

## THE McKEEVER INSTITUTE OF ECONOMIC POLICY ANALYSIS

MORAL ECONOMICS - Essay On The Relation of Some Economic Theories to Various Moral Perspectives Published in POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE.

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### INTRODUCTION

This essay is a series of commentaries on the relationship of economic theory with the moral concerns about development and poverty as expressed by POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, published by the World Faiths Development Council in 1999 [33-37 Stockmore Street, Oxford, OX4 1Jt, United Kingdom; email: wfdd@btinternet.com; URL: <http://www.developmentandfaith.org/>]. This book was written by Roger Riddel with the help of many; it attempts to find common areas of agreement among the world's major religions on economic development issues.

### WORLD FAITHS DEVELOPMENT COUNCIL

The World Faiths Development Council has posted this essay on their website at <http://www.developmentandfaith.org/research-archives.php?q=mckeever>

### PURPOSE: STIMULATE DISCUSSION

The purpose of this essay is to stimulate discussion about the issue of morality and economic theory. I believe that economic theory without any moral content can and does create much misery. It is similar to the theories of nuclear fusion and genetic manipulation. Were these theories left in the hands of practitioners and unregulated by social concerns, they would permanently damage the world. Economic theory is now left in the hands of economists and it is wreaking havoc.

### 1. FIRST POINT: DEVELOPMENT EMBRACES ALL DIMENSIONS OF HUMAN EXISTENCE

The WFDD's book begins with a Vision of Development and suggests that development embraces all dimensions of human existence, not just economic development. "If emphasis is placed only on economic development, even this will fail, as the balance necessary for human well-being will be lost. As the Jews say: 'Where there is no bread, there is no Torah, and where there is no Torah, there is no bread'".

## ECONOMIC THEORY AND HUMAN EXISTENCE

Economic theory addresses only those human interactions that involve an exchange of money or commodities; as such, it ignores the larger part of human existence. Economics does not address love, family, culture, health, spirituality, the environment or many other things that make life rich and meaningful.

The question then becomes how to integrate non-exchange activities into economic theory. One way to approach this question is to address the issue of how economic theory is placed into action. Exchange activities today are regulated and controlled by government; Adam Smith may have postulated a "laissez faire, laissez passer" world of no government intervention in the market, but that world does not exist today in any meaningful way.

## GOVERNMENTS ESTABLISH AND MODIFY ECONOMIC PRACTICE

Governments establish the policies and practices by which economic activity is conducted. Mostly, the governments are national governments, but they are increasingly international as national governments cede sovereignty to multi national institutions. Governments create the laws that create and protect private property, public order, rules of exchange, the money supply and so forth. But, many of the important aspects of life are created personally within a family or neighborhood unit or collectively in civil, non-governmental organizations.

Economic principles begin from the structure created by government and civil society; the principles describe how goods are created and acquired under whatever system is being examined. Therefore, the principles will apply under different sets of rules and different structures. So, it is possible for the government and civil society to create or change those rules to accommodate a wide variety of cultural and social values. It is also possible for the government to include a moral component to the economic rules of the society.

As an example, consider the value of family. Economic principles, with no moral component established by governmental authorities, may interfere with family cohesion or stability. In the United States, many mothers and fathers think they must work full time to create a decent life for their children. Working time takes away from family time and is detrimental to society to the extent that family ties are weakened.

## NON-MARKET UTILITY

A moral economic policy would create a climate for wages and benefits that would strengthen family life by raising wages, providing benefits for stay-at-home parents and encouraging family life. But, this value may interfere with the economic principle of efficiency of production which states that a society is efficient only when the marginal utility, or satisfaction from the next unit of a good obtained, of all consumers is maximized and any consumer cannot increase his or her utility by acquiring a different set

of goods. The amoral economic policy used today includes only goods that are exchanged for money - a moral economic policy will include values that are not part of the exchange system.

The moral economic policy encourages higher wages so those workers can have a more satisfying family life. This will result in higher consumer prices. The choice is clear: it is more moral to pay slightly higher prices so that workers can have a good life and it is less moral to pay lower prices which force workers into marginal lives.

## GOVERNMENT'S ROLE

Since a moral economic system includes the utility from values that cannot be exchanged in a marketplace, it becomes the government's responsibility to create an economic system that allows for the creation and protection of values that cannot be traded. It does this by passing laws and regulations that enable people to choose some of their utility from non-exchangeable goods. For example, a high minimum wage would permit more people to stay at home with children for more time. This system would balance the utility of market goods, namely low prices for consumer goods, with the utility of non-market choices, in this case time with the family.

Making this choice will require a government to create protections for companies that hire the workers since without protection from low wage countries in other countries, the companies that employ workers will be forced out of business. This policy would balance the desire for low cost goods with the equally valid desire for utility from non-market goods.

## 2. SECOND POINT: DEVELOPMENT STRENGTHENS VIRTUE

People of all faiths believe that any economic development is based on, and has as its aim, the strengthening of virtues such as trust, altruism, honesty, tolerance, forgiveness and mercy.

"Development processes which are not based on such moral values are not only useless, they are dangerous." (POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, World Faiths Development Council, 1999, Section 1.2)

## ECONOMIC THEORY AND VIRTUES

Economic theory and practice have an ambivalent relationship with most virtues. On the one hand, free market economics postulates that the common good will be furthered when buyers and sellers each act in their own self-interest, while on the other hand, free market economics does not address directly the issue of poverty or income disparity. Conversely, socialist economics forces choices about these issues on the entire population while producing at less than efficient levels.

## VIRTUES OF FREE MARKET ECONOMICS

The position that the greatest benefits to society will come to all when both buyers and sellers act in their own self-interest has been supported by the principle of 'caveat emptor' or buyer beware; virtue is

supposed to come to buyers and sellers in this system since buyers will be able to distinguish between high and low quality merchandise and high quality merchandise will drive low quality goods from the market place. Producers of high quality goods will prosper because they provide goods that meet or exceed buyers' expectations; producers of low quality goods will fail. High quality goods are seen as virtuous because they meet consumer expectations of effective products that do no harm in their use or making.

## CONDITIONS ON FREE MARKET VIRTUES

Unfortunately, two facts interfere with this more or less automatic virtue enforcer: one, it applies only to competitive markets where buyers have legitimate choices; and, two, it fails to take account of the potential harm done by low quality producers before market forces drive them from business.

Buyers in markets where there is little or no competition can be forced through lack of alternatives to choose low quality or dangerous goods, or goods that are merely overpriced. Also, if there is little or no regulation of businesses that produce potentially harmful goods, many people can be hurt or killed before market forces drive the low quality producers from the market.

## FREE MARKET MORAL ECONOMIC POLICY

Economic theory and policy can help provide virtue in the market by ensuring that markets are competitive and that producers of products which have the potential to harm people are closely regulated. Thus, pro-competition and anti-monopoly rules and regulations become supportive of virtue and thus moral.

## VIRTUES OF SOCIALIST ECONOMICS

Socialist economies provide for all citizens many of the benefits of civilization: health care, education, freedom from hunger, etc. These appeal to the basic human desire to see all people treated fairly. However, socialism has at least two major flaws: one, it forces choices on the entire population; and, two, it is an inefficient producer of goods and services. Most economies produce more high quality goods and services under a market system whether it is pure or modified than they do under a socialist system.

## ECONOMICS AND CHARITY

The virtues of altruism, charity, tolerance, forgiveness and mercy are not directly addressed in free market economics, although they are addressed in socialist economics. Free market systems usually leave these virtues to individual choice or to the political system to implement while socialist systems force choices about virtues on the entire population.

A moral economic system is one that avoids the extremes of either ignoring common virtues or forcing centralized moral choices on the entire population while still addressing the issues of poverty, health,

income disparity and misery and producing an efficient quantity of high quality goods and services.

### 3. THIRD POINT: TENSION BETWEEN SPIRITUAL AND TEMPORAL

Religious people vary greatly in the emphasis they place on spiritual experience on the one hand and the emphasis they place on taking action to build up a better world on the other hand. "...many religiously inspired people are making an increasing effort not only to contribute to practical improvements in the lives of the poor, but also to try to understand the nature and causes of poverty..." (POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, World Faiths Development Council, 1999, Section 1.3)

Thus, faith based concerns are with poor people and the factors underlying poverty when spiritually inspired people address temporal issues.

### ECONOMICS ADDRESSES WEALTH CREATION, NOT POVERTY

Economic theory discusses the creation of wealth - it does not address the problem of poverty. A standard answer of economics is that the amelioration of poverty is a political question that is best left to the appropriate sovereign government. However, the applications of economic theories through the economic policies of various governments have immediate and drastic consequences on both poor and wealthy people.

### MORAL ECONOMICS ADDRESSES CONSEQUENCES

Moral economics will consider the consequences for poor and for wealthy people of any policy enacted pursuant to a theory. Will the effects of a policy change be that poor people are made better or worse off? If the theorist addresses the consequences of policy decisions, then s/he can make a claim to a more moral approach than if those consequences are not addressed.

Then, the appropriate sovereign can make policy and political decisions with a better knowledge framework than is the case if the consequences are not discussed. It seems that most economists can embrace this approach

### 4. DEVELOPMENT AN OPEN ENDED PROCESS

Many people of faith recognize that different faiths have different interpretations of the origin of the universe and the place of human beings within it. As result, these people hold the view that "development is a continuing process, and one whose parameters lie open to revision." [para. 1.4]

### ECONOMIC GROWTH

Many in the development field hold that economic growth is the single solution to development and poverty reduction; some assert that while other issues may be relevant, no poverty reduction can occur

without economic growth.

Economists define economic growth as annual increases in Gross Domestic Product [GDP] measured on a per capita basis, adjusted for inflation.

Thus defined, economic growth can reflect real activity in those countries with reliable statistic gathering abilities; but there are many countries where the ability of economic statistics to reflect reality is open to question for a variety of reasons. Nevertheless, GDP per capita is the economic statistic that is most widely collected and reported among many countries. Because it is readily available, it is widely used as a definitive measure of economic performance.

A moral economist will look with great caution at comparisons of GDP per capita between countries with substantially different economic structures and cultural values and will find other measures of comparison before making policy recommendations.

## GDP PROBLEMS

The measurement of economic activity through national government collected statistics has more fundamental problems than the accuracy of the numbers, however.

Economic activity measures only those activities that involve the exchange of money through a statistic gathering process. Any activity that does not involve the exchange of money or does not involve a statistic gathering process will not be counted in a country's GDP.

Many of the most compelling human values are not reflected in GDP; values such as love, spirituality, family, health, clean air, clean water and hope are not reflected anywhere in GDP. In countries with vigorous black markets, a significant part of the economic activity that does involve the exchange of money is not reported.

In addition to treating per capita GDP figures with skepticism, a moral economist will ensure that any policy recommendations will not interfere with fundamental human values. Such an economist will recognize that a single focus on economic growth, if growth is achieved, can result in detrimental effects on other indicators.

Also, moral economists will be constantly alert to newly developing methods of measuring and ameliorating poverty; they will avoid dogmatically espousing any one method or approach. After all, one of the most common reasons that efforts at change in organizations is not successful is an 'activity-centered' approach wherein the efforts are directed to an activity which is supposed to bring about the desired results rather than a focus on the desired results. [Alex Miller, Gregory Dess, STRATEGIC MANAGEMENT, 2nd ED., McGraw Hill, 1996, p. 337.] Moral economists focus on the desired results and not on any particular activity which is 'supposed' to bring about a desired result.

## 5. POVERTY IS A MULTIDIMENSIONAL PHENOMENON

While poverty is usually understood to be a lack of some level of basic material necessities of life, faith based communities broaden the definition of poverty to include a lack of families or social networks, environmental destruction, exclusion from socially rewarding activities or the elimination of self identity through a destruction of culture. "...materially poor people often possess valuable types of wealth, which should not be depleted by the developmental process." [POVERTY AND DEVELOPMENT, para 2.1]

## GOVERNMENTS ADDRESS THESE ISSUES

As discussed previously, economic theory is concerned with material and monetary aspects of life and does not address cultural or societal issues. Yet, one of the reasons that people institute governments is to protect the values they hold dear as a society or culture. And it is these very governments that create the markets and regulatory bodies that constitute an economy. Thus, there is an inherent conflict between interests: on the one hand, governments encourage market forces as a means to material well being; while on the other hand, governments also regulate market forces so that the poor and weak are cared for.

## GOVERNMENTS ALSO BALANCE FOREIGN WITH DOMESTIC INTERESTS

When a national government coincides with a culturally, socially and religiously homogeneous population, a moral government attempts to find a balance between economic activity and cultural, social and religious protection. In today's economy, that balance involves necessarily the additional balancing of the interests of foreign business interests with the already difficult task of balancing domestic economic activity with social protection. Further complicating the problem for most nations is the fact that most national governments must deal with diverse populations rather than homogeneous populations.

## OBSTACLES TO ACHIEVING A GOOD BALANCE

This balancing of domestic economic activity, domestic social, cultural and religious interests and the forces of foreign economic interests becomes especially difficult when any one of several things occurs:

1. Foreign economic interests attack the economic, cultural or spiritual basis of the culture, whether by design or by accident;
2. National leaders are corrupt and/or unable to understand or discharge their leadership obligations;
3. International institutions pressure national leaders to accept policies which tip the balance; or,
4. Dedicated national leaders lack a coherent philosophy with which to refute arguments posed by foreign or domestic interests wishing to tip the balance in their personal favor.

Today we see all the foregoing points present in almost every country. These pressures are

institutionalized in several ways. Foreign cultures spread to local cultures through entertainment products that undermine local cultures. A global push to 'free trade' and 'open markets' attacks the abilities of dedicated leaders to protect a balance of competing interests in their country. 'Rules based trade' as embodied by the WTO can and does challenge any national policy that conflicts with the private economic interests of foreign countries.

## GLOBALIZATION - FORCE FOR GOOD?

Economic theory suggests that all people will be better off when market forces can create an efficient economy where the greatest number of people consumes the greatest quantity of goods. This part of economics leads some well-intentioned people to suggest that any national restrictions on the free flow of goods and services among countries will reduce the quality of life for all. That logic then suggests that it is a good thing to encourage national governments to reduce the barriers to foreign goods and services. The reasoning continues that the more efficiently produced goods from other countries will force local businesses to raise their standards to international standards or face bankruptcy, thus making the entire domestic economy more efficient.

## LOGICAL PROBLEMS OF GLOBALIZATION

There are a number of problems with this logic in addition to the obvious problem that material well being does not eliminate poverty. First, in today's world this logic has been implemented solely by international institutions; these institutions force changes in national governmental policies which benefit primarily the private, financial interests of businesses in foreign countries. Thus, national governments are required to unbalance their mix of competing interests in favor of private foreign interests. Faith based communities reject the concept that focusing on material goods solely can relieve poverty.

Second, any national government represents all the interests in society and must balance those interests in order to achieve some form of harmony and poverty reduction; favoring any single interest at the expense of any other interest is a violation of the trust the population grants to the leaders. This is compounded by the common practice of foreign corporations to use the governing party in power to gain a financial advantage; foreign corporations apparently do not use their power to accelerate social change or encourage less corrupt governments.

Third, the existence of such institutions creates a moral hazard problem - national leaders are reluctant to deny social spending to their populations because there exist international institutions which will bail them out of their budgetary crises; this shifts the blame to the institution and away from the national government.

Last, pressures to globalize can be imagined which have the possibility of really helping people. One can envision an international advisory body that assists in eliminating corruption, managing the influence of outside pressures and balancing the competing interests of society. Unfortunately, such an institution is merely a dream at this time.



## BALANCE: A MORAL DUTY

The moral duty of any responsible leader is to balance all the internal interests with each other and to balance external interests with internal interests. This is a very difficult task and one that is vilified in the intellectual community today. But, it is a necessary task in order to create and protect the various forms of wealth that are recognized by the faith communities. It requires a clear-headed view of the limitations and benefits of economic theory.

## 6. POVERTY IS A WIDELY VARYING PROCESS

"...Many religions [believe] that poverty can ...be understood as the absence of what people need to fulfill their (God-given) potential. This suggests that poverty should be seen as a process...It is helpful to distinguish between:

- absolute and relative poverty
- temporary and more permanent poverty
- vulnerability (specifically, the vulnerability of those not currently considered poor to become poor, and of those in poverty to move into extreme poverty)."[POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 2.2]

## SOLUTIONS TO POVERTY: AN IMPOSSIBLE DREAM?

If poverty is viewed as a process, then it may lie outside the range of simple 'solutions'. Perhaps it is more appropriate to consider that poverty is one of the components of mankind instead of a problem to be solved.

The obvious danger in that position is that it can provide a rationale for doing nothing at all for poor people: if poverty is an essential part of the human experience, then a tortured logic could argue that there is no point in working to reduce or eliminate it. Such a position conflicts with a moral position. Among other things, that position assumes that poor people are responsible for their poverty and have the ability to change their condition on demand. Such a position is absurd on its face.

A moral approach to poverty, then, requires that action be taken.

## POVERTY HAS AN INFINITE VARIETY OF ELEMENTS

"In the experience of faith-based organizations, the differences to be found among people who are poor are greater than the similarities." [Loc. cit.]

Moral actions to reduce the effects of poverty will take account of the infinite variety of elements of

poverty. Therefore, any single approach to poverty reduction, prevention or amelioration is doomed to failure to the extent that it does not allow for such diversity.

As discussed earlier, poverty has culture specific components; any moral action to combat poverty is also specific to a culture. This means that global approaches to poverty reduction cannot succeed and it means that successful poverty reduction strategies include cultural differences.

## 7. THREE APPROACHES TO POVERTY:

### FIRST APPROACH: IMMEDIATE ALLEVIATION

"...the most traditional approach has been to provide the poor with the goods they need to merely survive." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 3.1]

This is a straightforward issue: when people are starving, you give them food so they do not die. Economic theory and practice has a provision called a transfer tax designed for taking resources from wealthy people and giving them to poor people. The government taxes wealthy people to provide the means so those citizens do not perish.

Two issues arise here. The first is a definition of survival; the second is delineation of which government it is that enacts the transfer tax.

Is survival merely enough food to prevent starvation, or, does it also include shelter, fuel and perhaps a radio for hearing what future weather patterns may do to one's crops? As discussed previously, a moral position recognizes that there can be many answers to that question; such a position does not apply a standard answer to all people at all times. Survival can be deemed to include material goods beyond food to prevent starvation.

Which government shall take responsibility for the starving? If the national government is unable to prevent starvation due to war or other catastrophes, should developed countries take responsibility for action? Or, should neighboring countries take the responsibility?

Recognizing that different governments will have different answers to that question suggests that a rich distant government or a poor neighboring government may be morally constrained to provide food enough to prevent starvation from considerations unrelated to anything but compassion for the starving. A moral act is accomplished when one political body steps forward to prevent tragedy.

## 8. THREE APPROACHES TO POVERTY CONTINUED:

### SECOND APPROACH: SELF-RELIANCE AND "EMPOWERMENT"

Faith based communities recognize that charity is appropriate only in extreme circumstances because it perpetuates a lack of dignity associated with poverty. The second approach strives to enable poor people

to acquire the skills needed for self-sufficiency.

## SELF SUFFICIENCY REQUIRES DIVERSITY

However, the danger exists that agencies and communities offering solutions to poverty may impose solutions on people without considering the unique values of their culture. Faith based solutions understand that such cultures require strong civil organizations so that solutions imposed from outside can be modified to suit local conditions. Such a network of effective civil organizations in an impoverished community will also decentralize decision making; this decentralization helps ensure that local values are maintained. For example, the author of this essay has developed a set of 34 economic policies that are designed to allow for decision decentralization, adaptation to local cultures and effective economic development; they can be found at <http://www.mkeever.com/>. This set of policies is much more comprehensive and inclusive than traditional economic policy proscriptions.

## A TRADITIONAL ECONOMIC SOLUTION CREATES TWO PROBLEMS

Traditional economics offers one solution to all problems. As seen in today's multilateral institutions such as the World Bank and the IMF, modern economic theory offers only one set of policies to cure all ills. Faith based communities reject this approach to self-reliance as condescending and ineffective.

These traditional approaches create two problems. First, Western style democracy may not be the best way to achieve empowerment in all cultures at all times. Second, market economies, especially in international trade, create many injustices due to recognized market failures; market economies require careful control to create a moral society.

## 9. THREE APPROACHES TO POVERTY CONTINUED:

### THIRD APPROACH: LINKS BETWEEN WEALTH AND POVERTY

"All religions would see the extreme material poverty in the world today as a moral indictment to contemporary humanity and a breach of trust within the human family...There is no religion in the world which does not condemn the hoarding of riches by some, while others live in misery, particularly because of the causal relationship between the two conditions." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 3.3.1]

### ECONOMIC THEORY SUPPORTS INEQUALITY

Modern economic theory counterpoises to this clear statement a theory that accumulating wealth is not sinful because wealth accumulation creates capital, which is then used to create jobs. Since jobs and wealth can be created and are therefore expandable, it is not the case necessarily that one person's riches come at the expense of another person.

Further, economic theory teaches that a society's material well being will be maximized when the

marginal monetary value of all goods and services is equalized. This construction ignores personal or societal values with no monetary component and it places undue influence in the hands of people with disposable income.

## VALIDITY OF ECONOMIC THEORY VS. FAITH BELIEFS

This conflict is at the heart of the difficulty in reconciling economic theory with a moral perspective.

History argues in favor of the faith position - religious beliefs have been in existence far longer than economic theory.

Also, economists recognize market failures as a part of economic practice; the biggest market failure today is the market's predilection to create or exacerbate income and wealth inequalities. This can be seen in the results of globalization wherein many of the world's poor live in material misery while a relatively few amass vast wealth.

Further, the moral perspective states that amassing riches "while others live in misery" is immoral. If it were possible to amass wealth while others lived in relative ease, perhaps it would be moral to do so; however, history to date does not encourage this position.

## INCOME REDISTRIBUTION REQUIRED - STATUS QUO MUST CHANGE

"The faith communities are convinced that a more equitable distribution of the world's wealth is needed for an effective reduction of poverty." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 3.3.1]

"Much poverty exists because current development processes often bypass the poorest people...The Roman Catholic Church, for example, teaches that private ownership of property is subject to social responsibility. This means there must be a change of lifestyle among the rich, and changes in the models of production and consumption, as well as in the established power structures that govern society today." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 3.3.3]

## ECONOMIC THEORY SUPPORTS STATUS QUO

Much of current economic theory supports the established institutions in today's world. In order for an alleviation of poverty, alternative economic theories must be examined and taught. Economic teaching today is in turmoil as proponents of the established power structure seek to eliminate alternative viewpoints; in some cases, going so far as to purge history of economic thought from universities lest students learn of alternatives.

A moral economist will search for viable alternative theories, which can include a moral component.

## INTERNATIONAL AID

"Only when those with most power are able to view the whole of humankind as a family will the full horror of allowing so many to perish while others are overwhelmed by a surfeit become clear. However, it is not only a question of morality, but of practical interdependence. Globalization is surely teaching us that none will survive unless peace, based on international, as well as national, social justice becomes the aim of development" [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, par 3.3.3]

Morally effective international aid will address the issues of top-down structures, invalid priorities and corruption. At the very least, complete debt relief will enable governments to spend hard earned foreign currencies on medicines and education instead of repaying old debts to international bankers.

## 10. HUMAN RIGHTS

" The present articulation of human rights is a secular formulation of the spiritual notion of the dignity inherent to each person, and thus has its grounding in the basic principles of all the religions...A focus on rights is important in view of the growing consensus that it is unacceptable for some human rights to be set aside in the interests of development." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 4]

## ECONOMIC PERSPECTIVE

Sometimes economists will argue that the sacrifice of some human rights is acceptable since such a sacrifice may create economic growth for the greater society. Additionally, when a society has 'freedom' or 'democracy', some will argue that the will of the majority can override the rights of a minority.

The U'wa people of Colombia have stated that they will engage in mass suicide if oil companies drill for oil on their land. At this writing, negotiations continue. One hopes that the government of Colombia does not consider that the rights of the minority people are less important to development than are oil revenues. Clearly, any economic growth or development process, which violates the rights of any person, is not a moral act.

## 11. PEOPLE ARE THE PRIMARY CONCERN OF DEVELOPMENT

"Development is a process which should be initiated and carried out by people as well as for people, and it cannot be reduced to technical abstractions." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 5.1]

## ECONOMICS IS A SOCIAL SCIENCE

Some economists like to think that economics is an objective science, which can be studied in the abstract without reference to its effects on people. This is clearly wrong for a number of reasons, among which is the inability of economists to produce an experiment whose results can be verified in other

situations; real world situations are too complex to admit of the precisely controlled experiments which mark the 'harder' sciences. Economics is the study of the reasons behind, and the cumulative effects of, human behavior. It is impossible to separate such a study from impacts on real people.

## SOME ECONOMISTS ARE SEDUCED BY MATHEMATICS - WITH CATASTROPHIC RESULTS

Some of the theories economists use in an attempt to explain human behavior can be represented by graphs and formulae; this seeming mathematical precision sometimes leads otherwise well meaning students into the study of economics as a mathematical discipline. Unfortunately, this focus on mathematics can result in real world policy recommendations that cause upheaval and disaster. For example, economic growth is widely recommended as the best cure for poverty. Economists define growth as an increase in a country's real GDP from year to year. As such, economic growth is a mathematical abstraction - it is a number created by civil servants and taken largely from tax returns.

## TROUBLES WITH GROWTH AS A CURE FOR POVERTY

The focus on economic growth as a cure for poverty has many faults: GDP can increase without a reduction of poverty or an increase in incomes; it can increase without any reduction of income or wealth inequalities; and, it possesses inadequacies of data gathering which call into question the reliability of GDP numbers in some of the poorer economies.

That said, economic growth can help reduce poverty - provided that it is real growth in goods and services, it is properly managed and if it is not elevated over people as an objective of policy makers.

A moral economist, then, is an economist who uses mathematics to further understand how policies can help or hurt people; such an economist does not retreat into mathematics and the study of graphs based on flawed numbers as his primary focus.

## 12. DEVELOPMENT INCLUDES EVERYONE, ESPECIALLY THE DISADVANTAGED

"...disadvantaged individuals, groups, and cultures need to be protected and supported to engage in the development process, as do disadvantaged nations...Experience has shown that the use of short-term cost effectiveness as the ultimate criterion has generally left the poorest and most marginalised people waiting in vain for benefits to trickle down to them, and in this way has contributed to the failure to eradicate poverty." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 5.2]

## COST-BENEFIT ANALYSIS FAILS TO PROTECT DISADVANTAGED

Many economists use cost benefit analysis to make decisions about social policy in the mistaken belief that maximizing easily measurable, short-term benefits will ultimately benefit the society more than other approaches. The effects of this approach are to concentrate resources on those sectors of the population that are most likely to show an immediate benefit; as such, it ties in neatly with the free market approach to decision making and leads to such business decisions as locating factories in less

than subsistence wage countries with minimal environmental protections while selling the factory output in developed markets.

The long run effects of such a policy are further environmental degradation, continuance of a wage gap between developed and underdeveloped countries and slow erosion of living standards in developed countries. These costs are hard to measure and thus difficult to factor into cost benefit analysis; nevertheless, they are real.

### ALL BOATS MUST BE LIFTED IN ORDER FOR THE TIDE TO RISE

An old aphorism says that 'a rising tide lifts all boats'; this is demonstrably not true in economic development. It is time to turn around the approach.

The moral approach to economic development protects disadvantaged populations and countries, even though such protections reduce the profits shown by cost-benefit analyses.

### 13. POOR PEOPLE MUST BE LISTENED TO

If development efforts are to be effective in helping reduce the negative effects of poverty, then it is axiomatic that the wishes, needs and fears of poor people be considered. In other words, it is neither moral nor effective to impose a 'solution' to poverty developed outside of the context in which it is to be applied.

However, listening is a subtle art that cannot be assumed to reside in every well-meaning person. "... Given the limited access to information available to most poor people, the 'voice of the poor' cannot provide a complete understanding of poverty;...There is a danger in assuming that the poor want to tell outsiders....about their...poverty... and fears;...as...lives...change...they...articulate their desires and needs in different ways;...To ask if a school is needed...may...sound like an offer to provide one..."[POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 5.3]

### EFFECTIVE MORALITY REQUIRES EFFECTIVE DIPLOMACY

Clearly, listening effectively requires great sensitivity to and respect for the people one is endeavoring to assist in addition to a sophisticated background understanding of their objective circumstances. Moral approaches to poverty reduction will recognize the needs for sensitivity and information and will avoid imposing on poor people solutions developed in an ivory tower in another culture.

### 14. SOME STANDARD MACRO-ECONOMIC POLICIES HARM POOR PEOPLE

"...any process of development which creates or perpetuates poverty is illegitimate...Again and again the programmes of faith based organizations have been rendered nonviable by structural adjustment programmes and international financial and market mechanisms."[POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 5.4]

## PRESENT DEBATE OVER IMF POLICIES

Today there is widespread debate over the macroeconomic policies promulgated by the IMF in its structural adjustment programs. These policies normally involve complete capital liberalization, reduction of protectionist devices for poor countries while leaving such devices in place for developed countries, reduction or elimination of social programs and destruction of natural resources as a means to earn export dollars.

The uniform result of applying these policies is an increase in poverty and misery, even in those countries that show macroeconomic improvement.

## MARKET FAILURES RECOGNIZED BY SOME ECONOMISTS, NOT BY ALL

At the same time, the economics profession recognizes the existence of market failures and the necessity of creating governmental mechanisms to ameliorate those failures.

Sadly however, some economics practitioners do not recognize the necessity for such corrective mechanisms. This consistent failure by some practicing economists to acknowledge and correct the evident harm caused by the unbending application of failed policies is immoral.

## 15. DEVELOPMENT WHICH HURTS SOME MEMBERS OF A GROUP IS NOT ACCEPTABLE

"...it is not possible to understand humanity merely by focusing on the individual...Development strategies need to embrace the notion of community by strengthening the natural social bonds of the poor." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 6.0]

## ECONOMICS FOCUSES ON THE INDIVIDUAL

Economics has an inherent conflict with faith based communities in that economic practice measures material gains by individuals in order to determine if progress is made. By doing so, economics misses the point that the well being of the community may be made worse off if some members of the community are made worse off. Faith based thinking says that all members of the community should be better off if progress is made.

Many economic growth policies allow social inequality to increase during economic growth. Such policies "...almost always benefit the better off, while often actively harming the poor, and they certainly do not contribute to the building of peaceful communities or to true social cohesion." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 6.0]

## ECONOMIC PRACTITIONERS MUST CHANGE THEIR FOCUS

Any economic practice that ignores the overall effects on a community and counts only the average



material gain of a community runs the risk of creating active harm to communities. It will be difficult for economists to change their thinking in this regard since most training in the subject deliberately avoids such issues.

## NEW FOCUS MUST BE EXTERNALITIES

It is the writer's opinion based on some forty years' experience in the field that the single biggest failure of economic practitioners is their failure to take account of external costs, or 'unintended consequences'.

These costs are well defined and explored by economic theory, but disregarded by practitioners. For example, automobile manufacturers calculate their profits based on the sales price of their products less the costs of their products. But, no automobiles could be driven or sold without roads, service facilities, air pollution or fuel. The cost for these necessities is born by society as a whole and not by the automobile manufacturers; these costs are external to their profit calculations.

However, these are very real costs to the community. Similarly, the cost of increasing social inequality from poorly designed growth policies is a very real cost to the community which is not factored into the calculations of cost and benefit derived from these programs.

Economists who begin to calculate those external costs into their policy recommendations are acting morally, in this writer's opinion.

16. CULTURAL, ECONOMIC DIVERSITY " ...If people's visions and values, their perceptions of reality and their most cherished beliefs are disregarded, their very identity will be threatened...Each community should have the right to its own economic systems... even if these coexist with other models. Collective ownership of assets, exchange on the basis of giving and receiving, and shared work are all ways of conducting the economic life of a community..." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 7.0]

## ECONOMICS IS ABOUT MORE THAN MONEY

A study of economic theory can lead to a singular view of human activities: economics suggests that all human behavior revolves around the purchase and sale of goods or services. Yet, such activities consume only a small portion of most people's lives and consciousness.

The danger is that this singular viewpoint can lead its adherents to ignore all other aspects of human life and, by ignoring them, create institutions, which foster the purchase and sale of goods and services at the expense of other activities. The global spread of Western business brings with it the spread of Western values and practices. These practices can conflict with local cultural values and practices and can make those local values untenable, unless the local national government recognizes the conflict and is willing and able to protect local values from global corruption.

Sacred land may be sold to developers so that more commercial buildings can be built. Community

based services may be forced to compete with international, profit based corporations willing to sustain a loss until the competition is destroyed. Young people may find the values of their traditional parents backward and choose to live like young people in New York or London.

A moral government recognizes this conflict and attempts to protect some of its local cultural values from the damage that can be caused from a singular focus on trade and finance.

## 17. DIGNITY OF WORK

"...The purpose of work is not only to produce a livelihood and to maintain society, but also to bring about the personal fulfillment of the worker by his or her participation in the process of production and distribution, thereby giving service to the whole community...On the one hand, the right to work brings with it the right to fair returns on one's labor, which means either a fair wage or, in some cases, access to markets...On the other hand, space should be made for fully-recognized voluntary work. The ethos of service to others does not only mean self-sacrifice but also brings with it the possibility of self-fulfillment and satisfaction..." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 8.0]

## THE COMMODIFICATION OF LABOR

Economic theory treats labor as a market commodity; the objective of an entrepreneur is to buy labor for a low wage and to sell its products at a high price. Yet, labor is the only commodity that many poor people possess that can be turned into cash in a market economy. This combination demeans people because it provides a rationale for entrepreneurial capitalists to treat people as objects.

Workers are complex beings with needs, desires and fears that transcend their working lives. Also, people who work give of themselves and are entitled to a return for their work, which enables them to live a decent life.

A moral society provides work that allows for a decent material living for its workers as well as opportunities for other forms of self-expression. A singular focus on labor as a commodity creates an immoral society in which people are exploited.

## 18. THE ENVIRONMENT

"Jews, Christians and Muslims believe that the whole world belongs to God, who has given humankind the responsibility to act as good stewards over the rest of nature...This...involves the responsibility of human beings to care not only for each other, in the present and future generations, but for the rest of creation too...development requires that people's engagement with the world's resources neither creates an unhealthy environment nor leads to the depletion of necessary finite natural resources or the diminishing viability of the eco-system." [POVERTY AND DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 9.0]

## ECONOMICS TREATS ENVIRONMENT AS RAW MATERIAL

Rather than accept a stewardship over the natural environment, economics teaches that the environment contains resources that should be used to create profits and jobs. The focus on short-term material well being to the exclusion of moral values which characterizes economics leads inevitably to environmental destruction.

## INVISIBLE HAND

Adam Smith's invisible hand of self-regulating markets concentrates exclusively on the production and sale of goods and services; he ignores entirely the duty of man to act as steward over the environment.

## COST-BENEFIT

As discussed earlier [Essay 13, 9 November 2000], cost-benefit analysis focuses on easily measured costs and benefits; since environmental costs are difficult to measure they are left out of such calculations routinely.

## SECULAR APPROACH TO ECONOMICS AVOIDS MORAL CONCERNS

Economics is a social science in which the broader aspects of society are excluded in favor of a narrow focus on wealth and material well being. This narrow focus facilitates study of the subject, but presents a problem when students of economics do not receive a compensating education in religion, morals or social responsibility to counter that narrow focus. Further, there is a tendency in many societies to equate material well being with success; this equation suggests that economics can answer mankind's fundamental questions. This is clearly wrong.

## MORAL ECONOMISTS ACT RESPONSIBLY TOWARD THE ENVIRONMENT

Economists, who balance their economic policies with responsibility for the entire society and environment, whether that sense of responsibility comes from a moral or religious framework, are acting morally. Economists and politicians who fail to strike such a balance act immorally.

## 19. MORAL EDUCATION

In its concluding paragraph, **POVERTY AND DEVELOPMENT** discusses moral education: "... Buddhists seek to free themselves from the illusion that a self-centered, greed-driven way of being will lead to contentment. Christians aim to learn to love God and their neighbour as themselves. Muslims seek to achieve their quest for peace through submission to the will of God...Development is thus first and foremost about spiritual and moral progress...The religious communities believe that the current emphasis on education as little more than training for a future job is profoundly mistaken. All the technical training in the world will not help a society to advance unless people are given the necessary moral and spiritual education to enable them to use their skills for the good of all..." [POVERTY AND

## DEVELOPMENT: AN INTER-FAITH PERSPECTIVE, para 10.0]

### ECONOMICS

As discussed in the previous essay, economic education focuses on material wealth and well being to the exclusion of other concerns. This focus facilitates study of the subject, but it requires a further moral education for economists to be good citizens.

To the extent that traditional economic thought approaches justice, morality or social welfare, it does so in the Invisible Hand of Adam Smith. This device, which is simply a balancing of competing material interests in a society free from excessive regulation, is supposed to create an efficient economy in which all parties receive the greatest possible good. Unfortunately, that greatest good is simply the most possible material goods and services obtainable by that society. The issues of spirituality, justice and fairness are not addressed at all.

As a discipline, and with the possible exception of Marxist economists, economics is silent on the issues of concern to the faith community.

### 20. CONCLUDING THOUGHTS

This essay has attempted to illustrate the interaction of traditional economic thought with the moral perspective as outlined in the fine work referred to at the top of this essay. That short book was the result of a consultative process involving many thinkers; it was written by Roger Riddell and is published by the World Faiths Development Council [email: wfdd@btinternet.com; URL: www.wfdd.org.uk]; it attempts to find common areas of agreement among the world's major religions on economic development issues.

### OBSERVATIONS

Below are the author's personal reflections on the subject; these are offered with humility since a consultative process with many thinkers was not involved in their gestation. Their faults are mine alone while their virtues, if any, reflect some of the debate swirling around the world today. I thank you for your patience and indulgence.

These observations cover two areas: first, is there a set of economic policies which facilitate a moral society[?]; and, second, what are some possible outcomes if present policies are not altered.

#### 1. NATIONAL ECONOMIC POLICIES

Economic theory suggests that a good society is achieved when market forces are allowed to operate freely; evidence shows that some material measures of human benefit are achieved in that situation. On the other hand, evidence also shows that some people are made materially worse off while many people suffer spiritual and cultural damage from that situation.

Economic theory also suggests that the world will be a better place in the long run after market forces have created more jobs and wealth. But, I believe it was John Maynard Keynes who said: "In the long run, we're all dead."

**RESULTS OF MARKETS** Based on the evidence to date, it is clear that allowing market forces to operate without effective controls actively harms some people while benefiting others.

## **DUTY OF NATIONAL GOVERNMENTS**

A responsible national government speaks for all the people in its country; as such, it has the duty to protect its vulnerable citizens from the harmful effects of free markets while taking advantage of the benefits they offer. In practice, this means for example that domestic food markets should be protected from cheaper food imports if domestic farmers will lose their livelihood and become homeless job seekers migrating to cities. This protection can take the form of tariffs, quotas or domestic content requirements. This is justified because protecting families from misery is a higher duty than protecting the rights of business enterprise to make profits.

In a broader sense, a responsible national government has the duty to protect weaker portions of society from stronger portions. It can be argued that business interests have more power today than working people in determining wages and working conditions. This is true in the USA as well as in the developing countries. A responsible national government will take actions to provide labor with some bargaining power so that power to determine wages and working conditions is more evenly divided.

## **CONTROL CAPITAL**

A major difficulty with this issue is that capital is free to move from country to country in search of cheaper wages while workers are less free to move to higher paying jobs; a business owner can close his factory in a high wage location and re-open in a low wage location, effectively removing any bargaining power from workers in high wage locations. This argues that a responsible national government would prevent capital from leaving the country to seek lower wages; however, since competitive firms in other countries will seek lower wage costs, domestic firms will be harmed by higher wage costs. The remedy is to protect domestic companies that pay higher wages by enacting tariffs, quotas and domestic content requirements.

Such a policy is in direct conflict with current trade agreements that call for reduction or elimination of restraints on trade. Again, such actions are justified because protecting families from misery is a higher duty than protecting the rights of business enterprise to make profits.

While such actions will interfere with market forces and perhaps reduce somewhat the gains from trade, today it is clear that national governments are the primary source of protecting society's less powerful from market forces. Faith based thinkers wish to prevent economic forces from harming people; they do not rely on the dubious concept of 'trickle down' to help society's powerless.

## 2. FUTURE TRENDS

Probably the only thing less certain than suggesting economic policies is predicting the future; nevertheless, some predictions are listed below.

### RESULTS OF INCOME AND WEALTH DISPARITIES

The growing imbalance between poor and rich people will probably continue if current economic thinking continues. As the trend toward accumulating wealth by rich people continues, the poor will have less and less; as a result, they will lose hope of obtaining more than a survival pittance of material goods. The rich will continue to be rich, but the market opportunities for growth will shrink, as the population becomes less and less able to afford to buy the products that show a profitable return. Thus, the middle classes may shrink until we have a master class and a servant class, similar to the Middle Ages in Europe. Individual hand-made goods may be the way that rich people flaunt their wealth and the only way that skilled, intelligent can aspire to middle class status. At some point, there is likely to be a bloody revolution in one or more countries. Measures to change income distribution offer a possible means to avoid this outcome.

### PROTECTIONISM

Since globalization facilitates and accelerates these trends, there will probably be a backlash against globalization and toward protectionism as a way to keep wealth in the country that produces it instead of transferring wealth to already wealthy countries.

### NON-MATERIAL VALUES

But, even more interesting is a possible movement toward a non-material society wherein status and satisfaction are derived from spiritual, familial and societal values instead of material values. As people lose hope of succeeding in the race to material wealth they will naturally seek solace and success in other areas; these other areas will require almost no material goods. There will be a growth in religious fanaticism and spirituality in addition to the values just mentioned. This is already evident in movements such as the Taliban, fundamentalist Islamic laws and the rise of conservative religious sects. The two movements - protectionism and increased spirituality - may coalesce onto a single force, or they may just co-exist. Time will tell.

What is abundantly clear is that the consumerist, material culture now spreading around the world is intellectually and spiritually bankrupt and has no uplifting aspect to it. People will soon come to understand that and react against it.