethics approach their subject matter from different angles. But it does suggest, at the least, that they are not as different as the modern view would have them.

This paper undertakes to show that economics is not independent of ethics. Moreover, it argues that recognizing the connection between the two fields can improve economics. The first section of the paper gives a brief history of how economics separated itself from ethics. The second section shows the intimate connection between economics and ethics. The third section shows the advantages for economics of recognizing the interdependence. The fourth section concludes the arguments.

## A BRIEF HISTORY OF THE INDEPENDENCE DOCTRINE

David Ricardo was the first economist to drive a sizeable wedge between ethics and economics. Ricardo was a businessman, not a philosopher. His *Principles* (1817) reflected the penetrating mind of a man of commerce but revealed none of the erudition of Smith. Ricardo described how the produce of society was distributed among workers, landlords, and capitalists. He took the distribution he described as more or less inevitable. He did not discuss either the justice of it, or alternative social arrangements to contemporary England. As one commentator put it, Ricardo put economics on a diet, and it lost the weight of its ethical content.<sup>4</sup>

Ricardo did not separate economics from ethics through argument, but through example. The task of arguing for an ethics-free economics fell to Ricardo’s successors, Nassau Senior and John Stuart Mill.

Economics declared its independence from ethics in 1836, the year

Senior published *An Outline of Political Economy* and Mill published "On the Definition of Political Economy and on the Method of Investigation Proper to It."<sup>5</sup> The line of argument first set down by Senior and Mill was enlarged and refined by John Cairnes (*The Character and Logical Method of Political Economy*) and later by John Neville Keynes (*The Scope and Method of Political Economy*).<sup>6</sup> The doctrine that economics is independent of ethics is in large part the legacy of these four economists.

The main propositions of the independence doctrine are ably presented by John Neville Keynes. Keynes noted that economics as a positive science is distinct from economics as an art of advising or prescribing policy. We can explain economic phenomena without passing judgment on their worth, and without comparing them to any ideal standard.<sup>7</sup>

So obvious did Keynes deem this proposition that he called it a truism, and set about examining why anyone doubted it. He found two reasons: a) Moral judgments *can* be applied to economic actions; and b) the economist *must* study the effects of moral forces. However, neither the possibility of morally judging economic acts nor the necessity of studying moral forces made economics a moral science.<sup>8</sup>

Keynes gave three reasons for freeing economics from ethics. First, we can gain in mental clarity if we study one discipline at a time. Second, combining them gives people a false image of economics; the general public begins thinking of economics as policy. Finally, studying a narrower range of phenomena encourages agreement among economists by removing a source of disagreement.<sup>9</sup>

Despite his advocacy of independence, Keynes did not believe that economics and ethics should never meet. No one wants to stop short at positive economics, he assured his readers. Positive economics is not an end-in-itself, and no solution to a practical issue is complete until the ethical aspects are considered. Therefore, economic policy cannot be discussed without also discussing ethics.<sup>10</sup>

The main tenets of the independence doctrine had been worked out by the time of the marginal revolution in economics (ca. 1870–1900), but much as that revolution did to turn economics on its head, it left the independence doctrine intact. W. Stanley Jevons restricted his ethical comments to a general endorsement of utilitarianism, whence the doctrine had originated.<sup>11</sup> Carl Menger, in his fight over method with the German Historical School, affirmed the essentially distinct natures of economics and ethics.<sup>12</sup> Leon Walras made no separation of economics and ethics in his pioneering *Elements*, but his most famous disciple, Vilfredo Pareto, did.<sup>13</sup> Thus did all three strands of the marginal revolution endorse the independence doctrine of the classical writers.

Although economics had declared its independence from ethics by the turn of the century, economists still gave ethics a high place among those subjects that economists should study. Taking account of moral forces in economic life and formulating public policy were important

tasks for which economists needed a knowledge of ethics. As Keynes said, "No one desires to stop short at the purely theoretical enquiry. It is universally agreed that in economics the positive investigation of facts is not an end in itself, but is to be used as the basis of a practical enquiry, in which ethical considerations are allowed their due weight."<sup>14</sup>

Today, most economists do stop short at the positive inquiry. Ethics is no longer included as a part of the training for economists, and most economists that comment on ethics do so only in passing. Economists were so casual about their ethical pronouncements that T. W. Hutchison, in 1964, complained that he could find nothing but ethical *obiter dicta*, despite the fact that these *dicta* often flatly contradicted one another.<sup>19</sup>

Notwithstanding the widespread opinion that economics is independent of ethics, there are considerable grounds for doubting it. The next section argues that economists have not defined some of their most important terms without implicit recourse to ethics.

### THE INTIMATE TIE BETWEEN ETHICS AND ECONOMICS

No term is more central to economic theory than "market economy." Economics studies how the market economy works, how its operation is modified by government involvement, and how the market economy differs from the socialist economy.

To differentiate market from government activity, the market is defined as a system of voluntary exchange, whereas government is defined as the apparatus of compulsion and coercion. To differentiate the market economy from socialism, the market is defined as a social system resting on private ownership of the means of production, whereas socialism is defined as a social system resting on public or government ownership of the means of production.<sup>16</sup>

To define a market economy without relying on ethics, we first must distinguish between voluntary action and coercion, and between private and public ownership, without relying on ethics. Moreover, our definition must draw a line between market, government, and socialism. This, we will argue, economists have not done.

#### *Voluntary Exchange and Coercion*

One method by which economists have distinguished voluntary from coerced action is to employ the "budget constraint" or "opportunity set." These concepts refer to the quantities of goods that a person can buy with his income. If person A's cooperation with person B increases A's income or utility, then A's actions are voluntary. Coercion, then, is defined as "*induc[ing] cooperation by withdrawing or otherwise reducing people's options.*"<sup>17</sup> As long as options and income are independent of ethics, so is this distinction between voluntary and coercive action.

This definition of coercion errs in one and possibly two directions. First, it includes actions that we would not normally think of as coercive, and that are usually regarded as part of market activity. Second, it excludes actions that we would normally think of as coercive, and that are usually regarded as part of government activity.

As an example of the first error (i.e., including actions that are not coercive), consider the following:

Person A owns a retail shop frequented by customer C. The ownership of his shop nets A \$20,000 per year. Then competitor B opens a shop and vies for the business of C by offering a lower price than A. C then approaches A, tells him of the lower price offered by B, and says, "I will continue to patronize your shop only if you match the lower price of B." As a result of C's actions, A is induced to cooperate (exchange) with C, but his income is reduced to \$15,000 per year.

The example is pedestrian. Market competition commonly empowers consumers to induce cooperation by lowering the options of sellers. One of the reasons that competition is considered to be a virtue is that it takes away the businessman's option to charge a higher price and increase his profits. If we are to consider this coercion, then we cannot claim that the market is a system of voluntary exchange. On the contrary, the market is riddled with the coercive effects of competition.

An example of the second error (i.e., excluding actions that are coercive) is equally easy to construct. Assume that firm A, which has the right to pollute the air around its factory, pours smoke into the air, which carries over to the neighborhood. The people in the neighborhood, we will assume, would prefer less pollution, and would be willing to compensate the firm if it would cut back its pollution. But, because of high "transactions costs," it does not pay any one person or small group to organize, collect the funds, and strike a bargain with the factory owner. Into this situation steps the government. It passes a law limiting the amount of pollution, increases taxes on the households in the neighborhood, and pays the increase in taxation to the firm as compensation for reduced pollution. The government does all this, we will assume, in such a way that both the firm and the neighborhood are better off.

This kind of example is commonly offered as a justification for governments to tax and subsidize. Government action in these situations is supposed to make everyone better off. It is supposed to make available to everyone an option that is not feasible in the absence of government. Quite obviously, this takes government out of the realm of coercion, because it does not reduce options. To the extent that government action is beneficial, it is not coercive. We cannot then distinguish between the market and the government on voluntary/coercive grounds. Taxation and threats of imprisonment are classified as voluntary as long as they serve the general welfare.

The crucial issue here is the placement of the benchmark against which we measure a reduction in options. In our first example, the customer was able to "coerce" the seller by threatening to take his

business to a competitor. This reduced the seller's options compared to what they would be without a competitor. But if we do not believe a businessman has a right to exclude competitors, we do not regard this as a relevant benchmark, and we do not believe he has been coerced. In our second example, the ultimate outcome was beneficial to everyone. But it was achieved through taxation, which threatens imprisonment to anyone who does not pay. If we believe in each person's right to liberty, threatened imprisonment is coercion, even though the ultimate outcome is favorable.

Without ethics, economics offers no guidance on where the benchmark should be placed. Consequently, we get no firm boundaries separating voluntary from coercive action. We are able to construct examples that give peculiar meanings to "coercive" and "voluntary" precisely because we can set the benchmark where we please.

F. A. Hayek offers a somewhat different definition of coercion than Heyne, but with the similarity that coercion is defined without recourse to ethics. For Hayek, "Coercion occurs when one man's actions are made to serve another man's will, not for his own, but for the other's purpose."<sup>18</sup> Coercion does not negate choice, but it manipulates the alternatives so that the person being coerced does what the other wants. "Coercion is the control of the essential data of an individual's action by another. . . ."<sup>19</sup>

Although this definition of coercion is narrower than Heyne's, it still includes in it many actions that would normally be considered part of the market. Consider, for example, a worker who is choosing between occupation A and occupation B. The owner of firm A keeps raising the wage offer so that the worker finally goes to work for firm A, which is what the owner of the firm wanted. He has manipulated the essential data facing the worker to make the worker serve his (the owner's) purpose.

It might be objected that the worker is not coerced on Hayek's definition, because the worker is serving his own purpose in taking the job. This is true, but it is also true that *any* action serves the purpose of the actor. A man who hands over his wallet in exchange for his life is taking an action that serves a very definite purpose for him. It is impossible to conceive of an action that does not serve some purpose for the actor; if it did not serve any purpose, it would not be an action. Purposiveness is the defining characteristic of human action.<sup>20</sup>

Hayek denies that submitting to terms of trade is normally coercive. "The decisive condition for mutually advantageous collaboration between people based on voluntary consent rather than coercion, is that there be many people who can serve one's needs, so that nobody has to be dependent on specific persons for the essential conditions of life or the possibility of development in some direction."<sup>21</sup>

If, however, lack of dependency on particular persons for what we need is made the basis for voluntary behavior, then the term "voluntary" can be stretched a long way. If customer C is told he will have his arm broken if he buys from firm A, and at the same time C can also buy from firm B, then we cannot say that C has been coerced.<sup>22</sup>

Threats of this kind would certainly not be considered part of the market behavior, yet we cannot exclude them on Hayek's definition. Here again we see that we cannot delimit the market economy using a definition of coercion that ignores ethical considerations.

### *Economic Ownership of Property*

The distinction between voluntary exchange and coercion that is drawn on purely economic grounds (i.e., in terms of the subjective preferences of those who participate in social interaction) gives us an inaccurate meaning of what we usually mean by coercion. Not so with economic ownership or property. Here we can discern both a meaningful and accurate definition using only economic terms.

Ownership, in its purely economic sense, means control over a resource. Whenever resources are scarce, control is important, because only by controlling resources are we able to achieve our ends.<sup>23</sup>

Control over a resource may be private, or it may be joint (or common, or public). Private ownership is exclusive control by a single person; joint ownership is control by two or more persons. Control is ambiguous; it can mean either the physical operation of a good, or it can mean the decision to operate the good in a particular way. Secretaries own the paper they type on in the first sense. Whoever instructed a particular secretary to type owns the paper in the second sense.

Both senses admit of private and joint ownership. A crowd watching a movie exercises joint physical control; a board of directors of a corporation exercises joint control of decision.

Distinguishing between private and joint ownership can give the impression that the purely economic meaning of ownership is sufficient to distinguish between a market economy (in which ownership is private) and socialist economy (in which ownership is public). However, this is not true. Economic ownership is a relationship between individuals and goods, not a relationship between individuals and individuals. Economic ownership refers only to the actual control of goods, not to the sanction of such control.

Private ownership in the purely economic sense pertains to how a good is used, not to how the good is acquired. A thief who steals a car exercises private ownership over the car as much as a man who buys a car.

Because economic ownership ignores the means by which control over goods is acquired, it cannot distinguish between a market economy and a socialist economy. An economy ruled by a dictator who controlled all the land, labor, and capital goods would be a private economy in the economic sense. It would, in fact, be more privately owned than a market filled with joint stock companies.

### *Property Rights as Moral Claims*

“Right, as a noun, and taken in the *abstract* sense, means justice, ethical correctness, or consonance with the rules of law or the prin-

ciples of morals.”<sup>24</sup> We see in the legal definition of a right that the term is defined in a moral sense. In this section we will see that, by taking a *particular view* of what is moral, we can then define the terms coercion and voluntary exchange so that their meanings correspond to normal usage. We can also see that a system of private property rights does characterize the market economy and distinguish it from a socialist economy.

The particular moral approach to defining the market economy outlined here is a natural rights approach. (The classical source of the natural rights doctrine is John Locke’s *Second Treatise of Government*. A modern statement is given by Tibor Machan in *Human Rights and Human Liberties*. The outline presented here is largely taken from Murray Rothbard’s “Justice and Property Rights” in *Property in a Humane Economy*, edited by Samuel Blumenfeld.)

The doctrine of natural rights holds that it is proper for each person to own himself. What it means to be human is to be rational, to exercise our faculty of choice. Since a person cannot be human without exercising his power of choice, i.e., without controlling his own actions, it is therefore proper that a person control his own actions. Control over one’s own actions is what we mean by self-ownership; that it is proper for a person to control his actions is what we mean by right of self-ownership.

To deny a person right of self-ownership is to give someone else moral claim over the person’s actions. To deny a person right of self-ownership is to morally condone slavery.

For a person to exercise his rational faculty, he must be able to gain control of resources. As long as resources are not scarce, or as long as there is no one else around to also exercise control over resources, the extension of self-ownership to ownership of goods presents no problems. But if resources are scarce, and there are others around who also want to control them, then we must find some rule for extending self-ownership to the ownership of goods. This rule must, of course, be applicable to everyone.

The most common solution to the “extension of self-ownership” problem is the homestead principle. The first person who discovers and appropriates a resource has moral claim to it, and can use the resource in any way that does not violate a previously established claim.

If we accept the doctrine of natural rights, we can sensibly distinguish coercion from voluntary exchange. Coercion is any action that violates a right, voluntary exchange is any exchange that respects rights.

If we return to our example of the customer who threatens to quit patronizing seller A and begin patronizing seller B, and thereby induces A to lower his price, we can clearly see why A has not been coerced. A has no moral claim over C’s patronage nor over B’s business. Even though A’s options (income) have been reduced, he has not been coerced, because his actions are not the result of rights violation.

Using the doctrine of natural rights, we can also define the market



economy in a way that clearly distinguishes it from socialism. The market economy is a social system based on the right of property. It is a social system that permits any act that does not violate the right to self-ownership or the right to control justly acquired property. It is also a social system that prohibits any violation of rights. In other words, a market economy is a system of “voluntary” exchanges, where voluntary means consent of the rightful owner.

How does our definition relate to the definition of the market economy as a social system based on private ownership of the means of production? Our definition suggests that private ownership does *not* refer to the economic sense of that term. It does not mean single as opposed to joint ownership. Rather it means private ownership in the sense that *each person* has control over himself and his property, as opposed to that control being vested in an official body called government. It means private in the sense of private citizen as opposed to government official.

Socialism is a social system that does not recognize right of self-ownership or right of people to appropriate resources from nature and to exchange. It restricts ownership of resources to a ruling elite.

How does our definition relate to the definition of socialism as public ownership of the means of production? Again, our definition suggests that public ownership is not being used in its economic sense of common or joint control of a resource. It is being used in the sense that contrasts private citizen with government official.

Not only does the doctrine of natural right enable us to distinguish voluntary exchange from coercion, and to distinguish the market economy from socialism, it also gives property rights many of those characteristics that modern economists working in this field have ascribed to them. The moral claims to control resources “serve to delimit the alternatives open to choice-making individuals in a society.”<sup>25</sup> They “help a man form those expectations which he can reasonably hold in his dealings with others,” and they “convey the right to benefit or harm oneself or others.”<sup>26</sup> If property rights are moral claims to control resources, then “property rights do not refer to relations between men and things but, rather, to the *sanctioned behavioral relations among men that arise from the existence of things* [viz., scarce resources] *and pertain to their use.*”<sup>27</sup> Finally, these moral claims are “a method of assigning to particular individuals the ‘authority’ to select, for specific goods, any use from a nonprohibited class of uses.”<sup>28</sup>

To avoid misunderstanding, perhaps the argument of this section should be summarized. *If* we accept the doctrine of natural rights, *then* we can distinguish between a market economy and socialism. We can define a market economy as a system of voluntary exchanges, because we can distinguish between voluntary and coercive acts in such a way that these words conform to common usage. Finally, we can ascribe to property rights many of those properties that economists have attributed to ownership, something we cannot do if we stick to the purely economic meaning of ownership.

*Non-Ethical Property Rights*

Much of the literature on the economics of property rights leaves the distinct impression that rights have nothing to do with ethics. This impression is sometimes conveyed by discussing some aspect or other of property rights without ever defining the term. W. Craig Stubblebine, for example, talks about property rights delimiting people's choices, and Demsetz credits property rights with helping people form expectations. Neither author properly defines property rights, and since delimiting choice and forming expectations are not necessarily ethical ideas, we are left with the impression that property rights are not necessarily ethical.<sup>29</sup>

The impression that property rights have nothing necessarily to do with ethics is reinforced by our thinking that rights are nothing more than legal titles assigned by the state. If we do not further reflect on how the state assigns titles, or reflect on the meaning of the state, we can use the term property rights without ever considering whether or not we are using an essentially moral term.

Those economists who more carefully define property rights use terms that are more suggestive of moral judgments. Erik Furubotn and Svetozar Pejovich, for example, define property rights as "sanctioned behavioral relations among men."<sup>30</sup> Armen Alchian defines property rights as the "authority" to use resources in particular ways.<sup>31</sup> "Sanction" and "authority" are not necessarily moral terms, but they can be moral terms.

This is not to deny that sometimes the sanction is not moral, but coercive. The state often compels us to act in ways that we do not morally sanction. We act only out of fear of being coerced. Property titles can be established through the coercive power of the state.

However, property titles established this way provide no basis for distinguishing between a market economy and a socialist economy. If we look on property rights as merely what the state says they are, then the Soviet system is as much a system of property rights as is the United States. The workers of the Gulag are working under a system of property titles assigned by the state fully as much as the workers of Los Angeles are. If we do not have some underlying moral standard by which to judge the actions of the state, any system they establish must be a system of property rights.<sup>32</sup>

## REASONS FOR RECOGNIZING ECONOMICS' DEPENDENCE ON ETHICS

In addition to distinguishing between market, government, and socialism, there are several other reasons for recognizing that economics depends on ethical distinctions.

First, there is a close connection between the kinds of judgments philosophers make in dealing with ethics and the kinds of judgments that economists make in dealing with method. That is, the economist

must make methodological value judgments. Even if we accept Vincent Tarascio's claim that there is a difference between methodological and other kinds of value judgments,<sup>33</sup> there is also an obvious similarity. Methodological arguments prescribe the kinds of activities that economists should follow if they wish to advance their science. These arguments involve not only reasoning about the means to be employed, but also conceptions about what science is, or should be. This procedure parallels the philosopher prescribing the activities that men should follow if they wish to live the good life. Philosophers, of course, have a good deal more experience at this trade than economists, and it is reasonable to presume that they should have something to teach us on this score.

Second, the increased knowledge of ethics should improve the policy prescriptions of economists. Economic policies, like any other actions, can be judged by ethical standards. If economists recommend policy on economic grounds, but ignore the ethical side of those policies, they can endorse policies that promote harmful moral principles, principles that the economist himself might disagree with if he reflected on them.

For example, economists often recommend policies on the grounds of economic efficiency. As long as the efficient use of resources takes place within a social system that respects rights, this is a desirable aspect of economic activity. But what about advocating the draft as an efficient means of raising an army quickly? What about advocating that an employer withhold a worker's income as an efficient way of collecting taxes? Even if these policies are efficient, are they desirable?<sup>34</sup>

Third, a knowledge of ethics may also improve the strictly theoretical part of economics. One of the noticeable imbalances of theoretical economics is that entrepreneurship is confined to the producers' side of the market. Ludwig von Mises, Joseph Schumpeter, and more recently Israel Kirzner have drawn our attention to the driving force of the entrepreneur, who, in an effort to capture profits, creates new products and new production techniques. Entrepreneurship is the active, creative part of human intelligence, but, strangely enough, this idea is applied only to the producer. What about the consumer? In our role as spenders of our hard-earned income, do we not also try to be alert and creative? Do we not try to formulate values that will lead us toward happy and fulfilling lives? Do we not modify our values and our consumption patterns in the light of our experiences and reflection?

Entrepreneurship on the consumers' side of the market leads directly into the territory of moral values. This was the territory Frank Knight was exploring in "Ethics and the Economic Interpretation."<sup>35</sup> Knight emphasized that we take neither ends nor means as given, that the kind of life we lead is important to us, that life is fundamentally an exploration in values, and that the economist should recognize the shifting, provisional nature of both ends and means in economics. Knight's essay may be looked at as an attempt to employ ethical

knowledge in order to redress the imbalance between the economics of the producer and the economics of the consumer.

Another interesting relationship between economics and ethics should be mentioned here. One of the functions that moral principles perform for us is delimiting our range of choice. Our minds simply cannot hold before us *all* the possible alternatives among which we could conceivably choose. We need some filtering device that screens out less desirable alternatives. Moral principles are one way we do this.<sup>36</sup>

Another advantage of exploring the relationships between economics and ethics is that it would give economics a broader and more humane focus. It would help economists focus on the rich context within which economic choice is made. It would emphasize that economics is more than the study of maximizing, it is also the study of social order, which requires the acceptance of moral principles.<sup>37</sup>

In sum, incorporating ethics into economics will make us more cognizant of the effects of our policy, will improve our theory, and will give economics a broader and more humane focus.

## SUMMARY AND CONCLUDING REMARKS

This paper has presented three related arguments: 1) Economic definitions of "voluntary" and "coercive," and of "rights" or "ownership," do not enable us to distinguish between the market economy, government, and socialism in any reasonable way; 2) by using ethical standards to define these terms, we can sensibly distinguish between market, government, and socialism; 3) recognizing that economics is not independent of ethics can improve economic method, policy, and theory.

Two concluding implications about the significance of these arguments deserve brief mention. First, we have not surveyed all the definitions of market, government, and socialism that exist in economic literature. Even if we had, we would not foreclose the possibility of defining these terms on strictly economic grounds. Nevertheless, the definitions of market, government, and socialism we have analyzed are certainly common, and it is significant that these common definitions implicitly rely on ethics. Value judgments have not yet been exorcised from economic theory.

The second implication to which we wish to draw attention concerns *wertfreiheit* in economics. The use of value judgments to define those methods of acquiring resources that fall within the scope of market activity and those methods that fall within the scope of government activity does not require the economist to agree with those value judgments. That is, we can characterize the market economy as "acquisition and use of resources that respect natural rights" without endorsing the ethical correctness of natural rights. Indeed, a socialist

who defined the market this way could attack the market by attacking the moral precepts on which the market rests. Therefore, accepting the proposition that economic definitions depend upon ethical judgments does not involve the economist in taking a stand on moral issues. In this sense, the much-cherished “value-freedom of economic science” is left untouched by our central thesis.

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28. Armen Alchian, "Some Economics of Property Rights," in *Economic Forces at Work* (Indianapolis: Liberty Press, 1977), p. 130.
29. See Stubblebine, "On Property Rights"; and Demsetz, "Toward a Theory of Property Rights."
30. Furubotn and Pejovich, "Property Rights and Economic Theory," p. 55.
31. Alchian, "Some Economics of Property Rights," p. 130.
32. Murray Rothbard, "Justice and Property Rights," in *Property in a Humane Economy* (LaSalle: Open Court, 1974), pp. 101-106.
33. Vincent J. Tarascio, "Value Judgments in Economic Issues," *Journal of Economic Issues* 5 (March 1971): 98-102.
34. See Murray Rothbard, "Value Implications of Economic Theory," *The American Economist* (Spring 1973).
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