Ethics and Economics

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Introduction

I want to open a conversation between economic and ethics. At present they speak largely incompatible languages, making conversation impossible. The thin utilitarian bridge between the two which links growth of GDP to the ethical aim of reducing suffering is completely inadequate for a good conversation.

Ethical questions are of three kinds. What is just? How ought we to behave? And what is good or desirable in itself? Such questions ought not to be beyond the purview of economics. All economic choices are simultaneously ethical choices (in the widest sense) because they concern both the means by which we pursue our ends, and the nature of the ends themselves.

Economists need to form a view of the justice of the economic system, the morality of economic behaviour, and the purposes to which economic life is directed.

Economists often claim that they are concerned only with efficiency. They may have ethical views as citizens, but these are irrelevant to their 'scientific work'.

This assumes that economics is a 'hard science', whose propositions are true or false. There are two objections to this answer. First, if it were true, economics would have very little to do, because few economic propositions can be empirically refuted.

But, secondly, even natural scientists have become increasingly aware that they need to understand the ethical implications of their work. No economist should claim the false modesty of a technician, on tap but not on top. Technicians have a responsibility for how their technique is applied.

There is no uniquely correct way of modelling economies. Economists make choices about the way they do economics. Like all technicians they need to be held to account for their choices. This is even more necessary now that economics has more influence on practice than the other social sciences.

The separation between economics and ethics

The distinction between how men actually behave and how they ought to be have is the foundation of non-naturalistic ethics. It was weakened but not abolished by the naturalistic ethics of utilitarianism. According to Bentham, human psychology is such as to cause people to seek to maximise pleasure and minimise pain. The 'good' was identified with a psychological sensation, thus abolishing the distinction between is and ought, fact and value.

But not entirely: Bentham's psychology restated the old conflict between egoism and altruism in a secular language. The moral imperative of utilitarianism, for which it is impossible to find a justification in utilitarian psychology, was to act in such a way as maximise the happiness of the universe.

Adam Smith, who was a moral philosopher as well as an economist, postulated two independent motives for action: self-interest and altruism. Humans acted from self-interest but were impelled to do so under the watchful eye of the 'impartial spectator', which might loosely be translated as moral conscience. This kept a place for ethics in economics. But Smith never succeeded in reconciling the two motives for action, largely because he had a severely impoverished notion of society. Economics paid increasingly less heed to the impartial spectator, more to the ability of the market to aggregate the self-interest of its individual participants into the common good. Economics came to embrace the paradox of selfishness, most engagingly stated in Mandeville's Fable of the Bees, which showed in verse how 'private vices' produced 'public benefits'.

However, the 19th century was an extremely religious century and the paradox of selfishness producing good through the invisible hand of the market was unacceptable to that pious age. An ethical school of economists grew up in Germany, the USA, and England which insisted that it was the task of economics not just to subject economic motives and results to ethical scrutiny but to prescribe ethical behaviour in economic relations.

But the marginalist revolution cut the ground from under ethical economics. By the end of the 19th century the main trunk of economic theory had largely emancipated itself from concerns with just rewards, good motives, and ideal ends. Wants (ends) were taken as given - not subject to further enquiry; and self-interested market exchanges would, with suitable qualification, sum to the general good. The virtuous element of economics was to be sought in the concept of rational sacrifice, whereby the present generation renounced present enjoyment for the sake of the greater happiness of their children.

Alfred Marshall signified economics' liberation from the vaguer sciences when he named his textbook of 1891 Principles of Economics, rather than Principles of Political Economy; and succeeded in 1903 in taking economics out of the Cambridge moral science degree, on the ground that its 'metaphysics' (what we now call ethics) 'put off able men who would otherwise have studied economics'. .

In his *Scope and Method of Political Economy (1891*), Maynard Keynes's father, John Neville Keynes, proclaimed the terms of peace between the then warring schools of scientific and ethical economists. Economics, regarded as a positive science, was independent of ethics. But ethics was to provide a standard for judging economic motives and the justice of economic systems.

With Marshall's 'metaphysics' thus cleared out of the way the road was open for Lionel Robbins 1932 definition of economics as the science 'which studies behaviour as a relationship between unlimited wants and limited resources which have alternative uses'.

The economist could indifferently tell you how to produce more apples or kill people in the cheapest way possible. Qua economist, though not as citizen, he had no other expertise to offer.

Reintegration

So we need to undo Marshall's work, and make ethics a compulsory part of the study of economics. It is as technical, in its way, as the 'technique' economists currently learn; but it has the additional benefit of being both rigorous and (rarely) mathematical. Ethics should inform economic enquiries in the sense of drawing attention to the ends of economic activity, pronouncing on the means, and drawing appropriate conclusions for policy.

Economists partly recognise this. The main - and widely accepted - ethical goal of economics is to reduce physical suffering by reducing poverty. Economics justifies itself as practical ethics by its pointing to the most efficient way to achieve this. We would surely want to agree that the reduction of avoidable suffering is an ethical goal; and that an important measure of our success in achieving it is the growth of GNP.

Economists go on to argue though that scarcity will always be with us and there is therefore no further need to think about the ethics of growth. Drop the highly unrealistic assumption of insatiability and a torrent of ethical questions emerges:

Should we be worried by any slow down in growth? How much growth is enough for a 'good life'? Are there 'natural' limits to growth? What duties do we have to future generations? What contribution can economics make to what Mill called the 'art of life' as opposed to the means of life?

Morality is concerned with the question of how we ought to behave. Even if economic growth remains valid as an ethical goal, economists need to be aware of the moral implications of different kinds of efficiency. This touches on all forms of economic organization. Slave labour may be more efficient ('costs less') than free labour, but cost reduction is obviously not a complete argument for using slave labour. What about child labour? As Joan Robinson once put it: ‘There’s one thing worse than being exploited by capitalists, and that is not being exploited by them’.

Or off-shoring jobs to cheap labour locations on the ground that this is efficient for reducing poverty in poor countries?

Is it right to use robots to replace human labour?

Can the concept of ethical consumption be justified on economic grounds or is this simply a private preference? It is important to stress that there are no right moral answers to such questions. But economists should at least be sufficiently self-aware to realise that their moral biases influence the way they model economic life, and pretend they are a value-free science.

The judgements economists must make

Let me illustrate what I have just said with an account of some of the moral and ethical judgments the economist needs to make. The economist needs moral insight into (a) the justice of the private property system, (b) the relation between employers and employees, (d) the moral value of self-interest. He needs ethical insight into (e) the ends or purposes of economic activity, (f) the value of nature and (g) the value of wants.

Private property in the means of production

This is the moral Achilles heel of the capitalist system, as was recognized by Locke nearly 400 years ago. In his Two Treatise on Government (1689) Locke says that everyone has a 'property' in his own labour. From this it follows that everyone has a natural right of property in the fruits of his labour. Labour is therefore the price of property. (This is the labour theory of value).

Locke meant by property both the 'fruits of the earth' (roughly the necessaries of life) and the source of those fruits, the earth (roughly 'the means of production'). He assumed that there still enough free land available to give all who worked both kinds of property. But he also defended existing private property rights as improving the productivity of the soil and thus affording an enhanced property of the first kind to those whose labour had been insufficient to secure them property of the second.

This can be interpreted as giving owners of capital the duty to provide work on pain of expropriation.

But this moral claim for a 'right to work' as surrogate for a right to ownership of the means of production was evaded by two modelling assumptions of neoclassical economics.

The first is the full employment assumption. By this device all unemployment is assumed to be a choice for leisure, carrying with it no right to income.

The second is the assumption that in a perfectly competitive market all the factors of production receive the equivalent in money of what they produce. This takes distribution off the economic agenda.

At first there was some optimism that the theory of subjective utility could furnish an objective argument for income redistribution. Arthur Pigou, the founder of welfare economics, set out to show, by means of the law of the diminishing marginal utility of money, that a transfer of income from rich to poor would increase total utility. But his demonstration, while logically persuasive, required treating everyone as having identical tastes, and the availability of a satisfactory measure of total happiness. Pigou's proofs soon broke down.

Economists’ interest in distribution faded away when American economist John Bates Clark demonstrated that, in perfectly competitive markets each factor of production received the value of its marginal product. Competitive markets ensured not just that all participants got what they wanted, but all were paid what they were worth. Questions of allocation and distribution were simultaneously resolved by arithmetic!

Except we know they weren't. The questions raised by Locke should be part of the moral reflection of any decent economist, because it lies at the heart not only of the historically contested nature of value theory (what creates economic value?) but of the conflictual, and often dysfunctional character of the contemporary capitalist system.

Political practice in capitalist economies has not adhered to such rules of efficiency, at least consistently. Governments have provided income support to the poor through redistributive taxation, despite the objection that this only perpetuates poverty by encouraging the poor not to work. In the Keynesian era at least they guaranteed employment for all those who wanted to work despite the objection that this destroyed labour market flexibility and caused inflation. These measures were not enough to eliminate conflict over the distribution of the 'fruits of the earth', though they reduced it.

Today, with the active encouragement of neoclassical economists, the employment guarantee has been removed and welfare benefits have been cut down in the name of efficiency.

Notice that the moral debate is not one-sided. There is a liberal argument for the state not interfering in the voluntary contracts made by employers and workers. We would at least need to ask how 'equal' these contracts are. What one requires of economists is that they be conscious of the moral choices implied by their analytic choices.

The relations between bosses and workers

When Keynes proposed to leave the capitalist system alone provided only that it could be induced to offer full employment, the socialist Evan Durbin accused him of justifying the freedom of employers to 'exercise their sadistic impulses in the control of industrial workers'.

Much has been done since then to curb any such 'sadistic impulses in the control of industrial workers'. Hierarchical systems of control have been flattened, and employers' rights hedged in with numerous regulations covering health and safety, summary dismissal, harassment at work, and much else.

In a parallel development the hold of patriarchy has weakened. Women now have full access to the labour market. But in another sense patriarchy is intact. For Locke, work in the home carried no separate right to the 'fruits of the earth'. This attitude persists, and women's domestic work remains unpaid.

Despite some shifts in moral understanding, the fact remains that in a private enterprise system, employers provide employees with such fruits of the earth as they decide. With the decline of trade unions this has become even truer than it was forty or fifty years ago.

Numerous attempts have been made over the years to secure non-owners of capital a greater say in the conditions and purposes of their labour. Forms of de-centralised collective ownership or control within the framework of a privately-owned economy include workers' share-ownership, production co-operatives, workers' representation on boards of companies. The 'stakeholder' concept is the latest attempt to water down employer prerogatives. Some companies have in fact introduced one or other of these practices.

On balance economists have objected to interfering with employers' rights on efficiency grounds. These objections need to be disciplined by moral reflection. It is not that economists are exceptionally hard-hearted in the matter of how to treat others. It is that their discipline inclines them to a view of efficiency which makes them forget that workers are also people.

The moral value of self-interest

Economics overturned traditional ethics by turning greed for wealth from a vice into a virtue.

In the pre-modern tradition love of money was regarded as ethically opprobrious and destructive of martial valour and communal ties. Augustine had denounced it as the worst of men's sins, worse than love of power or sex. The 18th century trick was to redefine it so as to bring it into line with utility. It made little sense, wrote David Hume, to call a vice something which was as beneficial to society as the desire for gain. The old term 'avarice' was sidelined in favour of the colourless 'self-interest'. 'There are few ways in which a man can be more innocently employed than in getting money' wrote Dr. Johnson. Montesquieu talked of the 'douceur of commerce'.

Following this lead, contemporary economics subsumes ethics in long-run utility functions. For example, it can demonstrate that ‘honesty pays’, so probity in market transactions does not require the support of an explicit ethical system.

On the other hand, the assumption of utility-maximising behaviour implies that, in competitive markets, all subjective preferences are in fact realized (subject to a budget constraint). So the common good -defined as the greatest happiness -is realized by the market system.

Two moralities of behaviour are being opposed: individual self-interest and the 'ties that bind us' to each other. Both are 'natural'. Economists should be invited to reflect on which emphasis conduces more to human well-being, or how social arrangements might reconcile them.

The price of progress

Economics is about how the economy can be most efficiently designed as a growth engine. The logic is simple: the growth of wealth is the means to end poverty. Ending poverty is ethically good. But the ride will be bumpy, so the question arises: how much suffering is justified to end suffering? This moral issue is well understood in other fields - for example when we question the morality of war. But economists, by and large, are blind to it.

So what price is it morally acceptable to pay for progress? Duncan Foley has written: 'The moral fallacy of [Adam] Smith's position is that it urges us to accept direct and concrete evil in order that indirect and abstract good may come of it’. (Adam’s Fallacy, 3)

Mainstream economics is thoroughly wedded to different versions of the ‘price of progress’ argument. If the critic points out the wrenching costs of continuous adjustment to new conditions, the economist will invite us to compare how people live today with how they lived prior to the industrial revolution.

James Mill put the utilitarian case in a way that would not seem out of place now: “the free enterprise system has its hardships, but it is the price we pay for progress and the general good”. His son, John Stuart Mill, unable so confidently to excuse the sufferings of others, added the proviso that this suffering would surely be temporary: as progress advanced, it would no longer be needed. A timeframe was, alas, not provided.

Herbert Spencer added a social Darwinist twist. The sufferings of the poor, were the mechanism through which society thrived. Only by rewarding the rich and punishing the poor would it do so.

Economists alert to economic injustice today will sometimes excuse it on the ground that we cannot 'afford' just social arrangements until we are a lot richer. Scarcity demands efficiency, not morals.

However, this argument for postponing ethical considerations till scarcity is overcome is undermined by the fact that most economists regard scarcity as a permanent condition.

And of course there was Joseph Schumpeter, who said ‘never waste a good recession’. He was the apostle of wealth-creation through creative destruction: the idea that progress was not so much a smooth evolutionary process, but a chaotic one in which moribund giants are replaced by agile upstarts. This is a concept that modern-day Silicon Valley has embraced under the slightly softer label of “disruptive innovation”. Destruction of industries, communities, ways of life was not too high a price to pay for progress

And the most recent addition by Richard Gordon who produces the ridiculous argument that people got more pleasure watching an hour of television in the 1950s than people got from listening to an hour of radio in the 1930s.

You will not find any discussion of the price of progress in the standard economic textbook. Yet one would expect moral disquiet at the thought that those who impose the suffering are almost never the ones who suffer!

A neoclassical economist will argue that the ‘compensation principle’ was invented precisely to reduce the price of progress’. Provided the gainers can compensate the losers, markets will be Pareto-efficient. Whether they do so or not is up to politics; the fact that this almost never happens in practice isn’t seen to invalidate the underlying idea.

All 'price of progress' arguments beg the question of what economic growth is for. Is it to make us richer or is it to make us better? And what is the connection between the two?

The growth of the cake was the object of true religion

In this somewhat caricatured summary Keynes was implying the means - growth of the cake - had preempted the ethical question: what is growth for? The answer which most of us would give, on reflection, is so to reduce physical scarcity that most people will be enabled to lead 'richer' lives. Economists are in tune with popular feeling in seeing growth of material prosperity as the royal road to a good life for all.

But economists who query continuous dedication to the growth of GNP have also been struck by the fact that beyond a certain income level, people's contentment, the average of happiness, the sense of well-being seems not increase . This has prompted them to query the continuing organisation of society to maximise economic growth.

So far the ethics of the matter are clear enough. Growth should stop at the point when further growth no longer produces a net improvement in the quality of life. The argument starts with what we mean by the good life. To most economists (and it has to be said to many others) the answer is: a happy life. This is in line with the utilitarian ethics of most economists, who accept the Benthamite goal of maximising pleasure and minimising pain. The goal of ‘happiness’ as an agreeable state of mind replaced the Greek ‘eudaimonia’, or the well-lived life, as the state of affairs to be aimed at. To be good is what makes one happy -or at least less miserable.

So the main economic aim of governments the world over is to increase Gross Domestic Product (GDP). The assumption is that growth of wealth will make people happier. But to what extent is GDP a good measure of even material welfare? Many would say that it is a poor proxy for quality of life. Sea breezes in New Hampshire are healthier than air conditioning in Alabama. But they don't show up on GDP. Nor does volunteering, housework or care - one of the crucial insights of feminist economics.

As a recent author, Ehsan Masood, has noted 'GDP is neither a measure of welfare, nor an indicator of well-being. This is because it is not set up to recognize important aspects of our lives that are not captured by the acts of spending and investing'. Alternative indicators have been developed: the Human Development Index, Gross National Happiness. Flawed though they are, they are efforts to get beyond growth of quantity to growth of quality.

For economist Richard Layard of the LSE, happiness should be the end which economic organization should set itself. This will not necessarily mean the end of growth but will involve substantial redirection of spending towards towards 'social goods', like education, health-care, public infrastructure and such like, much in line with Galbraith's programme as outlined in his 1958 classic, *The Affluent Society*.

Maximising happiness is interpreted as maximising the goods and services that people want. This is probably the best that economics can do. But it should be obvious on reflection that the distinction between 'is' and 'ought' is not so easily disposed of. What is desired is not the same as what is desirable. If it were, we would have no way of subjecting our desires to any moral scrutiny at all. All we could hope to do is, by law or regulation, to limit their expression so as to prevent them from harming others, including future generations. This is the liberal solution. But there is surely more to be said.

The Value of Nature

This is at the heart of the issue raised by Green economics.

The economistic view that nature is simply an instrument for human purposes has always provoked an impassioned reaction from poets and writers distressed at the 'rape of nature' for the sake of progress.

The Green movement has taken up these themes, but it remains split between those who want to limit our depletion of nature for purely instrumental reasons (the 'shallow' wing, exemplified by the Stern report on global warming) and those who value it as an end in itself (the 'deep' wing). In the 1970s, the scientist James Lovelock came up with the *Gaia* hypothesis: the idea that the earth is a self-regulating system like an organism, which we disturb at our peril. He thought of it as a scientific hypothesis, but by calling it *Gaia*, the Greek earth goddess, he gave nature an increasingly mystical meaning. Gaia turns from being bountiful Mother earth into a vengeful fury who turns on her progeny when they abuse her.

There is an issue here for ethicists which economics should not ignore. The 'shallow' wing of the Green movement is an extension of standard cost-benefit analysis over a longer time-frame and hence with added scientific uncertainty. Its basic argument is that we should not privilege our own generation over the yet unborn. But we do not value nature purely for its usefulness. We care about the existence of the polar bear and snow leopard for their own sake and apart from any utility we derive from it. The same is true of the vast majority of endangered species across the globe.

Should we then view the flourishing of non-human life as an 'end in itself', independent of any interest we may have in it? This raises seemingly intractable problems. What can the flourishing of non-human life mean? Because as we know nature is 'red in tooth and claw'. Arne Naess, the original deep ecologist speaks of 'an equal right to live and blossom'. But who are the bearers of these rights? Are plants, bacteria, fungi all included? Should we devote equal resources to protecting all living things? Are individual animals the bearers of rights or whole species? If our criterion for intervention is the utilitarian one of minimising non-human pain, this gives us no reason to protect plants, who can feel neither pleasure nor pain.

Taking such moral considerations into account will determine how much intervention in nature it is right to sanction for the sake of economic progress, and what kind of intervention. It is frivolous to say that some technical innovation will 'turn up' to repair or cauterise the damage we cause to our natural habitat. Or that if this planet becomes uninhabitable, there is always the solar system to retreat to. We simply cannot rely on the right kind of technology turning up in time. Economists need to take an ethical position.

Needs versus wants

The biggest barrier to economics taking ethics seriously is the failure, shared by the liberal tradition as a whole, to distinguish between wants and needs. Needs are absolute, in the sense that unless they are met we perish. This is the moral argument for poverty reduction. But wants are relative, and in principle limitless. This is the basis of the economist's assumption of insatiability. By failing to distinguish between the two, and by placing material wants at the centre of its picture, economics evades discussing the ethical value of the wants we have, and therefore thinking about systems of social organisation which repress or discipline our craving for novelty and gadgets.

The old distinction between 'worth' and 'value', the former meaning *valor naturalis,* the latter *pretium*, has long ceased to have any meaning for economics, in which value depends entirely on subjective preference. Since the limitless wants are assumed to be mainly for material goods, economists find themselves trapped in the position of advocating economic growth without end to ensure the satisfaction of wants which will never be satisfied.