

**The Potentially Moral Nature of Economic Actions**  
**(Including Lending at Interest)**

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Introduction

The word potentially in the title must be emphasized at once; I am not going to argue that economic actions are always of a moral nature (whether by ‘moral’ we refer to intentions, to consequences, or to character and the virtues). I shall simply point out (a) that economic actions can be of a morally positive nature and (b) that some common ideas to the contrary are misguided.

A good starting point is provided by Alfred Marshall’s **Principles of Economics** (1920 [1890]), the great economics text of the late Victorian/Edwardian period. On his opening page we read that, for Marshall, ‘man’s character has been moulded by his everyday work, and the material resources which he thereby procures, more than by any other influence unless it be that of his religious ideas’. Working, for Marshall, is often a matter of working for the wellbeing of one’s family, since ‘the family affections’ are, he thinks, amongst the leading motives to action. It can also involve the striving to do one’s work well, to achieve excellence in one’s calling. It will often involve co-operation with and respect for one’s fellow workers.

The spending of income can also have significant moral aspects, since it can be wise or unwise. It can be directed to the health and education of children, for example, or to ostentation and the demon drink; it can go to charity or to self-indulgence. It can be ‘invested’ in enhancing one’s skills or in deepening one’s culture. Self-reliance, prudence and a readiness to postpone gratification can all be embodied in one’s patterns of expenditure and of savings.

Saving and lending too have a moral aspect, both via the prudence already mentioned and because lending can make it possible for another (the borrower) to put to good effect their initiative and enterprise in ways that would otherwise be closed to them.

More generally, Marshall writes that, ‘money is a means towards ends, and if the ends are noble, the desire for the means is not ignoble. [Money] is sought as a means to all kinds of ends, high as well as low, spiritual as well as material’. (p.22)

John Wesley said much the same in his sermon on **The Use of Money** (1744), which contains the famous words, ‘Gain as much as you can; save as much as you can; give as much as you can’. (Note that by ‘save as much as you can’ Wesley meant ‘be as frugal as you can’. Note also that one can ‘give’ by choosing not to earn as much as possible and by working in the voluntary sector, or at least in an activity paying much less than one could earn elsewhere.)

We now leave Marshall and Wesley to consider more fully some of the issues they have already raised for us, at least by implication.

## Exchange

It is sometimes stated – or just taken for granted – that economic actions are always, necessarily motivated by selfishness. Yet it is a normal, everyday experience that millions of individuals earn and spend with the intention of doing good for their children, for their elderly parents, for the charities/churches/parties, etc. they support, for the people who receive the services they provide or the goods they produce. The idea that economic actions must be driven by selfish motives is, quite simply, a stupid idea, a mindless slogan.

Less blatant, perhaps, is the fallacy that, in an economic exchange, one of the two parties must be gaining at the expense of the other. In truth, both parties can be gaining, the exchange conferring a mutual benefit. (The economist--and Unitarian minister--P. H. Wicksteed liked to refer at this point to **I Corinthians 12** and its picture of differing gifts and mutual service; a division of labour combined with exchange of goods and services can be viewed in this light.) Under certain conditions, indeed, neither party can be harmed by the exchange. That must be so if each party both understands fully what is

involved in the exchange and is free not to enter into it. Why would either party engage in the exchange, knowing that they would be better off not doing so?

Faced with this simple but powerful argument, people sometimes resort to an abuse of the English language, saying that one of the exchangers ‘had no choice but to engage in the exchange’ (for example, to take a dangerous job at low pay). But such Humpty-Dumpty use of language achieves nothing. It is far better to say – if it is thought appropriate – that ‘this worker was faced by a nasty choice’; or even that ‘no one should ever have to face such a choice’. But one must not pretend that there was no choice.

Note that if someone is badly off even after making an exchange, it does not follow that the exchange has made them badly off. To the contrary, it will often be the case that in the absence of the exchange they would have been still worse off. As the left-of-centre Cambridge economist Joan Robinson once remarked, for the worker the one thing worse than being exploited is – not being exploited - i.e. being unemployed in a society without social benefits. It may be perfectly proper to criticize the conditions under which certain exchanges take place but it is empty rhetoric to say that some of those exchanging ‘had no choice’.

### Lending and Borrowing

For Marshall, as noted above, lending and borrowing can involve postponement of gratification, prudence, foresight and responsibility. Yet it seems commonly to be supposed—wrongly---that lending and borrowing at a positive rate of interest must involve some injustice towards/harm to the borrower.

It is of course a fact that sometimes rich and powerful lenders can and do place very onerous terms on poor borrowers, driving these latter into great distress. (An example often cited is that of some Indian money lenders and poor peasants.) But just as with the matter of exchange in general, considered above, one must not confuse objectionable conditions of exchange (or, now, conditions of lending and borrowing) with the fantasy that exchange (now, lending and borrowing) must benefit one party at the expense of the other.

To see this, let A and B be two agents of broadly similar wealth; neither has any power over the other and each is free both to enter a lending/borrowing transaction and, equally, to refrain from doing so. Their roughly equal wealth notwithstanding, it so happens that A is relatively ‘flush’ now but

expects to be 'short' in a year's time; B is in exactly the opposite situation. A may consider it advantageous to lend £1,000 at 5% for one year, while B may consider it advantageous to borrow £1,000 at 5% for one year. If so, the corresponding loan from A to B makes both A & B better off than they would have been in the absence of the loan.

To say that A, the lender, has gained 'at the expense of B' would be utter nonsense; B is made better off, just as is A. The gain is mutual (as in other cases of well-informed and freely entered exchange). Of course, they may not always be well-informed; for example, unforeseen inflation may occur between the granting of the loan and its repayment. The lender may then lose by lending.

(The Holy Qur'an prohibits the practice of riba. But it does not define riba. Hence it would be disingenuous to say, 'The Holy Qur'an prohibits lending and borrowing at interest'. Such a prohibition can only be derived by combining the scriptural command with a human interpretation of the term riba. And such interpretation is contentious. The practice prohibited may have been that of doubling debts not redeemed by the due date, a draconian practice that sometimes led to the literal enslavement of the debtor. To prohibit that is entirely different from prohibiting lending at, say, 5%. Note that when there is inflation, to insist on a zero money rate of interest is to insist on a negative real rate, which is, arguably, unjust to the lender. Any claim that a zero (money) rate of interest is required by justice should be met with considerable scepticism.)

## Work

As already noted, Marshall pointed to various moral aspects of waged and salaried work, which can have aspects of mutual service, of seeking to benefit others and of co-operation. (The firm/the business enterprise is, in part, an exercise in co-operation among the employees.) Material incentives – along with other motives – can of course influence which employment is taken up, how many hours are worked, how hard one works, etc.. It is sometimes said, or implied, that material incentives are somehow morally suspect, or even to be despised. But Wesley, Marshall and simple clear-headed thinking show such 'ideas' to be merely muddle-headed. There is nothing inherently ignoble (to use Marshall's term) in responding to pecuniary incentives.

Turning now to such specialised forms of working as invention, innovation, risk-bearing and entrepreneurship, we note that they can have much to do with freedom, creativity, independence and

initiative, which would generally be thought to have significant moral aspects. Note, too, that these dimensions of human activity can easily have a competitive aspect to them – and that that is not self-evidently a criticism of them. Some new methods of working and some new products may not be morally superior to those they replace – but that is no reason to deny that some results of market activity improve our lives. When would you rather do the weekly wash; or need medical treatment; or require dental surgery – now or in 1910? Is the answer morally neutral? Moreover, business activity often creates jobs, employment and this can be a virtuous thing to do.

### The Firm

We cannot here consider all the many moral dimensions of profit maximizing activity but one dimension can readily be noted. It is a matter of simple logic that a profit-maximizing firm is ipso facto a cost-minimizing firm. But to minimize costs ‘is’ to avoid waste and to use as carefully as possible the most scarce resources, including minerals and non-renewable energy sources; this is a virtuous activity. (It need hardly be said that issues of under-priced resources, etc. would need much more detailed consideration– but they do not destroy the general thrust of the point being made.)

To speak of entrepreneurship, profit-maximizing, etc. is inevitably to evoke questions relating to co-operation and competition. It has already been noted that there is much co-operation within firms. It must now be noted that competition between firms may well be morally superior to co-operation between them. When firms ‘co-operate’ to form monopolies or cartels they are not always doing this in order to benefit others; such co-operation can be a selfish exercise in increasing the benefits of exchange to the firms in question and reducing the benefits of exchange to their customers. Any slogan to the effect that ‘competition is morally bad, co-operation is morally good’ is a very naïve, i.e., a morally irresponsible, slogan. Matters are a good bit more complicated than that.

### Concluding Remarks

Is there the slightest reason to be surprised by the fact that economic actions can often give expression to morally positive intentions and virtues? Well yes – if we are silly enough to suppose that real flesh-and-blood economic agents (like you and me) are hypothetical ‘economic men’, concerned only to maximize our wealth. But, of course, we are not. One century ago, in 1910, Wicksteed (referred to above) published his brilliant **Common Sense of Political Economy**. Throughout that long work – but above all in Chapter V, ‘Business and the Economic Nexus’ – he both demolished the idea of

‘economic man’ and, more positively, showed that there are no distinct, separable ‘economic motives’ but only ways of choosing and deciding that apply to all kinds of action and reflect all our purposes, aspirations and values. It would thus only be surprising if economic actions did not have moral aspects! And there is no reason at all to expect them always to be morally negative aspects. (Without pursuing the matter, we may note briefly that Wicksteed’s analysis of choosing as a matter of balancing conflicting considerations has been seen as a refinement of Aristotle’s doctrine of virtue as a mean; for example, bravery as a mean between cowardice and foolhardiness. Further on Wicksteed’s analysis of rationality, see Steedman (1989), chapter 10.)

In broad terms, I have said just two things; the first being that economic actions can have a positive moral aspect and the second being that certain arguments purporting to contradict this are simply spurious. I have not said – or implied – that economic activity can never have amoral or immoral aspects. To say that economic actions can be virtuous is not to say that they always are so. They are, after all, the actions of human beings, who sometimes act virtuously and sometimes do not.

## References

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