Economics and Moral Philosophy

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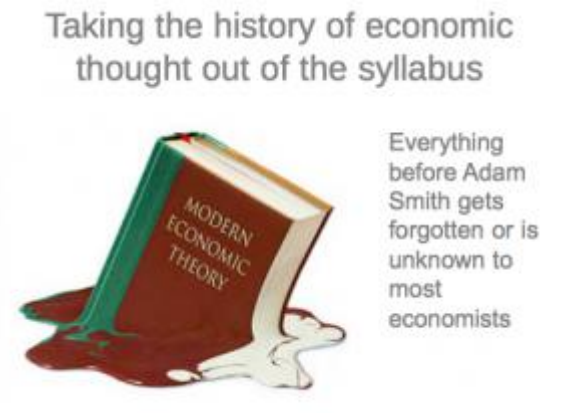
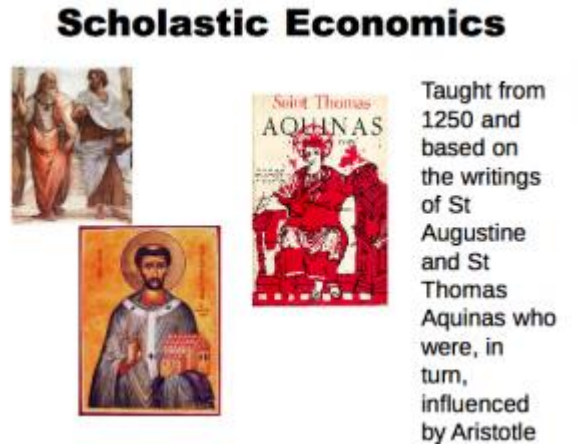
Cafe Economique Talk
Presented in Nottingham, UK on 30th August 2012
The talk is presented below with its accompanying slides. Click on each slide to see a larger version.
Please note that the notes that go with the power point were written up after the talk had been given and thus differ slightly from the audio version. The arguments in the written version are slightly more detailed and the written version includes references and sources whereas this is not fully the case in the audio presentation.
Audio file of talk (free registration required)
Powerpoint slides

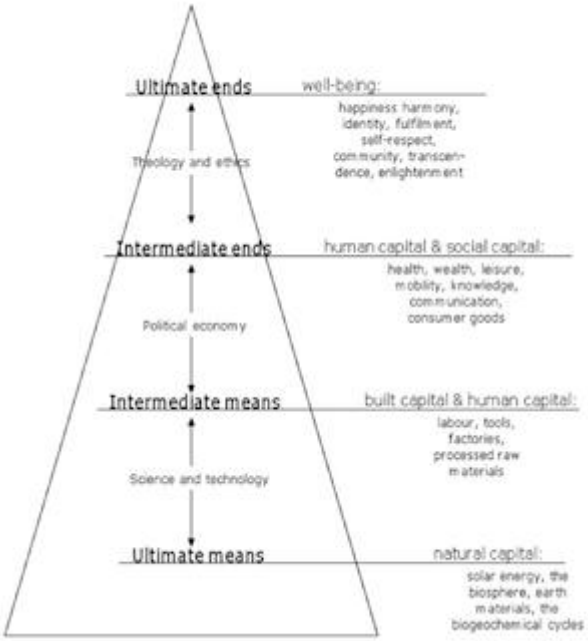
In the late 1960s and early 1970s major university economics departments in the USA and major economics journals decided to take the history of economic thought out of the economic syllabus and stop accepting articles on the subject.
Thus it is that many economists are pretty ignorant about the history of their own subject. They probably think that Adam Smith, in the 18th century, was the first economist.



In fact writing, thinking and study about economics goes back to the ancient Greeks. It was taught in universities in Europe from 1250. This early scholastic economic was a part of the moral philosophy. Its leading thinkers, St Augustine and St. Thomas Aquinas, drew upon the writings of Aristotle and sought to unify his ideas with that of Christian theology.



But why was it a part of moral philosophy? The answer is that economics was considered to be all about the use of means to attain ends. Nowadays economics is a topic that I would describe as studying the use of intermediate means to provide for intermediate ends. However, it typically neglects the integration of the economy in the physical and natural world on the one hand while at the same time ignoring the study of what structures and determines our intermediate ends , namely the study of our ultimate ends. What are these ultimate ends?



So how do we understand ends according to Aristotle?

- Happiness through a virtuous life led in accordance with reason..where virtues are characteristics like integrity, honour, loyalty, courage, honour...one flourishes through participation in the community
- But slaves and women were not part of the analysis

To Aristotle you could not even consider this question without having a view of what is particular to human beings. For him the end of all human activity is sometimes translated as “happiness” but this can be misleading to a modern understanding of that word – because what Aristotle meant by happiness was a very specific idea of living a virtuous life in accordance with reason. The virtues included personal characteristics like integrity, honour, loyalty, courage and forthrightness. Ideally life meant developing oneself and flourished in and through ones dealings and particularly through participation in the community.

Economics and Chrematistics

- Two kinds of exchange and trade:

(a) To satisfy a genuine need for purposes of household management

(b) To make money and accumulate possessions – regarded as unnatural by Aristotle

This did involve some need for provisions, and if fortune was on your side your women and your slaves could take of your needs in this respect, but Aristotle did not think that happiness involved accumulating lots of possessions.

To Aristotle the amount of property needed for a good life was limited. Taking this standpoint he saw there being two kinds of exchange and trade: exchange in order to satisfy a genuine need; and exchange in order to make money and accumulate possessions. The latter Aristotle thought of as unnatural, as he did usury, because it involved money growing without limits which violated the laws of nature – since everything in nature has limits.

Religious Motivations

- Transcendence: Loving God, Union with the Void, Submission to Allah's Will, Nature Worship etc
- Loving your neighbour – the golden rule
- Serving the community etc

- Economic implications – resources to build, churches, temples, mosques, cathedrals, monasteries, ashrams etc
- Provision for family, loved ones and the wider community (of faith or wider still)
- Nature as deity in its own right or as the creation for which humanity are stewards

Well, fast forward to Augustine and Aquinas. No doubt they too turned a blind eye to the power structures of the feudal society in which they lived but, as monks who had taken vows of poverty, they thought the reason for living was firstly, as it says in the Ten Commandments, to love God and also to love your neighbour. Life involved transcending yourself. Well, of course, this is very different from calculating your individual interest as assumed by modern economists. Instead it was assumed that you gave to and provided for the people that you loved and that you exchanged with strangers – in order, at the next stage, to have the things needed for the people that you love and for oneself.

Scholastic Economics

- You give to your loved ones

- You exchange with strangers (in order to provide for your loved ones at the next stage)

Thus, who you give to, is an ethical choice about distribution preceding any economic activity

To Augustine every person has a choice – to provide his or her goods for himself or to provide them for other people. This depends on the love people feel for themselves compared to the love they feel for other people. Thus distribution at the local and personal level, as economists describe it, involves a moral choice. With Aristotle there was also an idea that you shared wealth with a wider community, which in his case was the polis, the political community (of men and non-slaves).

Exchange also involves ethical choices

- "*...What is trade, but buying at a cheap price and retailing at a higher price. Such were the tradesmen who our Lord cast out of the temple.*
- Now no man is cast out of the temple except for a sin. Therefore such trading is sinful "

- From the ***Summa Theologica*** by St Thomas Aquinas

- A **just price** is where haggling clears the market but where neither party is under any duress – eg to charge a high price in a famine would not be just

Even when we exchange with people we do not love we had ethical obligations. For Aquinas exchange involved a just price – the price that emerged through haggling that cleared the market – but, and this is crucial, a just price is not imposed or experienced by some parties under conditions of duress. To charge someone high prices because there was a famine was most definitely not charging the just price.
So the context prevailing in the market is an issue too – indeed we can extend this idea to include monopoly control of the market and other conditions. Later in this talk I'll argue that if you take away from people their means of support, like access to the commons, this is also putting them under duress.

The context of medieval economics

- Hierarchical military gangs as power structures functioning like protection rackets
- Church sanctified the winners but also provided poor relief
- Rights to common land and wastes provided sustenance to the common people e.g. The Charter of the Forest

The early medieval period was characterised by power structures somewhat akin to protection rackets where militarised hierarchical gangs effectively imposed themselves on the people and extracted labour and products, claiming that they had their authority and rights from God, but in effect having their power from their ability and preparedness to act as ruthless gangsters operating out of heavily fortified castles.
The church was no doubt complicit in all of this but it also acted as a form of social welfare agency in difficult times when the aged, sick and poor could turn to the monasteries.
In addition, in England, the ordinary people had certain rights to use the forests, the wastes and commons lands for their own maintenance that were protected in the Charter of the Forests (the companion statement of rights adopted at the same time as the Magna Charter).

The rise of commercial society

- Growth of trade and of merchant class and towns
- Growth of finance and first banks
- States support merchant adventurers
- Economic theory more on individual technical issues such as trade or money was developed by officials and merchants rather than monks theorising moral issues

The rise of the merchant class and of commercial society in towns, and along trade routes outside the power of the military elite, changed all of this over a number of centuries. With the Reformation in England Henry VIII dissolved the monasteries and sold them to his courtiers dismantling welfare provision for ordinary people.
Economic theory changed with the times. According to Aquinas merchants did fulfil a useful function of bringing goods from where they were abundant to where they were scarce. However, that's not all that they did. For example they helped create economic conditions where it paid the elite to take the commons land from the commoners to enrich themselves (with sheep for the wool trade). And trade could be in slaves or the goods from slave plantations – or from products extracted by taxes in colonies. In other words under conditions of duress.
Increasingly economics reflected the technical issues of the time, rather than being a theorisation of the morality of the market.

Over several centuries the commons land was enclosed and the people using it lost their rights to sustenance. These processes meant they had to work for the emerging capitalist class as wage labourers or pay rent to the landowners on onerous terms. The price of labour and the price of land was the result of an institutionalised form of duress in that the ordinary people had no other options but to work on terms set by employers and landowners.

The commoners separated from their means of production/the commons

They hang the man and flog the woman,
Who steals the goose from off the common,
Yet let the greater villain loose,
That steals the common from the goose.

— 17th Century Folk Song

Adam Smith

- Another author who ignored slavery and the slave trade/plantation economy as the source of **"The Wealth of Nations"** – even though his contemporaries, the Tobacco Lords of Glasgow, got their wealth from this trade

Elite theorisation of economics turned a blind eye to these processes, including in the ideas of Adam Smith in the 18the century. Smith was a professor of moral philosophy and was no doubt aware of scholastic economics. However for several centuries economic thinking had been changing from the ethical reflections of monks into more hard bitten ideas about how merchants and the aristocracy made money and accumulated wealth.

Thus Smith did not mention the Atlantic slave trade and plantations which created the wealth that flowed into places like Glasgow. Nor did he consider pillaging of India by the East India company. This international trade involved economic arrangements nothing like his cosy picture which he wrote about, although he must have been aware of it as the source of the riches of people in his own world.

Another Source for the Wealth of Nations

"...such has been the restless energy of our misgovernment that within the short space of 20 years many parts of this country have been reduced to desert" **William Fullerton MP** (1787) on the effects of the East India Company's pillaging of Bengal.

"India offering her pearls to Britannia" 18th century

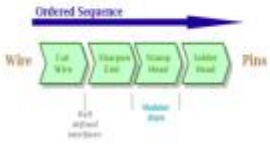
Smith's inquiry into the Wealth of Nations was not concerned with ethical issues about distribution and looking after the poor. He regarded himself as living in a different kind of age, an age of improvement – the commercial society had changed the game as far as economics was concerned. So Smith wrote about how more primitive societies might be more equalitarian – but, in his own society the labouring classes had their needs met and the more important thing was that the division of labour, specialisation, was making possible a continuous improvement in production . Thus everyone was much better off, even if unequally so.

Not for the first time or the last Smith was another economist who ignored less uplifting aspects of reality and chose to describe the further development of specialisation and of the market as the future for commercial society.

Note that in this respect the monkish idea of progress as moral progress had slipped into an idea of improvement as technical progress which produced more wealth. Scarcity was the chief problem facing humanity and overcoming scarcity was the chief task. This meant resources were to be used as efficiently as possible and technological progress would allow for more to be produced.

Reconceived the ethical issues as seen by his scholastic predecessors

Smith's example: The Pin Factory



- "Primitive societies" might be more egalitarian but the division of labour and specialisation provided much more for everyone, including the labouring classes in commercial society that was a new "age of improvement".

If you like scarcity became the original sin of the new economic religion and efficiency and technological progress became the new means of salvation – with economists functioning rather like a new priesthood, a role that they still enjoy. Indeed, for the contemporaries of Smith in this period the production and use of this greater wealth, would bring about better people directly and indirectly – because the commercial society had its own virtues and rewarded hard work, discipline, thrift, delayed gratification etc.

The 18th Century's Big Idea

- **Scarcity is the chief problem facing humanity**
- **Therefore efficiency of resource use becomes the chief virtue**
- **Science and technological progress will help overcome scarcity and achieve efficiency**
- Overcoming scarcity will enable moral and spiritual progress too – indeed they are dependent on them
- Economists are on the way to becoming the priesthoods of a new religion based on an idea of "progress"

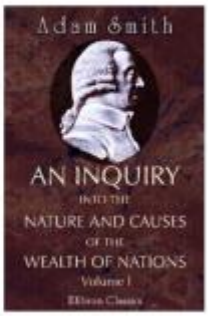
David Hume and the new big idea

- **"Let us suppose that nature has bestowed on the human race such profuse abundance of all external conveniences, that...every individual finds himself fully provided with whatever his most voracious appetite can want, or luxurious imagination wish or desire."** If this state of affairs should ever be reached, Hume suggests, **"it seems evident that, in such a happy state, every other social virtue would flourish, and receive tenfold increase."**

Of course, people still realised that human and social relationships were not always just, and that the ends that people pursued were less than perfect. However, it was increasingly assumed that these problems too required economic and technological progress. It would be when people were all much better off that they would be able to get to grips with these problems.
The slide on the right quotes philosopher David Hume, a contemporary of Smith. This idea is still with us today and has been shared by many subsequent thinkers. Karl Marx thought that the highest phases of communism would be prepared by the ability of capitalism to create an economy of abundance. In this context all sorts of problems between people would "wither away". Without believing in the need for revolution Keynes also believed that in the distant future humanity would overcome its scarcity problem and thus its psychology of self interestedness. (See his essay, "The Economic Possibilities for our Grandchildren" published in *Essays in Persuasion)*. The problems for humanity were no longer problems between people and God (or between people and Nature) nor between people – they were problems of inadequately developed technology.

The driver of technical progress is self interest

- "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. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."



Even more important was Smith's abandonment of the ideas of Augustine and Aquinas, about an obligation in economic activity, towards loving your neighbour. For him a properly working market delivered socially beneficial results even though people were pursuing their self interests – or perhaps I should say, because people were pursuing their own self interests.
The famous quote from Adam Smith on the slide illustrates this idea.
Having abandoned considerations of distribution which were rooted in ethical considerations of love for one's neighbour and ones obligations to a wider community, the new economics asserted that by pursuing one's private advantages – and self love – the market would in any case organise a social outcome in the interests of everyone.
In this theory people got what they wanted through the "invisible hand" of the market because if they decided they wanted more beer and less bread they would seek to buy more beer and less bread, the price of bread would fall and that of beer would rise. Some bakers would switch to brewing and some farmers would switch from wheat for flour to hops and barley for brewing…Prices would act as signals that resources needed to be re-directed. As long as there were no restraints to resources flowing from one use to another there was no need for the state to intervene.

Note...

- Bernard Mandeville, in the *Fable of the Bees*, (1714) said much the same thing
- This self interest was actually seen in the 18th century as facilitating the providential hand of God. As the poet Pope put it
- "Thus God and Nature formed the general frame,
  And bade self-love and social be the same."

- **Smith was not asserting that all self-interested labour necessarily benefits society, or that all public goods are produced through self-interested labour. His proposal is merely that in a free market, people *usually* tend to produce goods desired by their neighbours.**

This was not a revolutionary new idea in his day – these kind of ideas that the market activities motivated by self interest, delivered what people wanted, can be found over a hundred years before Adam Smith. Moreover we should try to understand it as contemporaries would have understood it. Humanity had fallen – we're sinners. And yet God had a providential plan for the world and he realised his plan through the self love of people operating through the "laws of the market", that Smith described. At the time of Smith it was big thing that Newton had showed that things did not happen because of continual interventions by God. So instead people now thought that God set up the basic design of the universe and then it ran itself. In a similar way, the market and the "social physics" of economics worked through the predictable self interested behaviour of people giving rise to economic laws. As the poet Pope put it: "Thus God and Nature formed the general frame, And bad self-love and social be the same".

Later economists assumed that the famous invisible hand of the market meant the operation of the price system and competition so that, without any central plan, the market self-organised the allocation of resources. If there were too much bread and not enough beer the bread would remain unsold and its price would fall whereas the price of beer would be bid up. So then resources would switch from bread production to beer production quite spontaneously, as long as markets were competitive and the beer producers could not prevent others from brewing to keep beer prices up.

For later economists the key idea from Smith was the self organising market

- Later economists like to think that Smith was principally describing the free market and the price mechanism, driven by self interest. Without competitive restraints resources flowed to their best use guided by price signals. Resource **allocation** was optimal.
- "Allocation" is about **"what"** gets produced...the question of **for whom** it gets produced (distribution) was not theorised – except that since markets were so wonderful every effort was taken to ensure that a labour and land market were developed – the toughened poor law and enclosures then forced "labour" to work under conditions of institutionalised duress.

Distribution is now relegated to the small print of economic theory

- The market does indeed produce according to the wishes of those with purchasing power – but how purchasing power is distributed, reflects the power relationships in the economic and property system – the deeper question that usually gets neglected.

It's a nice parable but what economists are well aware of is that prices and the allocation of resources depends on the prior allocation of rights to the different factors of production. What was being ignored and relegated to the small print was what Aquinas had been aware of – the issue of duress. Smith was an apostle of the market and commercial society at a time when labour and land were being forced into becoming market commodities by land enclosure and when the state, by attacking the poor law for the support of destitute people, was ensuring that the poor worked on terms that can be dictated by their employers.

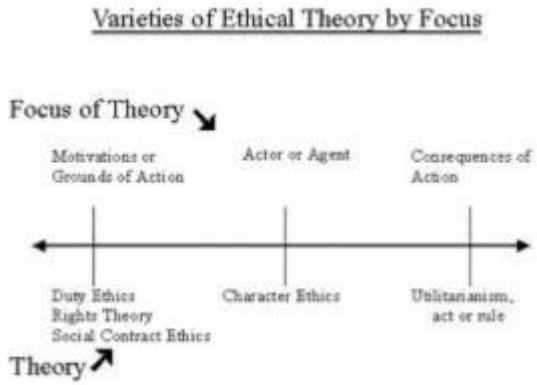
Neither land nor labour are originally "produced" with the explicit purpose of becoming commodities. Land is part of the living natural system and labour is people who have been forced to work on terms dictated by the owners of the means of production.

In this context the market does indeed produce according to the wishes of those with purchasing power – but how purchasing power is distributed, reflecting the economic and property system, was the deeper question.

As is usual the new economic priesthood avoided these questions and, as the 19th century progressed, devoted themselves instead to a deeper study of how people, motivated by self love and self interest, behaved. What determined their choices? This they did by using another framework from philosophical ethics, namely the utilitarian philosophy developed by Jeremy Bentham and then by John Stuart Mill. (The picture is of the corpse of Jeremy Bentham, with his head at his feet in a glass box at the London School of Economics).

Modelling self interested behaviour is seen as the key to economic thinking

Let me briefly compare Bentham and Mill's moral philosophy to other schools of moral philosophy. Whereas Aristotle had an ethics based on developing ones virtues as a person, and the church an ethics based on explicit and written codes and principles and duties, the utilitarians had an ethics based on consequences. This consequentialist view was grounded in the idea that what mattered was whether actions gave rise to subjective states of pleasure or pain (utility or disutility).



The idea of utility was to be found in scholastic and early economics but to this school the utility of an object meant its fitness for its intended purpose. Now utility was given a different meaning – it was the ability of an object or service to give rise to a sense of subjective happiness, satisfaction or dissatisfaction. The criteria for an optimal decision then became the greatest happiness for the greatest number of people. But how did you measure this subjective state?

Consequentialism – ethics based on consequences

Ethical and welfare criteria – the greatest happiness for the greatest number

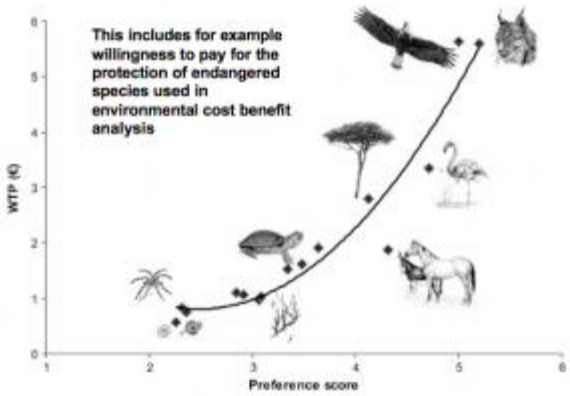
- Scholastic concept of utility – the degree to which an object is fit for its purpose
- Bentham and Mill's concept of utility – the subject experience of happiness or pain evoked by a good or service

Preference Utilitarianism and the measurement problem

- **Willingness to pay** a particular price signals and **measures subjective valuation**
- **Willingness to pay** can also be used as **a common measuring rod** for all sorts of situations.
- Payment can also be used where there are winners and losers (in theory at least) to compensate losers where some people gain from an action but others lose

Economists came up with a solution – there were no absolute measures of utility but this did not matter because in choosing between options people demonstrated in practice what their comparative utilities were between different goods. They demonstrate their relative preferences by what they are prepared to pay as they allocate their limited purchasing power between different purchasing options for goods and services. What people are prepared to pay is a proxy measure of their utility for the last unit of a good that they purchase.

This idea of willingness to pay (or willingness to accept in payment) is then used by economists as a proxy measure for how much people value things that do not normally appear on markets. It is thought to be a convenient idea too because the same situation can involve losers as well as winners, and here is an idea here that this can be solved by cash compensation payments. If an action involves increased welfare for one person and decreased welfare for someone else then it still might involve a greater happiness overall and one can tell that is so if the gainer can compensate the loser and still be better off. (This is the so called Kaldor Hicks principle. Note that winner does not actually have to compensate the loser, they merely have to be able to in theory).



What people are prepared to pay thus measures how much things matter to them – their ethical values were reflected in their monetary values. Economists are enthused with this idea as it appears to them to give a common measuring rod that can be used for all sorts of situations, including policy decisions about issues that do not normally appear in an ordinary market at all – for example, environmental decision making.

Thus the importance of protecting a species threatened with extinction is measured by what people are prepared to pay to protect it – or prepared to accept in compensation if it goes extinct.

This is actually nonsense because it assumes informed preferences and most people do not have preferences about such natural things as they live separated from the species anyway. What's more it leads to a beauty contest where pandas and popular animals would score highly but the creepy crawlies or snakes that are crucial parts of eco-systems get no offers to pay at all. If people are then informed about the species and the ecological issues the obvious point to make is that value is created by being informed about the things, highlighting a need for education, not by spontaneous preferences.

So this point of view is highly challengeable and it has been claimed that economists are involved in corruption – see right.

Economists involved in corruption

- "Ethical 'preferences' are not like non-ethical preferences....If preferences for environmental goods are matters of ethical principle then such commitments are exhibited by a refusal to betray them when offered cash. One should no more accept a price where issues of environmental value are concerned than one should on issues of abortion, euthanasia, commercial surrogacy, hanging or any other issue of principle...To ask willingness to pay questions (is) an exercise in corruption. The proper mode of resolution is public debate in which utilitarians have to state their case with others." (***John O'Neill "Markets, Deliberation and Environment"*** pp 38-39)

A US government economist describes what economists do

- "If economists had any influence—which they sometimes did, if rarely decisive—it was seldom as literal 'problem solvers.' Rather, the greatest influence of economists came through their defence of a set of values. Much of my own and other efforts of Interior (Ministry) economists were really to persuade others in the department to act in accordance with the economic value system, as compared with other competing priorities and sets of values also represented within the ranks of the department."
- Robert Nelson ***"Economics as Religion"*** p xiv

This leads me on to what it is economists actually do – and why these things matter. And the answer is that economists are actually there as advocates for a particular kind of value system. They are not unlike priests whose job it is to argue for their belief system. This is a quote from economist Robert Nelson who describes what it was like to work as an economist in the US Department of the Interior which was and is responsible for the upkeep of national parks and landscapes in the USA:

"If economists had any influence—which they sometimes did, if rarely decisive—it was seldom as literal 'problem solvers.' Rather, the greatest influence of economists came through their defence of a set of values. Much of my own and other efforts of Interior (Ministry) economists were really to persuade others in the department to act in accordance with the economic value system, as compared with other competing priorities and sets of values also represented within the ranks of the department." Robert Nelson *Economics as Religion* Pennsylvania State University Press, 2001 p xiv

Typical assumptions in economic models

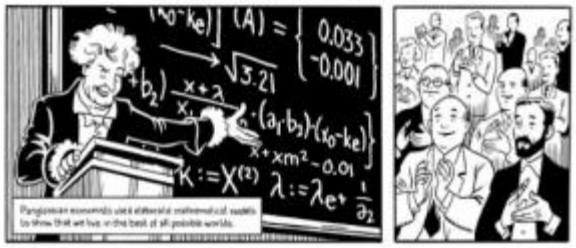
- **'Rational economic man' acts as utility maximising machine (ie how economists define 'rationality') and acts as an individual uninfluenced by group dynamics**
- **Markets are competitive**
- **There is perfect information which everyone has access to (including about what's going to happen in the future)**
- **There are no transaction costs.....**
- **Despite being only 'self interested' rem is honest**
- **(and one ignores the pre-existing distribution of income, property and rights)**

What is involved here is actually an implicit theory of how human beings are, what makes them tick. Using this approach it seems reasonable to economists to theorise human beings as if they act in a predictable way – calculating their individual self interest to maximise their utility and then acting accordingly. This makes possible a deterministic view of human action that allows economists to model markets.

Of course, markets are places where there are lots of actors but the assumption is made that to get a collective picture of what happens you add up the actions of all the separate individuals as if they do not influence each other. There are no group dynamics in this situation. This is called methodological individualism and diverges a lot from the assumption of the scholastics – that people are providing for others too, including those that they love.

Then you make a whole load of other assumptions, the effect of which is to make market behaviour completely predictable in a way that can be modelled in mathematics and diagrams. Such assumptions include the idea that people have all the information that they need about now and the future, do not change their preferences, act only out of self interest and yet act honestly, act in competitive markets, that there are no transaction costs…

The results are mathematical models that "prove" that we live in the best of all possible worlds.....

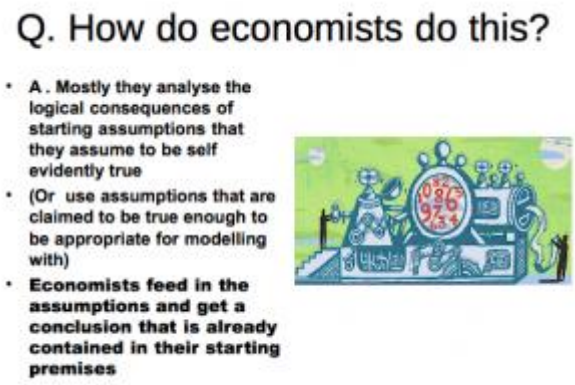


.....as long as the state stays out of the market leaving business interests to do their thing

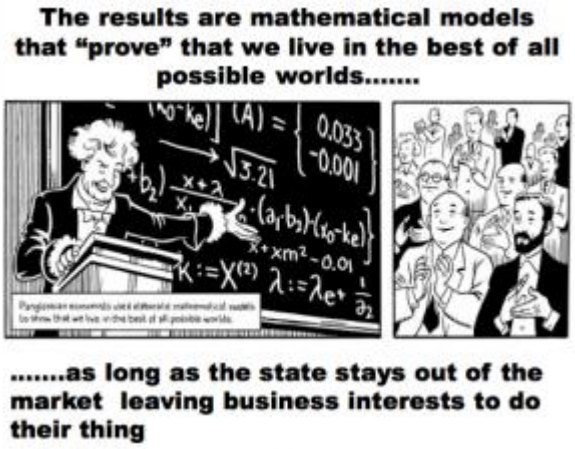
Most of these premises were nonsensical. Not only were markets not competitive, but people do influence each other when it came to market actions – which accounts for the collective irrationality of market bubbles, for example, when people look to each other for the way the market is evolving and their collective optimism becomes self reinforcing.

In fact the market is always shot through with a lack of information and/or information asymmetry. People make mistakes, operate without enough knowledge and so on. This is not to mention that fact that if people really are only motivated by individualistically calculated self interest it is difficult to know why they should not resort to various types of crime. There's often an implicit assumption of honesty in these models but in real life markets are prone to fraud and opportunism, to secrecy and misleading accounts of product quality. All of these things mean market outcomes are often far from the ideal pictured in the theory.

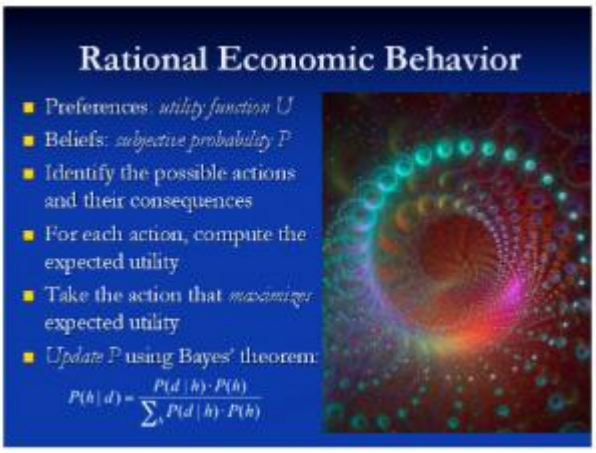
So how do economists actually do this?
In fact economists mostly create models from assumptions that are assumed to be self evidently true…or claimed to be true enough for practical purposes.. and then analyse the logical consequences with mathematic symbols and diagrams. With enough simplified assumptions it then seems possible to show that competitive markets deliver efficient outcomes defined in the way economists want.



Of course, if you assume away the real world in your models then, surprise surprise, these models deliver ideal allocation outcomes – or they do on the blackboard and in the lecture theatre in the groves of academe, if not in real life. But what has happened is that conclusions are manufactured based on premises initially assumed. This may happen in very sophisticated mathematics so that mere muggles don't understand it but that's what the wizards are doing. (Today's leading economic textbook writer, Greg Mankiw, has described non-economists as 'muggles', the ordinary people without magical powers, described in the Harry Potter novels. His implication is that economists are like wizards.)



As I have said the key to all of this is based on an idea of what people are like. There is an implicit modelling of human beings here. Certain types of behaviour (the type that allows economists to model people and markets predictably) is called "rational".



Rational Economic Man and the State

Cambridge School MIT
Paul Samuelson etc 1945-65

- **The state essentially benevolent**
- **A democratic process determines (Keynesian) policies in the interests of all – pro-welfare state**
- **Economists technical advisers**

Chicago School – neoliberals, Stigler, Friedman, Becker etc 1965

- **Officials are also REMs but not subject to market discipline**
- **Government driven by interest group favouritism and regulatory capture – incl the welfare state**
- **The market a better way of achieving co-operations without coercion than govt. action**

You may think that this description of how people are and how they behave is meant by economists to be applicable only to economic and market activities. But if people are calculating their individual self interest in their economic dealings why should one assume that they do not do the same thing in their political, their social and their interpersonal dealings? Should we not also assume that government officials are calculating their interests too? At the very least, why should contact between business and government not lead to a cosy relationship, particularly if people can leave government posts and get lucrative jobs with industry? What about bribes and kick-backs from business for special favours?

When I studied economics at the end of the 1960s the textbooks, for example by Paul A Samuelson, pictured a world where the state was essentially benevolent and independent from business. A democratic process determined the policies the state would adopt and economists were just technical advisers about the options. They could regulate markets without being contaminated by the self interest motivations of markets. The idea that the state could be captured by business interests and the majority of the people were effectively excluded from real influence was not there.

This began to be replaced by another view of the relationship between business and the state spearheaded by the Chicago School.

The idea that the state could be captured by interest groups led to a kind of market fundamentalism by the Chicago school. The ideal was to go all the way and for the state to be driven out of market activity altogether if at all possible.

To the Chicago economists the rational calculating individual was a description that could be applied to the understanding of all human behaviour, not just that in the market place.

Market Fundamentalism

Assumes full utility calculating 'rationality' in individual decision making

The whole political economic and social world can be explained by economic forces of self interest best co-ordinated by competitive markets

So, what framework do you use to explain racial discrimination? To Gary Becker at Chicago, racism is a preference choice of who you want to live near and employ. Note, he does not endorse or condemn Becker merely sees himself explaining and drawing out the consequences.

Gary Becker and Richard Posner

- Marriage, sex, love, crime, racial discrimination can all be understood using concepts from the language of economic exchange, efficiency and productivity.
- Everything is determined and explainable by economic forces driven by utility maximising self interest

The model of rational economic behaviour is then used by Becker and another theorist, Richard Posner, to explain “love” , marriage and prostitution in a utilitarian framework. Marriage is a relationship involving reciprocal service provision which saves on transaction costs like pricing each service that a couple provide for each other, or keeping accounts for these services. In this framework prostitution is a “spot” sexual transaction where it is “more efficient” to pay for the service in money.

Rational Economic Man falls in love

- “It can be said that Mi (Man i) loves Fj (Female j) if her welfare enters his utility function, and perhaps also if Mi values emotional and physical contact with Fj. Clearly, Mi can benefit from a match from Fj, because he can then have a more favourable effect on her welfare – and thereby his own utility – and because the commodities measuring ‘contact’ with Fj can be produced more cheaply when they are matched than when Mi has to seek an ‘illicit’ relationship with Fj” Gary Becker

Rational Economic Man gets married – or prefers “spot transactions” (prostitutes)

- “In describing prostitution as a substitute for marriage in a society that has a surplus of bachelors, I may seem to be overlooking a fundamental difference: the “mercenary” character of the prostitute’s relationship with her customer. The difference is not fundamental. In a long-term relationship such as marriage, the participants can compensate each other for services performed by performing reciprocal services, so they need not bother with pricing each service, keeping books of account, and so forth. But in a spot-market relationship such as a transaction with a prostitute, arranging for reciprocal services is difficult. It is more efficient for the customer to pay in a medium [of money] that the prostitute can use to purchase services from others.” Richard Posner

It is used to explain crime too. Most people don’t steal because it would not be profitable but in the life circumstances of criminals the rational maximisation of costs and benefits of crime does make it pay according to Becker. This is another form of the redistribution of income in the same broad category as government welfare programmes.

Thou shalt steal (if it pays): Becker’s economics of crime

- Crime arises as different cost – benefit calculations in the lives of criminals bearing in mind the risks of being caught and punished.
- Theft is simply another form of rational maximisation of individual income and utility. Most people don’t steal because it wouldn’t be profitable them but for criminals it is profitable so they become thieves.
- This is another form of ‘redistribution’ in the same broad category as government welfare programmes.

Rational Economic Man as a self fulfilling prophecy

There are two problems with the REM

(a)It does not actually describe how large numbers of people see the world and decide

(b) Nevertheless it has important elements of being a self fulfilling prophecy – and brings about a psychological and cultural degradation within society

The trouble with this view is that it is at best tautologically true in a sense that is banal – people do things because they want and thus they must get satisfaction or utility from doing and deciding what they do. However this banality makes little sense of the many actions and people who do things where they are conflicted – where they act in ways that involve self sacrifice for moral reasons, where there is genuine anguish about their difficult decisions, where they do things because they think they ought to, not because it gives them any satisfaction at all.
At the same time this way of analysing things has important aspects of being a toxic self fulfilling prophecy and contributes to the ethical degradation of society.

In fact psychologists have looked at what motivates people all around the world in different cultures and have come up with a picture of the varieties of motivations. This picture includes the ideas of the economists in values in the bottom left hand quadrant but makes no sense of the many other motivations that people have demonstrated in this diagram by Common Cause.
http://valuesandframes.org/handbook/
Many of these are not simply different self interested "preferences" in a utilitarian sense. For example many of the spiritual and community and environmental motivations involve serving a higher purpose which involves transcending or going beyond the self. These are intrinsic motivations which can involve a different "life game" in the sense meant by the critic of psychiatry, Thomas Tzsas; purposes to give meaning and direction in life. http://www.bgmi.us/web/bdavey/Life.htm

Economics taught in its present form will continue to reinforce anti-social values

- Psychological research has shown that students exposed to the study of economics become more unethical and less co-operative compared to students who study other topics. Just 4 months has a noticeable effect.
- Learning economics slows the process of social maturation.
- Economics departments actually function as places where students learn to be anti social.

If the assumptions of what "rational economic man" are like do not accurately describe many people, they probably do accurate describe many economists and those trained by them. There is a saying in the Talmud, "We do not see things as they are, we see things as we are" and this probably does describe how many economists actually think and decide.
There are important respects in which the economic viewpoint functions as a belief system which is now shaping how things are in the form of a self reinforcing or self fulfilling prophecy. The point is that the economist's view of the world actually serves to create the very mindset that it describes.
For example, a study of economic and non economics students in 1993 by Frank, Gilovich and Regan found that most people learn to be more co-operative as they get older – but that learning economics slows this process of social maturity. While students in other disciplines learn to be cooperative over college years, students majoring in economics learn the same fact much more slowly." It seems that micro-economics teaching over as little as 4 months can have a noticeable effect:
"They picked three classes at Cornell University. Two of these were introduction to microeconomics. The third was introduction to astronomy. In the first microeconomics class (class A), the professor was a game theorist with interests in mainstream economics, and he focused on prisoner's dilemma and how cooperation might hinder survival. In the second microeconomics class (class B), the professor's interests were in development economics and he was a specialist in Maoist China.
To the students in all these introductory classes, the authors posed simple ethical dilemmas, including questions such as "If you found an envelope with $100 with the owner's address written on it, would you return it?" The questions were asked twice, first in September, in the beginning of the fall semester and once again during the final week of classes in December, not even a full four months apart.

Comparing results against the astronomy control group, students in economics class A became much more cynical and gave less ethical responses at the end of the semester. Students in class B grew to be more unethical, yet not by so much compared to students in class A. The results clearly show that no matter what their initial ethical tendencies were, students who were exposed to a mere four-months of "rational" reasoning became less cooperative."
http://www.psychologytoday.com/blog/the-decision-lab/201104/why-does-studying-economics-hurt-ethical-inclinations
In important respects there is evidence that departments of economics have become departments for the promotion of anti-social behaviour.

Examples of societal consequences – the sub prime lending crime wave

- FBI warning in 2004 that there was an "epidemic of fraud" which would have destabilising consequences if nothing was done.
- " Over the last several years the subprime market has created a race to the bottom in which unethical actors have been handsomely rewarded for their misdeeds and ethical actors have lost market share, in effect punishing them for refusing to engage in irresponsible lending, if not fraud" *Iowa Assistant Attorney General 2007*

An early Chicago economist called Frank Knight made the observation that one requirement for markets to work efficiently is that people are honest. If they are not honest then things get more complicated – the transaction costs start to rise. You need to spend time checking out your suppliers or customers, you need to work longer on creating water tight contracts. You need to take court action more often with huge costs involved. In the small town world of Adam Smith if the butcher, the baker and the brewer ripped each other off the dishonesty would soon get noticed and eventually they would be likely to lose out from their dishonesty. Federal Reserve Chair Alan Greenspan and the de-regulators of the 1990s and the early 21st century clearly did not see the world they lived in like that.
Yes, Adam Smith's market self organised the supply of the goods that people want. But markets can self organise criminal activity and anti social behaviour too.

And this can be on a massive scale. When the American banks created financial instruments out of loans to people with no income and no assets, got them judged to be AAA quality they then sold these toxic fraudulent instruments victims all over the world. The financial victims that purchased them had no easy way of checking if they were safe investments and assumed that if rating agencies said that they were AAA then they were. All told there were probably up to a half a million criminal felonies that took place in this period.

Criminal activity as norm – the sub prime bubble

Prof. William K Black commented on the retrospective ease with which it was possible to assess the toxicity of fraudulent assets. If only one competent person had assessed a sample of the loans they could have seen:

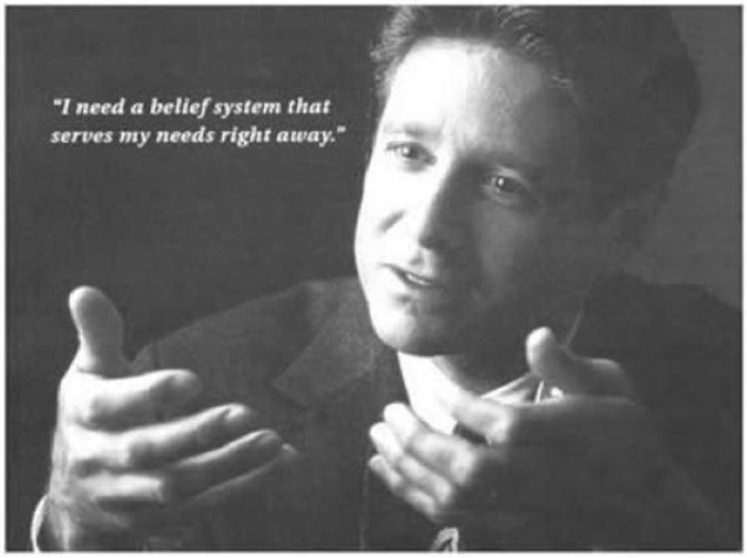
(1) They could not have been made by an honest lender
(2) They could not have been purchased by an honest investment bank
(3) They could not have been pooled to (supposedly) support a CDO
(4) The could not have received a positive rating
(5) The CDOs backed by fraudulent lending could not have been sold

"That's why Fitch did not look till after the secondary market collapsed and there was no revenue to lose"

Black estimated at least 500,000 felonies were committed in the years of the bubble.

"Neo-classical Economic Theories, Methodology and Prior Optimum Criminogenic Environments and Produce Recurrent, Intensifying Crises" http://www.law.utk.edu/faculty/bomineny/SEALS2010/Black/FullArticle%20SEALS%202010).pdf

So economics has come a long way. The ideas of the scholastics were compatible with what could be found in the Bible in the First Epistle to Timothy in the New Testament, that "The love of money is the root of all evil". In the 17th and 18th century the idea was that God worked through individual self interest to create a society delivering in the interests of everyone. This has now morphed into economics becoming a virtual religion in its own right with theology for rich people who love money.



Dean Sachs has a mortgage, a family, and an extremely demanding job. What he doesn't need is a religion that complicates his life with unreasonable ethical demands.

Spiritual providers in the past have required a huge amount of commitment – single-deity clauses, compulsory goodness, and a litany of mystifying mumbo-jumbo. It's no wonder people are switching to Mammon.

Mammon isn't the biggest player in the spiritual race. But our ability to deliver on our promises is unique. And our moral flexibility *unmatchable*.

MAMMON.

Because you deserve to enjoy life – guilt-free.