

## RETHINKING ECONOMICS: REVIEWING THE ETHICAL FOUNDATIONS OF THE ECONOMICS

Ian Mason, Principal, School of Economic Science, UK

*Paper delivered to Rethinking Economics Conference; University of Greenwich, London, UK on 28<sup>th</sup> June 2015.*

### **Economics with Justice**

It is often suggested that there is no meeting place between ethics and economics. This view is based on the notion that economics is an empirical science whose sole purpose is to observe and understand objective laws governing the production of wealth from scarce resources. This can only ever be an extremely limited view because it leaves out the most important economic actor, namely people who think, breathe, work, love, create and destroy.

It is because all economic activity involves such people that economics has to have an ethical dimension. People have power to make choices and capacity to create or destroy. They can act for good or for ill; for personal gain or for wider benefit. For that reason they need guides for action. That is what ethical principles are.

Leaving ethical principles out of economics distorts the whole subject leaving such understanding as there is prone to misuse and misapplication to the detriment of most people and the living and non-living environment on which they depend.

At the heart of contemporary neo-classical economics is a concept of Man, generally described as *homo economicus*. This imaginary creature is presumed to be supremely rational with only one aim in mind, namely to achieve material satisfaction by the most efficient means possible. He never does anything on a whim; or out of the goodness of his heart; or because he cares for anyone else; or because he loves nature even more than he loves himself. The result of placing this distorted person at the heart of economics is that it excludes from economic considerations everything except the fulfillment of this fictitious monster's most compelling wants.

There is a reason for the compelling power of *homo economicus*. It is that most people find these characteristics in themselves and can recognise and identify with them. What it leaves out is that most people restrain and control these tendencies in themselves because they know they are better than that. They have higher aspirations and more generous impulses. For that reason they also find in themselves some kind of moral code which gives a standard for discrimination. Formalising, explaining and rationalizing such moral codes is the field of ethics. It is as important to economics as it is to any other field of human endeavor.

It is, of course, both necessary and difficult to come to some consensus as to what morals or ethics apply in human affairs. In the courses offered in the School of Economic Science we try to adopt an idea of justice both as an aspiration and a guide because the idea of justice seems to be a way of recognizing the common humanity of all human beings that exists despite our infinite diversity. Without trying to define absolute justice (a task which has defied some of the best human minds in history) it has been possible to work with some general principles that appear to be of fairly universal application.

The starting place is to consider justice as it was once described by Justinian: the constant will to render to everyone their due. This of course begs the question: 'What is their due?'. Again, without being unduly prescriptive, it is assumed that their due, based on a sense of equity, or fairness, and of what it really means to be human, would include a proper measure of knowledge, happiness, health, freedom and prosperity for everyone.

This could be described as the aim of economic life, and therefore the subject of the study and practice of economics. It would certainly involve the most essential elements in economics, namely people and the environment on which their economic life depends.

Much study of economics starts with the assertion that there are three primary factors of production, namely land, labour and capital. It is not proposed to address the question of capital in this short

paper because it distracts us from two of the most significant facts about economic life. The first of these is that people are so dependent on land for all aspects of economic life that it can properly be said that people belong to the land to a much greater extent than land belongs to people. The second fact is that, for all practical and economic purposes, land is the environment.

For these reasons land, meaning the whole natural environment, is *the* primary factor in economic life. It is land that brings seeds to birth; land that sustains life by producing food; land that is the source of all materials used for producing wealth. Land is also an indispensable habitat and natural environment for all living creatures including human beings. Considered as the whole environment it includes sea and sky, field and forest, mountain and valley, sunshine and rain in all their natural splendor. It provides not only for material life, but is also inspiration to the imagination and balm to the soul.

It follows that the very essence of economics is the interaction of people and their environment. Rethinking economics has to consider both of these. It follows that some concept of Man, of what it is to be human, is also essential (hence the devastating power of *homo economicus*). There is, of course, ample scope for discussion and debate about this, but for present purposes it is taken to be self-evident that human beings need freedom to flourish by expressing their energy and creativity in the production and distribution of the wealth they need to live. Economics therefore has to be directed to making that freedom available to everyone as fully and impartially as possible. Freedom to flourish is therefore the key human value in economics.

But human beings, being human, cannot be relied on to exercise unrestrained freedom in the best interests of anyone else. That is why there are laws and governments to make it possible for people to live and co-operate in societies. That is why, in civil affairs, freedom is subject to the rule of law. Freedom under law is a much greater freedom than unrestrained licence.

Just as in civil affairs there is an attempt to relate the governing rules of society to some sense of justice and fairness, it is also necessary to bring a similar sense of justice to bear on economic affairs to guide and restrain the exercise of economic freedom, thereby holding a balance between strong and weak, rich and poor.

In this context, a sense of justice means a sense of fairness based on equality of opportunity to flourish. For human beings, flourishing involves (but is not limited to) both material sufficiency and also emotional, intellectual and cultural growth and development. Rethought economics would do well to value the latter over the former.

Material sufficiency is nonetheless essential, and justice requires that that sufficiency is available for everyone. Any economic system that fails to deliver on this essential can only be described as dysfunctional. We live in an age of dysfunctional economies.

In the simplest terms, what this means in practice is that a fully functional economy would enable every fit and able person to provide themselves with adequate food, clothing and shelter by their own efforts. It would also enable everyone to provide the necessary facilities for education, companionship and fulfillment essential to a decent life and offer the freedom for people to flourish as human beings.

One aspect of this would be equality of opportunity: at least as a serious aspiration. This particularly requires a place to live and a place to work. Such places are defined by land – which is why land has to be considered as a primary factor of production. This makes land, and the special properties of land considered as a factor in economics, the next essential consideration.

The first observation is that, just as no two people are the same, no two places are the same either. This fact is routinely ignored in economic analysis and is one of the most neglected aspects of

contemporary economics. It should be among the most significant aspects of re-thought economics.

The fact that no two places are the same, and no two people are the same, has the most profound implications for economics. What is needed is to understand how to develop an economic system that allows and encourages free people with varied talents and abilities to have access to the land that best answers their particular needs. This feat is currently attempted by allowing free rein to market forces in a system of private land ownership that recognises few responsibilities to either society or the environment. The result is environmental devastation and widespread impoverishment alongside utterly disproportionate accumulations of wealth and power.

The amazing diversity of the land surface of the planet is its most significant factor when considered in its interaction with human beings. It is because of this that human beings put different values on different places for different purposes. These differing values have profound economic consequences because the supply of land cannot increase to satisfy demand. As a result unrestrained market forces can only result in increases in the price of those locations most desired by most people. This phenomenon places private ownership of land in a special category.

On the one hand, economic security requires both ready access to land and security of tenure. On the other hand, exclusive possession and / or ownership of land excludes everyone but the possessor or owner from the land in question. The question is: How can economics deal with this in the light of principles of justice and equity?

Economics-with-justice suggests that exclusive use and occupation of land should be treated as a privilege that carries obligations. The obligations in relation to land include:

- To the human community – to make appropriate payment to public funds by paying a rent;
- To the natural community – to protect, replenish and conserve nature's bounty;

- To both communities – to use occupied land in the best interest of the wider community, both human and environmental, and not to hold it out of use.

It would also be reasonable to expect that societies and governments should endeavor to ensure that land is as freely available as possible to anyone who will accept these obligations; that public revenue generated from exclusive possession should be used for the benefit of the whole community; that natural ecosystems are protected and conserved; and that some at least of the natural environment is left to the exclusive use of nature.

With these principles firmly in mind it may just be possible to fashion an economy and economic system that delivers justice in both human and natural communities. It is this sense of justice that offers a criterion for judgment of the success or otherwise of economic arrangements within human control.

ooo000ooo