

## **Economics and Ethics; must they conflict?**

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### **Introduction**

Any brief title relating to a complex subject is bound to be over-compressed. In our case, ‘Economics’ could refer to (at least) three distinct things: economic theory; private economic actions; or public economic policy. And there are (at least) three distinct bases for ‘Ethics’; one can focus on the consequences of actions; on the intentions of the actors; or on the character and virtues of the actors. (For example, the four classical virtues of fortitude, prudence, temperance and justice. We may note in passing that great interest has recently been shown in virtue ethics by philosophers of ethics.) I shall proceed here by considering economic theory, activity and policy in turn, whilst trying to allow various ethical views to play some role.

Before doing that, however, let me insist that our title is must economics and ethics conflict? And not can they conflict? Or do they conflict? These latter questions are uninteresting, because their answers are so obvious; economics and ethics can come into conflict and sometimes they do. Our question is whether they inevitably do so. Note also that there are two different possible bases for claiming an inevitable conflict; first, the claim that economics has no ethical

content or, secondly, that it has the wrong ethical content. (Of course, only the second basis could apply to economic policy, since it would be self-contradictory to speak of a ‘value-free policy’. Any policy proposal is a statement about what ought to be done and thus presupposes, at least implicitly, certain values.)

### **Economic Theory**

It will perhaps be useful here to explain why three common ‘criticisms’ of economic theory, each relating to ethical issues, are simply ill-informed pseudo-criticisms. (I do not imply that no well-informed criticisms can be made – I have spent the last 45 years of my life trying to make some of them. I am thus most certainly not committed to ‘defending’ economic theory come what may.) I refer to the allegations that (i) economic theory is based on utilitarianism, (ii) that it presupposes each economic agent to be a narrowly self-interested, selfish, wealth-obsessed ‘economic man’ and (iii) that it only shows that one person’s economic gain is necessarily another’s loss.

(i) There undoubtedly were important links between early political economy and utilitarian philosophy but this was beginning to break down by the late 1800’s and by the 1930’s economists had broken decisively and explicitly from utilitarianism. This is all well illustrated by the work of Marshall, Wicksteed, Edgeworth, Pareto and Hicks, for example. A recent confirmation of this is provided by Richard Layard’s book, Happiness: Lessons from a New Science

(2005). Unusually for a modern economist, Layard declares himself to be a utilitarian – and then complains forcefully and repeatedly throughout his book about the fact that modern economics is not utilitarian. He thinks it ought to be –but what is significant here is that he knows it not to be. (Economic theory may tend to be consequentialist but it is not utilitarian. Utilitarianism is a particular special case of consequentialism.) Layard also notes (p.141) that ‘Economists do not of course believe in “homo economicus”’ and that altruistic action is perfectly consistent with economic theory – which leads us to our next allegation.

(ii) The single most pervasive misunderstanding of economic theory is probably the idea that it has to assume economic actors to be entirely selfish ‘economic men’. This fallacy harks back at least to Arnold Toynbee’s famous reference, in his lectures on the industrial revolution, to the ‘bitter argument between economists and human beings’, to Carlyle and to Ruskin. Whatever might be said for and against their (mis-)understanding of the then current political economy, chanting their slogans today is just intellectually irresponsible. By 1890 Alfred Marshall was already dismissing the notion of the ‘economic man’ and insisting that economists ‘deal with man as he is: not with an abstract or “economic” man; but a man of flesh and blood’. Marshall, throughout his Principles of Economics, shows himself to be well aware of the complexity of human motivation. And with respect to money he observes 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.' In 1910, Philip Wicksteed explained very clearly that an ordinary economic transaction need have nothing whatever to do with selfishness on the side of either party; all that is required is that neither is aiming to further the purposes of the other party to that transaction, what he called 'non-tuism', to be distinguished from both egoism and altruism. The respective parties could be aiming to benefit third and fourth parties. This helps one to understand better Adam Smith's oft-quoted example about our obtaining our dinner from the butcher, the brewer and the baker, which is often represented as showing how basic is an assumption of selfishness. Whatever Smith himself may have had in mind, the butcher, the brewer and the baker do not have to be aiming to fulfil egoistic aims in serving us; the butcher could be aiming to benefit his favourite niece, the brewer to benefit the Tory party and the baker to benefit the Kirk. Similarly, if a modern barrister maximizes earnings precisely because she wishes to maximize her annual donation to the Macclesfield Literary and Philosophical Society, is she acting selfishly? Of course not. Any idea that economic agents have to be selfishly motivated is, frankly, merely stupid. Economic theory simply takes agents to have whatever values, goals, motives they have; it does not stipulate that they are selfish or that they are altruistic, are materialistic or are spiritual, etc..

(iii) The general thrust of economic reasoning is to the effect that both parties to an exchange can benefit. Suppose first that each agent

is well-informed as to the factual consequences of the proposed exchange, is able to assess their worthwhileness (or otherwise) and could decline the transaction. In such a case, how could the exchange fail to benefit both parties? Any exchange that would harm either party would be refused, not entered into. Q.E.D.. Of course, one can now go on to worry about cases in which one agent is not well-informed and/or is not able to assess the true significance for them of the likely factual consequences. (This is as obvious to economists as to non-economists, by the way!) One should, however, beware a common response to the above basic case – the response that one of the agents ‘had no choice’ but to accept the transaction. That is almost always a false claim. The choice may have been a nasty one – e.g., accept a dangerous, low-paid job or starve – but it was still a choice and the worker may have much preferred the job to starvation. Note, then, that someone who is badly off after an economic exchange has not necessarily been harmed by it; presumably they would, in their judgement, have been even worse off without it. Note too that this is a simple point of logic, not an expression of indifference to someone’s unfortunate circumstances.

The above argument that economic transactions can be mutually beneficial applies immediately to the case of borrowing and lending money at interest. Competent, well-informed borrowers borrow because they prefer to do so, rather than not have the loan; in their own judgement, it makes them better off. As before, of course, an

agent – here a borrower – may be ill-informed, may not understand all the implications of borrowing. But if so, any bad effects stem from that lack of understanding, not from any inherent flaw in the activities of lending and borrowing. It is thus fallacious to suppose that there is anything inherently unethical about lending (or borrowing) at interest. To the contrary, by refusing to lend, one could make a would-be borrower worse off. (Note that while the Holy Qur'an prohibits the practice of riba, it does not explain what it intends by that term. Hence any claim that the Holy Qur'an prohibits lending and borrowing at interest is tendentious; it conflates what the scripture says, with a particular human interpretation of what is said. This point is, of course, well-known to and clearly explained by some Muslim economists. As is the fact that borrowing at a zero money rate of interest, over a period witnessing inflation, is unfair to the lender, who is paid a negative real rate of interest.)

### **Economic Activity**

Whatever economic theory may assume (and not assume), is private economic activity necessarily in conflict with ethical demands? Surely not. Is it inherently unethical to work as a nurse? As a farmer? As an electrician? As a solicitor? No. Is it wrong to work hard to benefit one's parents? One's children? Various good causes? All these activities can be morally positive activities. So can inventing, innovating, bearing risks, creating new products and new jobs. Note too that, as Alfred Marshall in effect pointed out in the

passage quoted above, there is nothing intrinsically ignoble in being encouraged in any such activity by the presence of (sometimes sneered at) material incentives. Indeed, one should perhaps speak more positively than that about what is achieved by material incentives. What else is it that so co-ordinates the activities of hundreds of people around the world – people engaged in transporting, in farming, in fertilizer production, in chemicals production – that you are able to buy a bag of basmati rice at (almost) any time you wish? Those people do not even know of your (individual) existence. Yet material incentives lead them, unwittingly, to serve your rice-buying wants. And so on, millions of times over every day, for other wants of other people. It is perfectly proper to criticize market processes for their shortcomings but it is irresponsible not to acknowledge what they do achieve and which is often ethically positive. Many economic actions are doubtless motivated simultaneously both by material incentives and by other considerations, of course, but neither type of motive need be looked down on.

The reference to incentives can also alert us to the fact that it is disingenuous to suggest that ethical considerations are relevant only to the distribution, or re-distribution, of income and wealth and not to their creation. One cannot redistribute what has not been produced, obviously, and (potential) producers may well have views on what is ethically due to them in return for their productive activities. How

much output is available for distribution may depend on how output is distributed.

Much private economic activity in our society is of course driven by profit-making activities; are they inherently contrary to ethical precepts? What has been said above about the potential mutual benefits from exchange, about the ethical neutrality of the desire for money per se, and about innovation, the creation of new jobs, etc. has already suggested some reasons why one should not answer 'yes' too readily. The enormous differences between life in the U.K. in 2010 and life in the U.K. in 1810 would never have come about in the absence of profit-making activities, which have done so much in the long term to reduce squalor, misery, malnutrition and disease for millions of people. Governments, researchers and social reformers may have played their role too - but what would they have achieved in the absence of profit-making activities? The fields of transportation, communications and medicines alone may suffice to remind us of some of the desirable changes brought about in people's lives.

Profit-making activities have many ethically positive consequences, as well as sometimes involving morally positive intentions and virtues. One good consequence not mentioned thus far is that profit-maximizing action is ipso-facto cost-minimizing action and the avoidance of waste, using as little energy and raw materials as possible, is generally a desirable feature of activities. (Note too that

using as little labour as possible is the same thing as maximizing labour productivity.)

Profit-seeking firms are supposed to be disciplined by competition but it is often suggested, by critics of economics and all its works, that competition is intrinsically bad, while co-operation is intrinsically good. Care is needed here. We may note first that firms are institutions within which everyone is supposed to co-operate; the market does not do away with all co-operation. Note secondly that co-operation between producers can mean collusion, cartels or monopoly. Co-operation can be precisely for the benefit of some at the expense of others. Many of you may remember how in the early 1970s jobs were lost and savings eroded because of the sharp rises in oil prices. And why did they occur? Because of a shift from competition to co-operation, on the part of many oil-exporting countries. Increased co-operation destroyed the jobs and/or savings of many people. Much more recently, it has been alleged that some U.K. supermarkets have colluded in order to push down the prices they need to pay some of their suppliers. If the allegations have any force, is one to suppose that the suppliers in question feel that they are better off as a result of the supermarkets' shift from competition to co-operation (in the relevant markets)? So one should be very wary of any 'competition immoral, co-operation moral' slogan. Competition limits the power of firms; their co-operation increases their power. That is why economists tend

to look favourably on competition; because it can help to protect you against abuse of economic power.

Economic activity does not have to conflict with ethics then, indeed it can embody ethical conduct, involving morally positive virtues, intentions and consequences. Whether it actually does so depends –surprise, surprise – on the moral qualities of the agents engaged in that activity.

The question then arises whether the functioning of the economy has any tendency to strengthen or to weaken particular moral values. It may not depend on selfishness but does it nevertheless encourage it (and, if so, how)? It certainly depends on trust but does it build up trust or undermine it? Does it enhance or weaken self-reliance and independence? Does it encourage a readiness to plan for the future or does it, rather, promote an undue concern for the present? These are genuine, not rhetorical questions, please note, and their answers may well be complex. No one should pretend that they can be dealt with in a sincere way by means of two quick assertions and a flippant reference to some recent economic event.

### **Economic Policy**

As noted above, economic policy is necessarily value-laden. Argument about policy can thus involve a complicated mixture of disagreement about the probable consequences of a given proposed

policy and discord over the ethical evaluation of those consequences. Whose values should be in play here? Presumably not the values of economic advisors, whose job is to work out the possible effects of alternative policies, not to evaluate those effects. But whose values then?

Much has been said and written about the role of values and of business ethics in relation to recent events in the financial sector. Is it or is it not a legitimate role of governments to attempt to change the values of economic actors? If it is legitimate in principle, is it possible for them to do so? For the Davos meeting earlier this year, the World Economic Forum asked sixteen ‘Global Religious Leaders’ to prepare short essays on ‘Values for the Post-Crisis Economy’. Unsurprisingly, perhaps, these authors found it easy enough to expound the importance of values in economic life – but few of them even mentioned the issue bluntly stated by one of their number (Dr. Lesley-Anne Knight, of Caritas, Vatican City):

‘It is of course easy enough to identify the values and principles that should form the basis of systems and institutions. What is far more difficult is to ensure that these values are applied.’

Quite so. Whether this ‘relies on us as individuals’, as Knight suggests, or whether governments also have a role to play, that difficulty remains. It is child’s-play for Gordon Brown, or anyone

else, to call for ‘a world of shared global rules founded on shared global values’ as the way out of financial turmoil (March 2009 at the G-20 meeting in London); to implement such rules in an effective manner is another matter.

This leads to the point that with respect to economic policy, it is not sufficient to think about ethics in relation to economic activity. One must also consider the ethics of political, legal, diplomatic and regulatory activities. We are not about to launch into such a consideration here, of course, but it is perhaps relevant to caution against any naïve assumption (probably implicit rather than explicit) that, while all business people are sinners, all law-makers and enforcers are saints. Neither part of that assumption is sound, it should not need to be said. Thus regulators, for example, are often very similar to the people whose activities they are to regulate. Indeed, it is common practice to cross the border, to leave a regulatory agency for business, or vice-verse. This does not imply that regulation must be a costly waste of time. It does remind us, however, that we should assess regulatory legislation and practice just as carefully as we assess that which is regulated. It is not permissible to assume that regulators, say, are all-knowing and ever-virtuous.

### **Concluding Remark**

It will be clear, I hope, that I have not said, or implied, that Economics and Ethics live in perfect and perpetual harmony. I have

merely said that some common allegations as to their inevitable and permanent discord are spurious. That still leaves plenty to discuss.