Chapter 1
Economics as a Moral Science

§1.1 ... as a Moral Science

The title is deliberately archaic. Long ago in the University of Cambridge a Moral Sciences Tripos was set up in parallel with the Natural Sciences Tripos. The latter still survives, giving undergraduates who want to be scientists a wide grounding in many different sciences before specialising in any one. With the Moral Sciences, however, which originally included History and Law, the different disciplines successively decamped to be studied on their own, until only philosophy was left, somewhat misnamed. Although there are advantages in separation and specialisation, there are disadvantages too: one reason for talking about the Moral Sciences is to focus attention on common themes and methods of argument, which distinguish disciplines concerned with human affairs from those concerned with natural phenomena.

Economics is concerned with human affairs. In order to understand it, we need to be able to exercise humane insight into men's motives much as we do when seeking to understand the motives of historical agents or to enter into the mind of fictional characters.We also need to set it in its human context. Unlike his portrait as *homo economicus*, Economic Man, a real economic agent has a wife, children, colleagues, friends, commitments, hobbies, which circumscribe his options and influence his behaviour. To understand economics properly, we must study it not in isolation, but as one aspect of human activity interpenetrating and interacting with many other aspects.

These may seem peripheral concerns, but they are of central importance. Traditional economics has abstracted from the messy complexity of human affairs some crucial features, and developed a rigorous system, deducing from a few premises a whole range of conclusions. Unfortunately, though the reasoning is reasonably rigorous, the premises are not true. The conclusions, though interesting

and sometimes illuminating, are not true either, and economists' forecasts have a poor track record. Taking a wider view entirely alters the subject. Economic Man disappears, and with him many of the maxims economists take for granted. It ceases to be rational always to maximise one's profits—indeed, on occasion it is *ir*rational to try to do so. The social responsibility of business is not, *pace* Milton Friedmann,[1] just to increase its profits, and may in some circumstances be to forgo increased profits in order to discharge other responsibilities. A company's job is not, *pace The Economist*,[2] simply to make money for the shareholders legally, but in making money to observe some social as well as legal obligations. The economist who studies economics in isolation from its context in human affairs generally, makes the same mistake as the lawyer who studies law without regard to the moral and social context in which law operates. The narrowed focus of specialisation seems to offer clarity and rigour, but the clarity and rigour actually provided turn out to be spurious, yielding a distorted view of the subject often at odds with reality. Each aspect of human behaviour needs to be studied as *an* aspect, taking its place among other aspects. In the case of economics, what is required is a complete re-think, jettisoning many of the concepts, and modifying most of the arguments currently accpeted by orthodox economists.

There is a second reason for reviving the term 'moral science'. 'Moral' is used in an older and wider sense of the word, which is derived from the Latin *mores*, customs—or more generally the whole spirit that inspires a pattern of behaviour, as in the French word *morale*. In modern English the word 'moral' has been narrowed to apply only to estimable, disinterested behaviour, and is often contrasted with 'prudential'—an important sense (at present we are much concerned with unestimable, interested behaviour of some economic agents), but too narrow to carry the whole weight of argument. Only if we set economics in its wide human context, can we discuss moral issues in the modern sense.

The term 'Moral Sciences' in the title is, thirdly, a tribute to Lord Keynes. He often said the economics was a moral science, protesting against the mathematical abstractions which occupied the attention, and distorted the thinking, of his contemporaries. Although I shall have occasion to question his concepts and

[1] Milton Friedmann, *Capitalism and Freedom* Chicago, 1962, p.139.

[2] January 22nd, 2011, p.14.

criticize his arguments, or those foisted on him by contemporary economists, I none the less salute the man who did most to rescue our economies from the economists.

Many apologies are due. First to Keynes himself. He was always ready to change his mind when the facts changed. He was writing at a particular time, in a particular context, and addressing contemporary problems: Many of the doctrines associated with his name are ones he probably would have repudiated, had he still been alive when they were put into practice. But his is the name that is invoked by modern politicians to defend their policies, and it is the doctrines associated with his name that most need to be criticised. Many economists, too, are guiltless of the beliefs I attribute to them. Many are critical of various aspects of Keyneseianism, some have criticized rational expectation theory, some have been sensitive to the social and moral context in which economic decisions are made. Nevertheless there is a core of sloppy thinking in the back or the minds of politicians ans businessmen that needs to be exposed and criticized. Stereotypes, though unfair, are pervasive and important. I use them freely. et me apologize in advance to women who earn money, men who do the shopping, Americans, Frenchmen, Members of Parliament, Bureaucrats, Bankers, businessmen, Financiers, Stockbrokers, and all the others lumped together as I passed them by.

I use stereotypes freely, because my concern is with the often unconscious presuppositions and concerns of our everyday thinking. Because we presuppose them all the time, we take them for granted, and are unaware of them and their influence on our reasoning. But it is there that many of our worst mistakes are made. If we are to think clearly about our present economic situation, we must first clear the ground by ridding ourselves of the background fear that human beings are simply automata. responding to external stimuli according to iron laws of natural necessity, and accept that we are decision-makers capable of making up our own minds for ourselves. The logic of deliberation is different from the causal calculation of the natural scientist, These will be the topics of the two remaining sections of this chapter. In Chapter 2 the structure of decision-making will be discussed: the leading configurations which arise as the different consequences resulting from the decisions of different decision-makers bear on the decisions it is rational for each of them to take are revealed by the Theory of Games. This exposes the fundamental *irrationality* of "Rational Expectation Theory", which

has led many people to suppose that it is sensible always to seek the most for oneself. Often, instead, it is better to cooperate, but cooperation may be difficult to achieve, unless there is some way of transferring benefits, and in Chapter 3 it is shown that the fundamental rationale for the institution of money is that it provides a means of transferring benefits.

Much follows; in Chapter 3 the underlying logic of money is worked out, and in Chapter 4 the resulting nature of our moneyed society and the crucial importance of liquidity and trust. In Chapter 5 the consequent dangers of of boom and bust are considered, and the nature of Employment in Chapter 7, the relation between law and economics in chapter 7, and conclusions and their bearing on contemporary problems in Chapter 8

> The devil lies not only in the detail, but in the background assumptions, often unconsciously taken for granted.

§1.2 Natural and Social Sciences

The natural and social sciences are uneasy bed fellows. The immense success of the natural sciences has engendered a widespread belief that they explain everything, and leave no room for any other understanding of human behaviour. Granted the antecedent state of the universe and a complete system of natural law, the bodily movements of men's limbs and lips must be what the laws of nature together with the antecedent circumstances imply. No other independent explanation is possible. And since the behaviour of the agent is necessarily determined by conditions obtaining before any possibility of his making an autonomous decision, he is not able to do otherwise than he did, and his decision is not free, and he is not really responsible.

Against this are two powerful arguments: one from quantum mechanics, the other from Gödel's Theorem. Quantum mechanics is fundamentally probabilistic. It enables us to predict only what is likely to happen, not what is certain to happen; and the brain is sensitive to differences within this area of uncertainty.

Natural phenomena are *not* completely governed by natural laws; we cannot trace out the exact course of development of the universe, granted complete information of its state at any one time.

We can, of course, make some predictions, but not about everything. We can, to a high level of accuracy, predict the future positions of the planets round the Sun, but not everything that goes on in them; for, in spite of the indeterminism of the fundamental physics, we can still make predictions if we shift the focus of attention, and concentrate on the wood rather than the trees. Although we cannot predict the kinetic energy of each particular molecule of a gas, we can reliably predict the kinetic energy of the *ensemble* of very many molecules. It is like a turbulent stream—we cannot predict what any bit of the water will do, but can safely say that there will be eddies. We cannot detect any pattern at the lowest level of the inter-acting quantum mechanical systems, but a chemist can be fairly sure that there will be stable configurations that he will recognise as atoms, and the biologist will be able to recognise organisms as specimens of different biological species.

Reductionist philosophers have held that all higher-level concepts can be reduced to lower-level ones; that is, that biological concepts can be completely and exhaustively defines in terms of chemical concepts, and similarly chemical concepts in terms of physical concepts. Such claims are vigorously contested by many practitioners of the higher-level sciences, and few reductive definitions have been put forward, and even fewer not found to be manifestly inadequate. But that is not enough to prove that adequate definition will not be forthcoming in the fullness of time. Such a hope, however, cannot be maintained as a general principle. Tarski's Theorem proves that the concept of truth cannot be adequately defined in First-order logic (the logic that a computer can be programmed to do). Not all concepts, then, can be defined in simple terms. And if, as human beings we have a concept of truth, no computer can be an adequate representations of us. Close argument establishes, using Gödel's Theorem rather than Tarski's, that no Turing machine (an idealised version of a mechanism programmed like a computer) can be an adequate representation of an ideal human mind, for a human mind can always do something the Turing machine cannot.

It is often objected that neither of these arguments *proves* that the will is free. That is true. What these arguments do is, in Professor Plantinga's phrase,[3] to defeat the defeaters. We start

[3] Alvin Plantinga, *Warrant and Proper Function.* Oxford University Press, New York, 1993, pp. 40-42, 216-37.

with an intimation of freedom. We know we are free, and are tempted to say, with Dr Johnson "Sir, we know our will is free, and there's an end on it", and cut off further argument, But we do not. Instead, we listen to those who argue otherwise. Having heard their arguments, which purport to defeat our intuitive conviction that we are free, we bring forward the two arguments above, which defeat the defeaters, and leave our original intuition unshaken and in possession of the field. It is a dialectical argument, which enters into dialogue with the other side, giving the respondent opportunity to make his case, and on the basis of what he says, refuting his contention.

These arguments are complex and controversial. this is not the place to deploy and discuss them in detail.[4] They are summarised here simply to show that, despite appearances, the natural and social sciences can bed down together each giving its own perspective on the world without undermining that given by the other.

The perspectives are different. The natural sciences are based on the uniformity of nature. Natural scientists presuppose some principle of limited variability which entitles them to characerize phenoena precisely enough to warrant definite definite conclusions being drawn from the available evidence. Human affairs, by contrast, are not uniform, but, like human beings, complex. We can characterize them, but cannot count on completely characterizing them by any limited number of features: however far we go, there is always the possibility of a further factor entirely altering the situation. We can generalise, but our generalisations hold only for the most part, not absolutely. What we can do when thinking about human affairs is to imagine ourselves in the position of the agents, and consider how we might have acted or been inclined to act, had we been in their situation. In the social sciences we can empathize, whereas in the natural sciences we cannot. Empathy makes up for the lack of uniformity and simplicity. Of course we may empathize wrong: our experience may be too limited, our depth of understanding too shallow, for us to enter into the mind of another man, perhaps brought up in an alien culture far away and long ago. Even our neighbours we sometimes misunderstand. But natural scientists also make mistakes, and more often are unable

[4] For that, see J.R.Lucas, *The Freedom of the Will,* Oxford, 1970. and Roger Penrose, *The Emperor's New Mind*, Oxford 1989, and *Shadows of the Mind*, Oxford, 1994.

to reach any conclusion. Neither approach is infallible. But each in its own sphere yields some understanding and illumination, and enables us to deal with the world in which we live, and our fellow human beings among whom we live.in

The logic of the social sciences is, thus, different from that of the natural sciences. The logic of the natural sciences seeks unassailable correctitude. It is monotonic: conclusions established on the basis of well warranted premises cannot be impugned by any further premise; if P and Q imply S, then so do P and Q and R. This means that we do not have to take special notice of the whole picture; the whole is only the sum of its parts, and if only a selection of the parts is enough to yield the conclusion we want, we need not search further. Such an approach is appropriate in some disciplines, but not in the practical disciplines involving judgement about what ought to be done.[5]

Deciding what to do is our chief exercise of rationality as human beings. We have to size up the situation and reach a decision in the time available, which may well be short, not giving us opportunity for lengthy deliberation. We jump to conclusions, which, given the opportunity for further thought, we may come to recognise as being flawed. Even when not pressed for time, we may arrive at conclusions, which on second thoughts, we want to revise. New factors may have come into play, or we may have overlooked some circumstance, or failed to register the significance of some feature. Even on mature reflection after full deliberations, we acknowledge that our judgement is not a final verdict, but only provided other things are equal, and always open to a further 'but'. The logic of the social sciences, in consequence, is holistic and tentative, not monotonic and conclusive. It is a logic of proposals and counter-proposals, of suggestions, objections, and rebuttals of objections, of weighing considerations *pro* and *con*, trying to balance them and arrive at tentative conclusions, which are accepted *ceteris paribus,* "other things being equal", but still open to reconsideration in the light of further factors.[6]

[5] Roger Penrose, in *Shadows of the Mind*, 1994, Oxford, p.148, has a telling cartoon of a stone-age mathematician busy constructing a geometrical proof in the sand, unaware of a sabre-toothed tiger stalking through the trees behind him.

[6] See W.D.Ross, *The Right and the Good*, Oxford, 1930, pp.19-20; and H.L.A.Hart, "The Ascription of Responsibility and Rights", *The Proceedings of the Aristotelian Society* **49**, 1948, pp.171-194; reprinted in A.G.N.Flew, *Logic and Language* I, Oxford, 1951, pp.145-165.

social certainty is less certain than the absolute certainty of the mathematician and the physical certainty of the natural scientist, but is all that is attainable by students of the humanities. It is not just that we are easily mistaken in our efforts to understand others. People always can change their minds; sinners can repent, and stalwarts of morality yield to sudden temptation. Often we can be as sure as the subject matter will permit, but we cannot obtain absolute assurance, nor should we seek it. Instead of cast-iron certainty, we should be content with as much certainty as the subject matter permits. Different disciplines often have their own rules of procedure and their own standards of cogency: lawyers often cut short arguments of expediency or sociality with a curt "That is not the law". Legal argument is restricted in its scope, concentrating on statutory enactment and previous precedents. Historical argument assigns a much lower degree of cogency to imaginative reconstruction than literature allows. There is a trade-off between a firm decision-procedure giving, for the most part, definite answers fairly rapidly, and full sensitivity to all the relevant factors. Since a full appraisal is always vulnerable to a further factor, we achieve invulnerability by ruling out possible further factors as irrelevant, thus opening up a possible rift between the well-established conclusions of recognised procedures and our intuitive sense of what is really right or true.[7]

Natural and Moral Sciences

	Natural Sciences	Moral Sciences
Subject	Impersonal Reality	Individual Persons
Explanation Sought	Causal Regularity	Intuitive Understanding
Watchword	Nature is Uniform	People are Different

[7] See further below, §8.1.

In brief, the social sciences differ from the natural sciences in the mode of understanding and their schemata of explanation. People are different and they do different things: but they are sufficiently similar for us often to be able to ascribe intentions, motives and reasons from the behaviour we can witness and the words we can hear or read.[8] Whereas the natural scientist deals with uniformities and causality, the social scientist deals with many different centres of initiative, and seeks to understand an action by projecting himself into the agent's shoes and seeing things from the agent's point of view.

§1.3 The Moral Sciences

Greater specialisation has obvious attractions and real advantages, but also disadvantages, not so readily recognised. In a court or a moot the lawyer who can cite more cases is likely to win. The historian who has read more episcopal rolls, more manorial records, more wills, is likely to be able to puncture his colleague's airy generalisation with a telling counter-example. The tutor in ancient history may grudge the time his pupils have to spend on philosophy, and reckon it would be better spent reading more inscriptions or more historical texts. In each case the argument for spending more time on the special subject is strong. But there are arguments on the other side. To attend to one thing is to disattend to others. Mastery of every detail may be at the expense of not noticing the obvious. Contrary to much modern opinion, most academic disciplines are not autonomous, and are not isolated from other

[8] Although reason cannot be exhaustively characterized in terms of rules, it does manifest a sort of uniformity: see J.R.Lucas, "The Lesbian Rule", *Philosophy* , 1955, pp.195-213. and Roger Penrose, *The Emperor's New Mind*, Oxford 1989, and *Shadows of the Mind*, Oxford, 1994; and J.R.Lucas http://users.ox.ac.uk/ jrlucas/Godel/implic.html §VIII,
or http://users.ox.ac.uk/ jrlucas/Godel/implgoed.html *ad fin*. There is a faint parallel with the physists' distinction between invariant features and covariant correlations (discussed further in §2.4, p.29. Scientists sometimes acknowledge the different canons of rationality appropriate to the Moral Sciences, but believe that the uniform—invariant—observance of rules is *au font* better. But Gödel's Theorem proves the opposite. Reason often follows rules, but cannot be exhaustively characterized in terms of rules alone. See below, §8.1.

disciplines. The law does not operate in a vacuum, but in a social and moral context, and social and moral considerations may on occasion be highly relevant to legal decisions. History is not just the record of what happened, but is a record told by someone to someone else, and what is told is shaped by the interests and insights of the teller and the supposed insights and interests of his hearers or intended readers. Modern historians read the records written by their predecessors, but write their own work differently, sometimes bringing to bear insights that had not occurred to an earlier generation, and addressing contemporary readers who have concerns different from their forebears. Different nations have different stories of how they came to be what they are, of the struggles their ancestors had to fight, the sufferings they endured, the successes which enabled them to overcome adversity and bring them triumphantly to their present state. Such narratives may be impartial in admitting errors, failures and wrongdoing, but still partial in their focus, in what they select and what they leave out, largely influenced not by what is to be found in the historical sources, but by philosophical presuppositions and intellectual concerns of the writer and his contemporaries, and the interests of his intended readers.

It is difficult to articulate these influences that guide our thinking at a fundamental level. But that degree of articulateness is required if a lawyer is to appreciate the moral content of a legal principle, or a historian to enter into the mind of an agent long dead, and to understand, or pass judgement on, his actions. Just as we fail as historians if we simply apply our own standards without taking account of the very different world in which he lived, so we fail also if we pose as being non-judgemental, again taking no acccount of the world in which he lived, and its aspirations towards objective moral standards.

Academics need to be generalists as well as specialists. Although it is good to know all there is to be known about some topic, it is better to be not always disattending to extraneous insights, some of which may illuminate one's subject in new and fascinating ways. Some of these insights may come from ordinary life or the study of related disciplines, but it may help to provide a systematic general study of the moral sciences. The study of economics can benefit too. Economic transactions, like legal transactions, do not take place in a vacuum, but in a social and moral context, and social and moral considerations may on occasion be

highly relevant to economic decisions. Although arguments for the autonomy of law and of economics can be adduced, and need to be met, the obvious fact is that those engaging in legal or economic transactions are human beings, and are moved by human motives and aspirations, bringing to bear on their appreciation of the situation they are in, an understanding of other people similar to that which they employ in other walks of human life.

Most economists, however, have abstracted from the complexity of human motivation, and have considered the behaviour of an ideal rational maximiser, possessing perfect information, buying in the cheapest and selling in the dearest market. Their approach has a down-to-earth appeal, of not taking account of airy-fairy notions of justice and fair play, much as legal theorists sometimes maintain that the law is what the bad man gets told by his solicitor. In each case there is a grain of truth in the no-nonsense approach. Bad men exist, and are one of the reasons why we have to have laws to coerce them. Similarly the harsh things told to the potential bankrupt by his accountant are facts of life that must be attended to by anyone wanting to understand economic affairs. But the understanding is partial, like that of the anatomist who can tell every bone in the body, but knows nothing of the muscles that make them move. Worse, the understanding is skewed. Just as lawyers who claim that the law is autonomous and completely separate from custom and morality, present a serious misdescription of the phenomenon of law,[9] so economists err who abstract from the manifold motivations and activities of ordinary life to present *homo economicus*, Economic Man, and give us a parody of what really goes on.[10]

1. Economics is not autonomous.
2. Economics must be understood in context.
3. Economic decisions do not have to be taken without regard to social context and responsibilities.
4. Economic Man is a fiction—sometimes illuminating, often misleading.

[9] See below, §7.4.

[10] See below, §3.5.