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Markets and Morality

By Jagdish Bhagwati*

It is common knowledge that Adam Smith, the acknowledged father of Economics as we know it, had written *The Theory of Moral Sentiments* (1759) before he wrote *The Wealth of Nations* (1776). More sophisticated students of Economics today would also know that Adam Smith held the Chair in Moral Philosophy from 1752, after a year as Professor of Logic, at Glasgow University. Therefore, that Economics has evolved from moral philosophy, and has affinity by birth with it and therefore is a moral science, should not surprise anyone.

Yet, the analysis of the interaction between Economics and moral philosophy, or perhaps simply morality, has raised interesting issues over time. In the following, I concentrate on a few salient ones today.

I. Positive and Normative Analyses

First, if Economics is to advance the public good, we must have two prior conditions satisfied: we must have scientifically compelling "positive" economic analysis and we must have an agreed yardstick, what we call "normative" criteria, with which we use that positive analysis to choose public policy that advances the public good.

The former task has been the main reason why Economics branched out as a separate discipline from moral philosophy whose principal preoccupation naturally was with the latter task. Economics has been evolving continually, of course, in its main task of illuminating the working of the economy.

That it is essential before normative analysis does not mean, of course, that it can unambiguously help the policymaker. Thus, recall the famous witticism that if there are six economists, there are seven opinions (and, when directed against John Maynard Keynes, the punch line was that Keynes held the two opinions). Douglas A. Irwin (1989, p. 45) has recalled how Sir Robert Peel, who repealed the Corn Laws in 1848 to usher in unilateral free trade in England, lamented, despite his love of "political economy" (as Economics was called then), that Peel found only confusion and dissension among the leading economists of the day on the Corn Laws' effect on wages, profits and rents:

> "The very heads of Colonel Torrens's chapters are enough to fill with dismay the bewildered inquirer after truth. These are literally these—'Erroneous views of Adam Smith respecting the value of Corn', 'Erroneous doctrine of the French economists respecting the value of raw produce', 'Errors of Mr. Ricardo and his followers on the subject of rent', 'Errors of Mr. Malthus respecting the nature of rent', 'Refutation of the doctrines of Mr. Malthus respecting the wage of labour.'"

The normative leg of Economics, coming more directly from moral philosophy, has been generally based on utilitarianism from the time of Jeremy Bentham (1776, 1780). While this has generally meant that economists typically work with social utility functions whose arguments are goods and services, there have been important qualifications. In particular, we owe to Roy Harrod, the pioneer with Evsey Domar of growth economics and biographer of Keynes, the extension to "process utilitarianism," which says that we derive utility not merely from outcomes but also from the process by which we reach the outcome. Thus, many find it distasteful to have a market for adopting babies even though it may produce an efficient outcome; and I have noted in Bhagwati (1998) that Judge Richard Posner's advocacy of such a market may well cost him a seat on the Supreme Court. Again, international economists such as Harry Johnson, T. N. Srinivasan, and myself have actually dealt with "noneconomic objectives," where we modify the utility function also to

*Council on Foreign Relations, 58 East 68th Street, New York, NY 10021 (e-mail: jbhagwati@cfr.org; jb38@columbia.edu). Note: there were no Discussants. Professor Benjamin Friedman (Harvard University) organized the session. Other authors were Robert Shiller (Yale University), Ben Friedman (Harvard University), and Tony Atkinson (University of Oxford).

incorporate self-sufficiency and a target level of import-competing production to figure out the best ways to arrive at optimal policies.

I might add that to get public policy, and hence the pursuit of the public good, right, the policy-maker has to get *both* the positive and normative elements right. Thus, I have argued in Bhagwati (2007) that the philosopher Peter Singer of Princeton University gets foreign aid policy wrong, not because he is a utilitarian, which I believe is a correct welfare criterion, but because he gets his economic analysis wrong by buying into the technocratic notion, advanced by economists such as Jeffrey Sachs who wrongly dismiss concerns about the efficacy of aid as reactionary and reprehensible instead of confronting them with evidence and argumentation, that aid is necessarily ameliorative of poverty. Good policy has to walk on both legs, positive and normative, and both have to be sound and strong.

II. Economics, Self-Interest, and Morality

Economics has also been handicapped by the notion that it deals with self-interest when, in fact, as even Adam Smith recognized in the Theory of Moral Sentiments, man does not live by self-interest alone. In fact, as Rabbi Hillel remarked, “If I am not for myself, who will be? And if I am not for others, who am I?” So, why is Economics concentrated on self-interest as the driver for economic analysis?

One defense has been to argue, as did Sir Dennis Robertson of the University of Cambridge, that Economics deals with man’s “basest motive,” self-interest, to devise an institutional framework which would lead those who work from self-interest to produce public good. This is indeed how Adam Smith himself described what he had done, showing how people producing for private profit would nonetheless be guided by the Invisible Hand of the market to desirable outcomes.

Given the centuries-old Christian tradition which deprecated self-interest or greed or self-love in ascending orders of moral turpitude, this was a remarkable turnaround and would lay the groundwork for many such as Voltaire, most eloquently in 1734, to celebrate the working of markets as conducive to public good, as beautifully discussed by the historian Jerry Z. Muller (2002) in his classic work on capitalism in Western thought.

Indeed, Adam Smith’s paradoxical demonstration that private greed would produce public good, under the conditions of the marketplace, was what gave him the recognition that all paradoxes that overturn conventional wisdom will produce. In the same way, any claim that altruism would be beneficial will sink into oblivion. But if you demonstrate instead that “the road to hell is paved with good intentions,” *that* will give you fame!

But the notion that markets, promoted by Adam Smith and by his demonstration of the paradox of self-interest, would undermine morality, was a different, if related, objection. It has in fact proven remarkably resilient. It has in fact been revived with gusto by opponents of markets and mainstream Economics after the current financial and macroeconomic crisis. The filmmaker Oliver Stone who produced the 1987 film, *Wall Street*, which immortalized Gordon Gekko as the symbol of markets and greed, has produced a 2010 sequel, *Wall Street: Money Never Sleeps*.

Interestingly, the Seven Deadly Sins, immortalized in 1933 in the Paris production of Brecht’s ballet composed and directed by Kurt Weill and choreographed by George Balanchine, have never put Greed at the top of any of the many lists compiled; but the current crisis seems to have elevated it to the pride of place!

But is it really plausible to assert that markets undermine morality? I have argued, in Bhagwati (2009), that I find the notion that markets corrupt our morals, and determine our ethical destiny, to be a vulgar quasi-Marxist notion about as plausible as the other vulgar notion that ownership of the means of production is critical to our economic destiny. The idea that working with and within markets fuels our pursuit of self-interest is surely at variance with what we know about ourselves.

Yes, markets will influence values. But, more importantly, the values we acquire elsewhere determine how we behave in the marketplace. The Dutch burghers used their wealth from commerce to exercise what I call Personal Social Responsibility: they spent the moneys they made, not on themselves, but on good works. The Jains of Gujerat (from whom Mahatma Gandhi drew his inspiration) did likewise.

Again, the Belgian economist Andre Sapir has argued that there are different forms of capitalism in the world today, reflecting different cultures and values. The Scandinavians have an approach to capitalism that differs from that in the United States, for example: the former is more egalitarian in outcomes whereas the latter is more focused on ensuring equal opportunity. So, where do we get our values and how do we confront the phenomenon of Bernard Madoff and others? I have argued in Bhagwati (2008, 2009) that:

> "[Our] values come from our families, communities, schools, churches, and indeed from our religion and literature. My own exposure to the conflicts of absolute values came initially from reading Dostoevsky's *Crime and Punishment*, wherein Sofya Semyonovna Marmeladov turns to prostitution to support her family. My love of the environment came from reading Yasunari Kawabata's famous novel, *The Old Capital*, which purports a harmony between man and nature, rather than the traditional Christian belief that nature must serve man."

How does one react then to a phenomenon like Bernie Madoff? Does it not represent the corrosion of moral values in the marketplace? Not quite. The payoffs from corner-cutting, indeed outright theft, have been so huge in the financial sector that those who are crooked are naturally drawn to such scheming. The financial markets did not produce Madoff's crookedness; Madoff was almost certainly depraved to begin with.

Then again, in contradiction of the claim that markets undermine morality, there is also a substantial and fascinating literature, as illustrated by the writings of the sociologist Allan Silver (1997), which argues ingeniously that markets enhance morality. Silver has argued that the impersonal relations in the marketplace replaced the personal relations of the earlier society and polity; and that the moral quality of personal relationships which had earlier been oriented to calculation and interest was now enhanced because it was now freed from practical necessity, calculation, and the anxieties of betrayal. In this view, the oft-repeated notion that *The Theory of Moral Sentiments* should be regarded as a "corrective," and a supplement, to *The Wealth of Nations*—that "capitalism requires morality"—is incorrect. Rather, the former work describes the morality that Adam Smith's "commercial society" of impersonal transactions brings about.

Again, it is interesting to observe that John Stuart Mill (1848) argued for a favorable moral impact from markets via the freeing of international commerce (which, in fact, was also central to the evolution of Economics since anti-mercantilism was at the heart of *The Wealth of Nations*, and indeed to John Locke's earlier writings). Thus witness his forthright argument:

> "The economical advantages of commerce are unsurpassed in importance by those of its effects, which are intellectual and moral. It is hardly possible to overrate the value, in the present low state of human improvement, of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar … There is no nation which does not need to borrow from others, not merely particular arts or practices, but essential points of character with which its own type is inferior … It may be said without exaggeration that the great extent and rapid increase in international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race."

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