THE MICHAEL S. RAPAPORT INITIATIVE TO INTRODUCE ETHICS INTO THE ECONOMICS CURRICULUM AT UNION COLLEGE[1]

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The Michael S. Rapaport initiative to introduce ethics into undergraduate economics courses at Union College began in fall 2003. Ethics was an important issue then, and nothing has changed, which is a sad commentary on the state of the social contract. However, it underscores the critical importance and timeliness of this effort to expose students to ethical issues as part of their liberal arts education at Union College.

Below are some "recent" examples of ethical transgressions reported in 2004:

- SmithKlineBeecham obtained FDA approval for Paxil, a popular antidepressant drug for adolescents, based upon a favorable study—but the company fraudulently suppressed another study that indicated that the drug was no more effective than a sugar pill.
- Pharmaceutical companies test experimental drugs in developing countries where subjects can be recruited cheaply, where, ironically, subjects cannot afford to continue to pay for the drugs if they prove effective, and where subjects' families are powerless to sue if the subjects die because known effective therapies are withheld to test a new drug. (This happened in Pfizer's Nigerian experiments with a new antibiotic, Trovan, whose ineffectiveness led to the needless deaths of children—an incident dramatized in the film, *The Constant Gardner*.)
- And then there is the wealth (pun intended) of Enron and WorldCom examples.

It is 2009 and nothing has changed:[2]

- Bernard Madoff operated a $50 billion Ponzi scheme for years under the careless oversight of the Securities and Exchange Commission.

- Former governor of New York, Eliot Spitzer, was discovered to be "client # 9" of Ashley Alexandra Dupré, an employee of a high-end prostitution ring. The New York State police guarded the door of the governor's hotel room in Washington DC during his tryst. The tab was $4,300.
- Insurance giant AIG received an $85 billion government bailout. The next week executives embarked on a lavish retreat at the St. Regis Resort in California for golf, spa treatments and banquets. The cost was $400,000. The government injected an additional $37.8 billion to keep AIG solvent.
- With the election of Barack Obama, there was an opening in the U.S. Senate. Former governor of Illinois, Rod Blagojevich was alleged to have attempted to "sell" the appointment. Blagojevich was impeached and removed from office.
- Tom Daschle was nominated to be Secretary of Health and Human Services. He withdrew his nomination upon revelation that he failed to pay taxes on a car service and consulting. Since leaving the senate two years ago, he earned $200,000 in speaker fees from healthcare interests, $2,000,000 from a Washington law firm and $2,000,000 from a consulting firm.
- Bill Richardson was nominated to be Commerce Secretary. A grand jury is investigating his relationship with CDR Financial Products that received a $1.4 million contract from Governor Richardson and contributed to his PAC. He withdrew his nomination.
- Nancy Killefer was nominated to be Chief Performance Officer of the United States. She withdrew her nomination when it was revealed that she failed to pay social security and employment taxes for household help.
- John Thain, CEO of Merrill Lynch, granted $3.6 billion in bonuses to company executives just before the company announced a quarterly loss of $15 billion and an annual loss of $27 billion. One month later the company was sold to Bank of America. Thain became head of wealth management after the acquisition. He subsequently resigned.

The unethical behavior that pervades the news understates the magnitude of dishonesty in that it fails to include many instances of wrongdoing that are not deemed newsworthy.[3] The problem is large.

Integrating ethics into the undergraduate curriculum is important, but only if it has an impact on behavior. In a recent working paper, Shu *et al* (2009) provide evidence that awareness of a moral standard induces people to behave more honestly. The model is that unethical behavior creates cognitive dissonance, which is mitigated by moral disengagement. However, moral awareness or saliency tends to preempt dishonesty and generates a need for its justification insofar as one is aware of a higher ethical standard. These conclusions are based upon a controlled experiment where an honor code serves as a proxy for moral awareness. In teaching ethics to undergraduate students, we hope that by exposing them to moral dilemmas they will understand ethical ideals and when, in the future, they confront tempting but morally wrong choices, they will bring high ethical standards to bear on their decisions and eschew unethical options. A well-crafted ethics program has the potential to enhance moral awareness.

The question is how to introduce ethics into the undergraduate curriculum in an effective way. This paper reports on a pilot project to embed ethics into economics courses. Subsequently, the model was scaled up to become a discipline-specific ethics across the curriculum initiative. Details are contained in other papers in this issue.

The Underlying Premise

The ethics initiative in economics is based upon the underlying premise that the most effective approach to making ethics meaningful to students is to embed a discussion of ethics into traditional courses that students take out of genuine interest. This approach is in sharp contrast to the standard strategy, which is to require students to take a philosophy course devoted to ethics. Ethics courses can be excellent. Philosophy professors are trained to teach ethics; economics professors are not. This is a weakness of our approach. However, there are countervailing advantages. Students bring a positive and inquisitive intellectual excitement to a course on public policy or the mind of the entrepreneur or financial analysis. They want to learn about these subjects; they might not want to learn about ethics. The way to get students excited about ethics is to permit ethical issues to emerge naturally and seamlessly from the subject matter of the course.

On the surface, an economist teaching ethics is presumptuous and preposterous. An economist has no formal training in philosophy. At best, s/he might have reluctantly taken a course on the history of economic thought. After all, Adam Smith was a moral philosopher. Jeremy Bentham certainly had an impact on economics, perhaps making him an economist. Economics and philosophy were closely related in the eighteenth century; the two fields are widely divergent today.

If we believe that ethical issues can be taught more effectively in an economics course, then either an economist has to teach philosophy or a philosopher has to teach economics. Philosophers are no more qualified to teach economics than economists are to teach philosophy. This presents a dilemma. There is no right answer, but we argue in favor of the economist teaching (everyday) philosophy.

The ultimate justification for this resolution of the dilemma is that the philosophy bar is much lower than the economics bar. The course is in the economics department, often an upper level course with pre-requisites and that is part of the major. The ethics component is modest, but, at the same time, very important. The goal is "everyday ethics." Ethical issues arise in the context of economics courses all the time as subsequent sections of this article illustrate. This presents teaching opportunities to sensitize students to the difference between right and wrong in a particular context that matters to them since they have self-selected to be economics majors. This is not the ethics that is rigorously derived from a set of carefully laid out assumptions. This is not the ethics that is derived from the contributions of the Greek philosophers. But, this is the ethics that has the potential to create an awareness of a moral standard that will resonate down the road and just might induce more honest behavior.

Harold Fried teaches a course on the mind of the entrepreneur that is described below.[4] An example from the course illustrates the point. The fundamental economic problem is the scarcity of resources—land, labor and capital. Because of scarcity, choices have to be made as to what to produce, how to produce it and for whom to produce it. This can be summarized as the allocation of resources and the distribution of income. It is the standard beginning for any introductory economics textbook. There is an important ethical component to the management of scarcity that is almost never discussed: the allocation of resources and the distribution of income play out in the context of a social contract. To the extent that people are honest, it is not necessary to devote resources to enforcement and more resources are available to produce other things that people value. For example, in areas where the social contract is strong, it is not necessary to devote resources to gated communities with guards. The size of police and security forces is a function of the strength of the social contract. Iraq is an example of a very broken social contract.

From a philosopher's perspective, the economist's discussion of the social contract may appear naïve or uninformed. Missing is any discussion of Hobbes, Rousseau, Locke, or Rawls, important differences between them, and the historical contexts in which they wrote. This discussion belongs in philosophy courses taught to students interested in philosophy. Economists are, for the most part, unqualified to teach this material. Some students, however, are interested in economics but not in philosophical ethics. They can benefit from an "everyday ethics" discussion of the implications of the strength of the social contract for resource allocation and the overall well being of society that economists are well trained to conduct. Students thus gain insights into the management of scarcity from a broader social and ethical perspective.

The remainder of the article provides examples of courses in the economics department with everyday ethics components.

The Mind of the Entrepreneur (Harold Fried, Kenneth DeBono, and Douglass Klein)

Fried (economics), Debono (psychology) and Klein (dean and economics) teach this class every year. Typical enrollment is around 40 students (5 more than is generally allowed in an Union College economics class). The students are primarily freshmen and sophomores who have completed at least one introductory economics course and who are contemplating a major in economics.

Harold Fried Ethics Module

Students read *Startup* by Jerry Kaplan. Penpoint Computer developed a tablet PC in the 90s. The company failed, in part, due to unethical, illegal and anti-competitive behavior by Microsoft and AT&T. Ethical issues are discussed and students log in the book the many instances of questionable conduct. Some examples:

> "As Jerry Kaplan is meeting with Mitchell, Peter and Steve Sakoman, it became clear that Steve had made plans to take the idea of a pen computer to Apple, his former employer, despite that fact that Kaplan originated the idea."
>
> "Just as things seemed to be going well and Kaplan outlined specific goals for his company, his longtime friend and business partner Mitchell Kapor was advised by his attorneys to resign his position to avoid frivolous lawsuits."

> "At the PC Forum, Kaplan first realizes that Microsoft and Lloyd Frink used GO's technology on their own pen application, Pen Windows. 'So much for the Chinese wall.'"

The regulatory environment is an important issue in economics. Antitrust law is intended to impose fairness on the competitive marketplace. It is the free entry of competitors that disciplines incumbents and drives innovation. The discussion of *Startup* illustrates that the level playing field of economic theory does not necessarily correspond to reality. Rules on the books often require large financial resources to enforce in court. Startups are strapped for cash; established companies have deep pockets. The consumer is worse off as a result.

Students in the course selected a particular entrepreneur to study. They read a biography of this entrepreneur, and write a term paper based upon a series of questions including "Evaluate the entrepreneur from an ethical and social perspective."

Entrepreneurs were invited to speak to the class about their challenges, opportunities, successes and failures. They were asked to address instances in which ethical issues arose and how they handled them. The discussion was often remarkably frank and informative.

Kenneth DeBono Ethics Module[5]

The interplay between producers who supply products and consumers who demand products drives resource allocation in a market economy. Information plays an important role in this process. Consumers make appropriate decisions that maximize their wellbeing if they have full information on the products in the marketplace. Advertising provides information, but advertising also influences preferences.

Current theory and research on the psychology of persuasion in general, and the psychology of advertising in particular, quite naturally invited a discussion of the ethics of advertising. To facilitate this discussion, students brought to class an example of magazine advertising that they found interesting and wrote a brief paragraph explaining why they thought the ad was effective.

Current thinking in social psychology suggests that the majority of successful persuasion attempts—certainly the majority of advertising appeals relayed through such media as television and radio—are achieved through what are known as "peripheral route processes." In peripheral route processes, individuals lack either the motivation or ability to think critically and thoroughly about the specific content of a persuasive message. They thus tend to rely on more "peripheral" factors to help them decide whether they should agree with the message. These peripheral factors are often non-message elements that individuals can reasonably use to decide whether a message is a quality one without having to think much about the message itself. One much-studied peripheral factor, for example, concerns attributes of the person delivering the message (so-called source factors). When engaged in peripheral route thinking individuals are more likely to agree with expert sources, similar sources, physically attractive sources, and likeable (e.g. celebrity) sources, irrespective of the quality of the message that these sources deliver. Among other peripheral cues identified are: the length of the message (longer messages are more effective), the speed at which the message is delivered (the quicker the better), the pleasantness of background music, and the number of specific arguments delivered (more is better). Once again, research suggests that when these peripheral cues are operating, the objective quality of the arguments being delivered becomes, essentially, a non-relevant factor in determining that extent to which message recipients will be persuaded.

An intriguing aspect of the success of these peripheral cues is that although individuals are aware of their presence in the message environment, they are not aware that these factors are influencing their attitudes and behaviors. That is, rarely are individuals aware of the specific factors in a message that, in fact, altered their attitudes or prompted their behaviors. The nature of a research design (often experimental) might clearly indicate, for example, that individuals were persuaded by the physical attractiveness of a source, but it is very unlikely, when these individuals are subsequently interviewed, for them to point to the source's attractiveness as a precipitating factor in their decisions to endorse or purchase a particular product. That is, the influence of peripheral cues appears to operate at a level below conscious awareness (but this is not subliminal advertising, which, on the available evidence, is probably not effective). The point is that although all information is presented supra-liminally, individuals are not aware of which particular factors influenced their decisions.

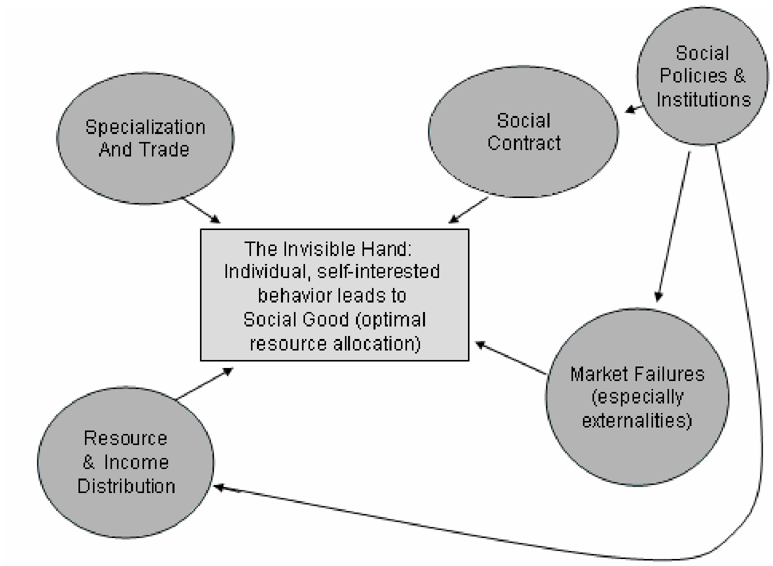
It is this aspect of peripheral route persuasion that raises ethical considerations. The central question we addressed was whether it was ethical to persuade people purposefully without, essentially, them being aware that they are being persuaded or, at the least, not aware of the specific elements that were at play. Class reaction was, as one might suspect, mixed. Many saw the use of these tactics as highly manipulative and, therefore, unethical. Others, in contrast, did not see an ethical problem and argued that individuals often seek out advertising to help them make choices and, hence, are willing to be persuaded. We, of course, came to no resolutions, but clearly it was an issue of interest to students as the discussion was quite lively and well informed.

Douglass Klein Ethics Module[6]

The classical economic model assumes that entrepreneurs respond to opportunities that emerge as a result of the interplay between consumer wants, the supply of resources and changes in technology. All three factors play a role, but it is critical that consumer wants be determined independently. The objective of an economic system is to satisfy consumer wants in the most cost-efficient manner. A well-functioning market economy achieves this objective, but only if the consumer retains an independent influence over the process.

However, the job of the entrepreneur includes a role for strategy and marketing. Having a good idea is not enough, *selling* the idea, on the other hand, might be enough. Take the case of the recent MTV-produced reality movie, *The Real Cancún*. Jonathon Murray was the film's director. "Mr. Murray said he was aware that critics and others were likely to view this new form of 'reality filmmaking' not as a welcome leap forward in entertainment but as further evidence of the decay of civilized society. But he says he does not care" (Houston Chronicle, *http://www.chron.com/cs/CDA/story.hts/features/1876775*). This often seems to be the attitude of entrepreneurs, who give us products that no one could possibly have demanded, such as chia pets (*http://www.jeiusa.com/cgi-bin/webc.exe/Chia-pet.html)* and collagen injections (*http://www.drmeger.com/botox-collagen-injections.html)*. Consumers, to some extent, are made to want what producers want them to want. Entrepreneurs could produce new products (supply) and also produce the demand. Endogenous wants cause the competitive market to allocate resources inappropriately.

Does the entrepreneur have *any* social responsibility at all, or is this strictly a world of *caveat emptor*? A context for free market economics and entrepreneurship: In what context must the market exist in order to produce an optimal and fair resource allocation? What are the consequences of a violation in the assumed context; what kinds of interventions (laws, institutions, morals) ensure the equity and efficiency of free markets? What resources are required to establish and administer those policies and institutions?



Grading

We discuss the difference between intrinsic and extrinsic motivation. Grades are extrinsic motivators and have been shown to discourage creativity and douse the love of learning (Kohn, 1993). Nonetheless, grades are a requirement. The following grading scheme is designed to focus on intrinsic motivation, minimize the role of grades and democratize the classroom. It is also an ethics learning opportunity. Students received the following description of the grading scheme.

> You will participate in determining your grade.
>
> The faculty will provide feedback on class requirements. For example, you will receive constructive comments on your team and individual assignments, but you will not receive a grade. We will take attendance (including late arrivals) and share the results with you.
>
> At the end of classes, we will propose your grade for the course taking all of the course requirements into account. If you feel comfortable with your evaluation, that will be your grade for the course. If you feel that you deserve a lower grade, you are welcome to make the case, but you will receive the higher grade regardless. If you feel that you deserve a higher grade, we will discuss it, and, if necessary, we will schedule a

meeting during exam week to discuss the evaluation further. It is our expectation that we will both feel satisfied with the outcome.

Some Questions and Some Answers

1. What is the point of this?

   This procedure mirrors the evaluation procedure in the workplace. Your responsibility on the job will be to work hard and to perform well. Similarly, your responsibility in this course is to work hard and to learn. Our responsibility is to provide feedback that will improve your performance. The focus is on learning, and that is the fundamental objective of the course.

   There will be no distracting discussion of grades during the course. Since faculty are required to assign a grade, this will be relegated to the end. Hopefully, it will be a minor event.

2. How are the different course requirements weighted?

   There are no weights. Everything is important. This is life. When you get a "real job," your performance evaluation will not necessarily be based upon weights attached to the components of your job description. If you make a major mistake, you will be fired. *Ex poste*, the weight turned out to be 100 percent!

3. How do I know what grade I deserve?

   Your grade is the result of reflection. However, we are prepared to share our interpretation of the various grade categories to provide some rough guidelines.

Economic Internship (Harold Fried)

This is an upper level economics course in which students spend 10 – 12 hours per week working in a non-paid internship and meet weekly in class to put their work experience into a broader economic and social context. The course is offered once a year to 25 students.

Students investigate the structure of the compensation scheme for their supervisor, omitting the dollar amount. Of particular interest is the relationship between base pay and variable pay and the role of incentives. Financial incentives can have important intended and unintended consequences. We discuss fairness.

Tom Wolfe's essay, "Two Young Men Who Went West," is a stimulating account of Robert Noyce, Grinnell, Iowa, the early days of Silicon

Valley and the founding of Intel. This sets the stage for a discussion of the culture of a commercial enterprise with applications to the internships. Ethical questions emerge naturally:

- Is ethics a value to the organization?
- Is social responsibility a value to the organization?
- Does the organization value social goals that go beyond profits?
- Do employees work hard? What appears to motivate them?
- Is the workplace atmosphere friendly?
- Are employees happy?

Some companies perform well, others perform poorly; some companies are functional, others are dysfunctional. In many ways, companies are like families. It is a challenge to isolate what works and what fails since there are numerous interactions between qualitative and quantitative variables. James Collins and Jerry Porras studied the characteristics of exceptional companies in *Built to Last: Successful Habits of Visionary Companies.* Their set of characteristics included core values, core purpose, core ideology, big hairy audacious goals (BHAGs), and an envisioned future. We assess the internships against the benchmark of a visionary company. To conclude, the students apply the characteristics of visionary companies to themselves and write a short confidential essay on the vision of their life: values, ideology, purpose, BHAGs, envisioned future.

Financial Markets (Bradley Lewis)[7]

This course is offered every year to around 35 students. The students are primarily freshmen and sophomores with a background consisting of at least one introductory economics course and contemplating a major in economics.

The early structure of the U.S. financial system emerged from a debate on the role of government in financial markets. The Federalists designed and implemented the very sophisticated, centralized American financial system of the early 1800s, whereas the egalitarian Jacksonian Democrats argued for a decentralized system (Wright and Cowen 2006). William Leggett, 19th century Jacksonian Democratic newspaper editor, makes the case for laissez-faire on practical and moral grounds. To put the discussion in a contemporary context, we consider the importance of financial systems in a few key countries including the U.S., Japan, the Netherlands and England at various junctures (Sylla 2002).

Two contrasting readings set the stage for a discussion of the responsibility and role of business people. Deirdre McCloskey's article, "Bourgeois Virtues," argues that the success of the American economy rested in no small part on the virtues of its business people and not only on their skill at economic calculation. On the other hand, John Kenneth Galbraith's *The Great Crash 1929* argues that the unethical behavior of many financial market participants played a devastating role in the severity of the stock market boom and crash preceding the Great Depression. Students were asked to consider the ethical issues in constraining the behavior of all market participants based on the transgressions of some.

Finally, we considered ethical dilemmas connected with the Enron crash and other recent financial market scandals (Fusaro and Miller 2002).

Introductory Economics (Shelton Schmidt)[8]

This introductory economics course covers both macroeconomics and microeconomics in one term. Professor Schmidt teaches the introductory course every year to around 35 students.

A market economy produces an allocation of resources that maximizes overall wellbeing of economic actors under a strong set of assumptions. However, it is important to be aware that this allocation of resources is not unique; it is predicated upon the initial distribution of income. Change the distribution of income and the optimal resource allocation changes. The reason is that resource allocation responds to dollar votes, and the distribution of income corresponds to the distribution of dollar votes and the weighting in the market of different preferences. This is an opportunity to discuss a number of ethical issues.

In particular, students read excerpts from John Stuart Mill, Jeremy Bentham and John Rawls. And articles: "The Good Company: A Survey of Corporate Social Responsibility," *Economist*, January 22, 2005; "Eminent Domain: Being Abused?" CBSNEWS.com, July 4, 2004; James Rachels, "What is Morality?" from *The Elements of Moral Philosophy*; Karl E. Case and Ray C. Fair, "The Redistribution Debate" from *Principles of Economics*; Robert Frank and Ben Bernanke, "Moral Concerns Raised by Income Inequality," from *Principles of Economics.*

Paper topics:

- What is ethics, i.e., moral philosophy, and how is it related to economics?

- What do you think is a fair distribution of income? For example, is it fair that the average starting salary for a faculty member is $50,000 per year and the starting wage rate for someone in dining services is $7.50 an hour? Use a different example if you like.
- Under what circumstances is it ethical to take property (income) from someone and give it to someone else? Is it ethical to take $1000 from a rich person and give it to a poor person? What about the eminent domain story from CBS News? What are your general principles?

E-Commerce Economics (Suthathip Yaisawarng)[9]

This is an upper level economics course that is offered every year to around 20 students.

E-commerce provides additional flexibility in implementing various pricing strategies—price discrimination, tie-in sales, and product bundling—particularly under monopoly and imperfect competition. This raises questions about firm responsibility, accountability and liability and to what extent is behavior governed by self-imposed ethical standards and to what extent is it governed by legal discipline.

Professor Doug Klein (Economics) introduced "Online Auctions." When asymmetric information between buyers and sellers exists, it raises ethical issues. Credit card solicitation among high school students is one example of moral hazard (e.g., bad behavior after entering the contract) arising from asymmetric information. Another example is adverse selection, where a low-quality product drives a high-quality product out of the market, also known as the lemons problem.

Professor Felmon Davis (Philosophy) gave a guest lecture and led a discussion on "Ethical Issues in E-Commerce." He considered cyber ethics using examples such as stealing copyrights and credit for intellectual property, intercepting private e-mail, disseminating public misinformation, collecting information about individuals without their consent and identity theft. Students submitted a short essay addressing ethical and economic pros and cons of monitoring employees' email.

Professor Arun Sundararajan (Stern School of Business, New York University) discussed "Economics of Digital Piracy, Intellectual Property and Digital Rights Management (DRM)." He defined digital piracy and discussed how technology contributed to increasing problems of digital piracy and copyright infringement.

Mr. Darsh Khusial (Websphere Commerce, IBM) discussed "E-Commerce Security and Privacy." To what extent can technology be used to enhance security and reduce cyber attacks. How can individual consumers protect themselves from interception of email, hacking and identity theft?

Students wrote and presented a research paper in two-person teams that combined ethics and E-commerce. Topics included:

- *Ethical Considerations in E-Commerce*: This paper discussed ethics of online medical records, spam and junk emails, freedom of expression, intellectual property and identity theft;
- *The Digital Music Industry*: Ethical considerations in this paper involved the Digital Millennium Copyright Act, illegal music downloads, and the Napster case;
- *E-Education*: This paper included ethical considerations about evaluating students' performance for an online course, plagiarism, and ownership/copyright of course material;
- *Legal implications of E-Commerce*: Ethical issues involved identity theft, consumer privacy, digital signatures and intellectual property; Wireless E-Commerce. This paper considered issues of technology enabled security and privacy.

Efficient Management of Technology (Suthathip Yaisawarng)[10]

This is an upper level economics course that is offered every year to around 20 students.

The efficient management of technology focuses on quantifying firm performance in a "best practices" framework, using linear programming techniques. This sets the stage for identifying the underlying causes of differences in performance, raising important ethical issues. The list of articles below illustrates the ethical issues.

Brans, J.P. (2004) "The Management of the Future Ethics in OR: Respect, Multicriteria Management, Happiness," *European Journal of Operational Research*, 153, 466-467.

Das, Ranjan (1999) "Corporate Restructuring and Ethics," in S.K. Chakraborty and S.R. Chatterjee, eds., *Applied Ethics in Management: Towards New Perspectives* (New York: Springer-Verlag), 37-55.

Jeurissen, Ronald (1999) "Ethical Aspects of Downsizing, Restructuring and Re-engineering," in S.K. Chakraborty and S.R. Chat-

terjee, eds., *Applied Ethics in Management: Towards New Perspectives* (New York: Springer-Verlag), 88-104.

Jurkiewicz, C.L. and Giacalone, R.A. (2004) "A Values Framework for Measuring the Impact of Workplace Spirituality on Organizational Performance," *Journal of Business Ethics*, 49(2), 129-142.

Perel, M. (2003) "An Ethical Perspective on CEO Compensation," *Journal of Business Ethics*, 48(4), 381-391.

Managerial Economics (James Kenney)[11]

This is an upper level economics course that is offered every year to around 20 students.

The focus of the Managerial Economics course is the use of economic and statistical analysis in management decision-making and practical problem-solving. Important ethical issues were incorporated throughout the course:

- Ethical behavior as compliance with the "spirit," as well as the "letter," of the law and honesty and integrity in dealing with stakeholders;
- Management decision-making when (analytically) the most profitable alternative does not seem like the right thing to do;
- Corporate governance (organization design) that encourages ethical behavior and protects owners of capital that is put at risk;
- Incentive structures (e.g., performance-evaluation and reward systems) within companies that compromise ethical behavior and restructuring to encourage ethical behavior.

The course includes specific case studies of recent business decision-making that raise significant issues regarding the appropriateness of management behavior. Some examples:

Product liability and safety issues

The Bridgestone/Firestone tire recall in August 2000 with Ford Explorer is an excellent case study of the extent to which companies should be more proactive in seeking and analyzing data regarding product safety and accept responsibility, sooner rather than later, for the consequences of use of their products. Bridgestone/Firestone knew of potential tread separation problems as early as 1994, and there is some evidence that production rates were increased to dilute the failure rate. In addition, labor unrest at the Decatur, Illinois plant (where many of the defective tires were manufactured), possible design problems with the Ford Explorer (rollover risk), and Ford's recommendations regarding tire pressure (for a smoother ride) all contributed to the ethical issues regarding full disclosure. (Ironically, Ford Motor is now taking the lead on making consumers aware of the possible risks of leaving tires on cars for more than six years (in spite of adequate tread) because of research suggesting a deterioration problem with rubber compounds in the tires.)

The hundreds of deaths and injuries (and hundreds of lawsuits) underscore the human dimension of benefit-cost decisions regarding product quality and reliability and add important perspective to the analytics of quality control The case also raises issues with regard to the ethical responsibilities of government regulatory agencies, as well as profit-maximizing companies.

E-Commerce issues about protection of customer privacy and/or intellectual property rights.

The case of Napster, 2000-2002, has already become a classic in the establishment of intellectual property rights on the Internet. Napster was established as a clearinghouse to facilitate feeless downloading of high-quality digital copies of music recordings via the Internet. The Recording Industry Association of America (RIAA) claimed copyright infringement by the Napster service, and the subsequent lawsuits raised many of the same issues that arose when photocopying technology became widespread (e.g., exemption for copies for personal use). Because students typically have engaged in substantial downloading of content from the Web, their personal experience provides an interesting perspective on the issue.

Outsourcing decisions (employee and supplier stakeholder issues).

The issue of outsourcing ("make or buy" decisions) raises ethical questions about the impact on employee and supplier stakeholders.

Financial Analysis (James Kenney)[12]

This is an upper level economics course that is offered every year to around 35 students.

The focus of Financial Analysis course is on various techniques of financial analysis and the evaluation of private businesses that attempt to maximize their shareholders' wealth. Students are required to complete an extensive financial analysis of a publicly held firm and make a decision regarding the maximum price that should be paid for the common stock of the company. The flow of reliable, timely information is important for the efficient performance of securities markets and the crucial interaction between ethical behavior and market performance. General issues addressed included:

- The agency problem created by the separation of ownership and management and the potential for "insider" abuse;
- Problems with incentive pay plans that tie management compensation to short-term share price appreciation;
- Inherent conflict of interest when management is responsible for collection and processing of accounting information (and thus controls the mechanism for monitoring their performance);
- Inherent conflict of interest arising from the institutional relationships between public accounting firms and their clients;
- Rationale for the various provisions of the Sarbanes-Oxley legislation.
- Students were given specific readings and commentary about the Enron and WorldCom debacles (the quintessential case studies of the breakdown of corporate governance) to illustrate the serious ethical issues that corporate America has had to begin to address.

Environmental Economics (James Kenney)[13]

This is a lower level economics course taught every year to around 40 students.

The focus of the Environmental Economics course is the economic causes of the major natural resource management problems confronting society and the evaluation of alternative public policies for environmental protection and natural resource preservation.

The key requirement of the course is a 3000-word essay prescribing a set of policies that will improve natural resource management in the U.S. Students must preface their policy recommendations with a statement of their personal values and philosophy, as well as the guiding principles underlying their recommendations. In particular, how do they perceive the value and the limitations of market-based incentives as a general policy approach to problems in natural resource and environmental management and the tradeoffs among societal objectives (e.g., cost efficiency, environmental preservation, resource security, distributive justice)? For example, with respect to greenhouse gas management, they must consider the efficiency of international emissions trading (and market-based incentives generally) versus the desirability of shared responsibility and the acceptability of licensing bad behavior (i.e., pollution).

Many readings from the popular press are discussed (reflecting widely divergent views about policy and the underlying science) and from government policy analyses, stressing how optimal policy is necessarily value-based. Students must confront the complexity of incorporating risk and fairness criteria (e.g., the "grandfathering" notion) into decisions regarding the management of emissions such as mercury, arsenic, fine particulates, sulfur oxides, and greenhouse gases. In the process, students develop some appreciation for the distinction between "doing things right" (analytically) and "doing the right thing."

Problems in Microeconomics (Stephen Schmidt)[14]

This is an upper level course taught every other year to around 20 students.

The course focuses on the application of game theory to economic analysis. In the last ten years, game theorists have begun describing ethics as a form of self-enforcing agreement about behavior among players in games. We present a series of game-theoretic models in which ethical behavior is a possible outcome of the model, and explain the role of ethics in improving the economic outcome of the model.

Economics has traditionally felt that it had little to say about ethics, despite regular occurrences of ethical problems in business. The reason for this is that economics is rooted in the philosophy of utilitarianism, which argues for humans to have free choice of their own actions (within certain limits society imposes). More generally, the dominance in economics of Adam Smith's idea that society runs best when each person is free to pursue his own self-interest has made it hard for economists to argue in favor of ethics, which places limits on the rights of individuals to do what they wish to do.[15] This, in turn, is rooted in the view that ethics are rules about behavior that people are supposed to follow, even if they would prefer not to.

What economists and game theorists have done is to propose a new way of looking at what ethics are. Instead of viewing ethics as a series of rules that people are to obey even against their will, they view ethics as agreements that everyone wants to keep *as long as everyone else does so as well.* An ethic is a way of coordinating the behavior of a group of people in a way that benefits everyone. Viewed this way, ethics is not in conflict with the idea of individual freedom, since it is in everyone's interest to achieve this coordination and we should all voluntarily choose to do so. We present this idea of ethics, and show how it is a very powerful idea for explaining why people should *choose* to behave ethically in a modern economic setting.

The idea is best presented through a simple example. Consider two people who have made an agreement about some task they will undertake together. Each person must choose whether to honor the agreement, or not. If the task is completed, each will get some reward, at the cost of some effort. Suppose the reward is \$100, to be divided evenly in all cases, and the cost of the effort is \$70. Then the project is clearly worth doing. However, the effort may not be divided evenly between the two people. If it is, each receives a net profit of \$15 (\$50 reward minus \$35 of effort). But if one person fails to honor the agreement, the other must do all the work. That person now has losses of \$20 (reward of \$50 minus effort of \$70) while the one that failed to honor the agreement receives \$50 for doing nothing. If both do not honor the agreement, then the reward is lost but no effort is expended, for a net profit of \$0 each. This model (which is a variant on the classic game theory model known as the prisoner's dilemma) can be written most simply in a box:

	Honor	Don't Honor
Honor	\$15, \$15	-\$20, 50
Don't Honor	\$50, -\$20	\$0, \$0

The rows represent one person's choice, the columns represent the other person's choice, and the first number in each pair is the profit of the person choosing rows and the second number in each pair is the profit of the person choosing columns.

In this model, the person choosing rows is better off not honoring the agreement, no matter what the person choosing columns does. If the other person chooses to honor the agreement, the row person gets \$15 for honoring the agreement but \$50 for not honoring it. If the other person chooses not to honor the agreement, the row person loses \$20 if they honor it and lose nothing if they do not. The same thing is true in reverse for the player choosing columns. Thus, we can never expect that either person, if allowed to choose freely, will choose to honor the agreement. The agreement will never be honored by either player, and making it in the first place is a waste of time.

The traditional solution to this problem is to assert that failing to honor an agreement is unethical, and that players should honor the agreement even though it is not in their best interests to do so. But as many recent economic events prove, few people will consistently act against their own self-interest in this way. If an economist teaches people that they should honor agreements in such cases, because that is ethical, there will be two problems. First, the economist will be arguing against the longstanding tradition of the discipline that individuals should be allowed to act in what they perceive to be their own self interest. This is particularly true if, as in this case, they do not expect the other person to honor the agreement. It is perhaps easy to argue that, ethically, one should honor the agreement if the other player will do so; but it is much harder to argue that one should honor it if one expects the other player to break it. Second, since we often observe people in this situation fail to honor their agreements, an argument that people should honor them will mean that the economist is failing to describe what people actually do. To the extent that economics, as a social science, is a method of explaining and predicting why people behave as they do, it is counterproductive to claim that people ought to do something that, clearly, they do not do. We might wish that people would behave ethically in cases like this, but wishing it will not make it so.

We can, however, make an argument in favor of ethical behavior if we assume that the people in this model will have more opportunities to make agreements in the future. Then the two people can agree to honor not only the present agreement, but all future agreements as well. If a person fails to honor the present agreement, then the other person can respond by ceasing to honor all future agreements. In this case, failing to honor the agreement is not necessarily the best choice—it gains profit on the present agreement, but sacrifices the potential $15 profits on all the future agreements. If there are sufficient future agreements, then it will be better to honor the present agreement in order to preserve the value of the future agreements. It would thus be in the self-interest of both players to carry out the agreement. We do not need to argue that they "should" honor the agreement; we need only argue that they make a higher profit if they do. Ethical behavior and self-interest are therefore one and the same thing. This means that we can talk about ethical behavior, and still remain consistent with economics' roots in utilitarianism and individual freedom.

We apply this basic insight to a number of problems where ethical behavior is an issue. One such issue is the case of two firms with a joint research venture. Each could profit by concealing its most valuable research from the other, in the short term. But if it did so, it would sacrifice the value of future shared research for both firms. Therefore, it is not in the long-term interest of the firm to conceal its research (assuming the value of the future sharing of research is sufficiently great). We can therefore safely claim that the act of refusing to share is unethical and expect that self-interested firms would indeed act ethically by sharing their research.

Another example involves selling goods whose quality cannot be easily determined by the buyer. Used cars are the traditional example, but there are many important goods like this—computer software, for instance. George Akerlof, one of the winners of the Nobel Prize in economics in 1999, showed that markets for such products generally fail because buyers must assume the goods they buy are of low quality. (If they do not, they expose themselves to the risk of overpaying for a low quality product.) However, if repeat business is important, then in fact the seller should behave ethically and tell the buyer when his merchandise is of low quality. By behaving this way, he can build a reputation for honesty, which will enable him to sell his goods at a high price when they are of high quality. In the class, we show not only that this is possible, but, in fact, it is what must happen when self-interested agents maximize their own profits in this market, bearing the long-term consequences of their actions in mind.

Both of these examples, and several more like them, make the general point that ethical behavior is not something we do because we are "supposed" to, but because in the long run we will all be better off if we all act ethically. And conversely, if we do not act ethically, the other people will cease to behave ethically, and then we will reach a different outcome of the model in which it makes no sense to behave ethically (because no one else is doing so) and therefore everyone is worse off than if we had acted ethically in the first place. Ethics, in this view, are a way in which society coordinates the behavior of all members of an economy in order to achieve a result that is in the best interests of all of them. Without the ethic, this coordination cannot be achieved and every member of the economy will suffer as a result. In some very general models, we can establish five broad points:

1. When several parties make voluntary agreements, it is ethical for all parties to honor the agreements, even when they could make short-term profits by not doing so.

2. When one person knows something another doesn't, it is ethical to tell the other person the truth about the thing they don't know, rather than lie for short-term gain.
3. When two parties can work cooperatively on a project, it is ethical to behave cooperatively rather than to shirk on your portion of the project.
4. It is generally ethical to support free trade and unethical to restrict trade.
5. It is generally ethical to retaliate against someone else who violates an ethical guideline with some kind of social sanction. Indeed, it can be shown that no ethical rule can ever be effective if it is not backed up by some social commitment to ostracize or in some other way refuse future cooperation with the unethical party.

In all cases we can prove that, under broad conditions, everyone is better off when everyone behaves ethically, and the ethic is the mechanism for ensuring that everyone does. This explains why societies have ethics in the first place, and also gives a guide for what sort of behavior can be labeled ethical and what sort cannot be so labeled.

Students wrote two papers in which they applied a simple game theoretic model from the class to a real-world problem. They were required to discuss an ethical issue in one of the two papers. There were also questions on the second midterm and final exam in which students had to write about ethics. The topics the students chose to address in their papers this term included:

- Microsoft bargaining in bad faith with EU antitrust authorities
- Evaluation of safety of pharmaceuticals after FDA approval
- False pre-release announcements of commercial software
- Violation of technology patent protection by Sony in Playstation market
- Violation of software patent protection by Microsoft vs. Forgent
- Arbitrage trading strategies used by Enron in energy markets
- Cutthroat price competition in UK grocery markets
- Predatory pricing against domestic firms in Third World markets
- Fair exchange rates for international currencies
- Holding out for renegotiation of contracts before expiration
- Ethics of international trade and airline subsidies
- International agreements and trade between Australia and China
- Ethics in bargaining during the hockey lockout
- Wal-Mart store closings in response to unionization by employees

- Dependence of Third World countries on US foreign direct investment

Seminar in Public Policy (Therese McCarty)[16]

This is an upper level economics course that used to be taught every year to around 20 students. The course is on hold while Professor McCarty serves as Vice President and Dean of the Faculty.

A course on public policy is a natural stage for raising ethical issues. Income distribution often lies at the heart of a policy issue, stimulating a discussion of various approaches to distributive justice, including utilitarian and Rawlsian criteria.

Each student did a 45-minute presentation on a policy issue, most of which included some discussion of ethical considerations. These topics included air pollution, public financing of sports stadiums, protectionism, state corrections spending, Federal deposit insurance, Social Security, homelessness, drug approval policy, urban sprawl, Native American casinos, recycling, and public school accountability. We frequently discussed the obligations of government to citizens and the costs and benefits of governmental intervention in markets.

We hosted Dennis Packard, Schenectady County Commissioner of Social Services for dinner on the last day of class. Mr. Packard then talked with the class about "the right thing to do" in implementing welfare policy.

Other Activities

Although the initiative focused on the introduction of ethics into economics courses, it was complemented by the following activities:

- Faculty presented their economics/ethics courses at pedagogical conferences.
- Ethics was included in senior theses and presented at the Union College Steinmetz Symposium.
- Economists who consider ethical issues in their professional research were invited to present at the Economics Department Faculty Seminar Series.

Conclusion

This pilot initiative was restricted to economics. It worked. Ethics has a role in numerous courses in the department. Every economics major is exposed to ethics in the context of courses in the major multiple times. The ultimate goal is to inculcate an ethical standard that will rise to the surface when confronted with the inevitable difficult choices that emerge professionally and personally throughout life. We cannot assess this. But we do know that awareness of a moral standard does influence behavior. Each exposure to ethics contributes to this awareness.

Economics is one of many potential applications across the curriculum. The approach is effective; it can also be improved. The best model would combine the disciplinary expertise of department faculty members with the everyday ethics expertise of philosophers. The Philosophy Department is well positioned to organize ethics modules across the curriculum and to serve as a resource in teaching ethics. We hope that the legacy of this innovative pilot in economics is an expanded program that includes ethics modules everywhere. Students at Union College should encounter ethical issues multiple times as they sample courses early and then settle upon a major. Graduates of Union College will be better educated and better citizens as a result.

Notes

[1] This program would not have happened without the generous support, financially and personally, of Michael S. Rapaport, good friend and 1959 Union College alum. A very brief version of this paper was presented at the 10th International Conference of the Society for Ethics Across the Curriculum, November, 2008, Baltimore, MD. I benefited from constructive comments and discussion. Robert Baker carefully read an early draft and provided valuable suggestions.

[2] For a long list of recent ethical transgressions, see *http://www.time.com/time/specials/2008/top10/article/0,30583,1855948_1863946,00.html*.

[3] See Thomas Garber, *Everybody Does It* (1994).

[4] Harold Fried teaches the Mind of the Entrepreneur with contributions from Professor and Dean Douglass Klein (economics) and Professor Kenneth DeBono (psychology). Professor Klein conducts the discussion of the social contract.

[5] Professor DeBono provided material for this section.

[6] Professor Klein provided material for this section.

[7] Professor Lewis provided material for this section.

[8] Professor Schmidt provided material for this section.

[9] Professor Yaisawarng provided material for this section.

[10] Professor Yaisawarng provided material for this section.

[11] Professor Kenney provided material for this section.

[12] Professor Kenney provided material for this section.

[13] Professor Kenney provided material for this section.

[14] Professor Schmidt provided material for this section.

[15] Smith expresses this point of view well in Chapter 2 of Book 1 of *Wealth of Nations*: "Man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favor, and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. 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 self-interest."

[16] Professor McCarty provided material for this section.

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