

Chapter 8

Themes and Conclusions

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§8.1 Freedom and Reason

Economics should be studied as a Moral Science, because it is only in its social setting that it can be properly understood as one aspect of the cooperative activities of different agents who have other things to think about, pursue other goals, and cooperate in other ways. Again and again assumptions have been accepted, which set against a more distant background are seen to be false, and inferences drawn, which surveyed in a wider horizon are evidently fallacious. We cannot obtain purchase on contemporary disputes, unless we go beyond the confines of orthodox economics. Many people take it as obvious that a firm should not seek always to maximise its own profits, but should take into consideration the wider implications of its decisions for society, while others will dismiss concern for “stake holders” as sentimental wool-headedness, suitable for spinsters but not relevant to the real world of business. We need to articulate fundamental themes and the inherent tensions between and within them, so as to bring into the open the different attitudes of mind that lead people to accept or reject different principles and different forms of argument. The devil is not in the small print, but in the large-scale scene.

The two fundamental themes are those of Freedom and Reason. which together establish Conjugation is anchored in the agent’s actual first-person singular present-tense actions. I am the person to make choices. The present is always, for those living in it, the most important time. the actual is real, the possible merely hypo-

ago, ergo ego

thetical.¹ There is therefore an essential streak of egocentricity in all the Moral Sciences, which are concerned with the actions of agents, who are independent centres of initiative, free to make up their own minds as they think fit. But this egocentricity is balanced by the consideration that it is irrational to ignore completely other persons, other times, other moods. Anchored though I am in the one and only me, active in the actual world now, I can only float in a sea of other people, other possibilities and persisting in times other than the present.

amo, amas, I love a lass:
but it would be unrequited love unless *te amat*,
and it would be fickle if only for now,
and it would be unreal if only in my dreams.

We empathize with other people. We need to because they are different: we can, because they are, necessarily in some respects, the same. Our differences stem in part from the nature of agency. Agents are different if it is possible for them to differ about what should be done—that is there is some value they do not both espouse; and they will be seen to be different if this is not a bare possibility, but on some occasion actual. Hence different agents will sometimes act differently, manifesting different values. But though they cannot share all possible values, they must share some actual ones. Each agent, unless in some pathological state of morbid despair, must care for his own future ability to act as he thinks best. Human agents, with their biological inheritance of genetic similarity and endowed with different natural talents, share much and differ much. They share not only genes and upbringing with their families, but find fellowship with other groups in wanting to play cricket, or go fishing, or play music, or worship God, or understand quantum mechanics. This is why we can, very roughly and imprecisely, arrange values in an ascending order, from basic ones we all share to higher ones, sometimes of intense concern to some individuals but meaning nothing to others.² It follows that

¹ Grammarians show sound philosophical sense in citing *amo moneo rego audio* and the like by their first person singulars.

² Compare interests discussed in §2.7 above.

fellow feeling is strongest in adversity: we all wanted not to be subjugated by Nazis, but once peace came began to squabble over who should get what. Politicians sometimes seek to set up a common enemy to keep the people united behind them as they confront the common foe and commentators lament the way that good times seem to bring out the worst in us; but it does not have to be so. We often reason about what values to adopt, and although we shall never completely agree about them, we may come to agree more and more about those that matter most. In any case reason helps us to understand the issues better, and frees us from vain idols and false assumptions. It has shown us that if people are free and have minds of their own, it is possible and sensible to consider decisions and events from the different points of view of the different individuals involved. If reason is properly understood, we can appreciate why people act, and then work out what it is reasonable for us to do. In particular we realise that it is not reasonable to have a policy of always maximising. and that it is not only possible, but necessary, to consider decisions and events from the different points of view of the different individuals involved. These are hard-nosed arguments against hard-nosed Rational Expectation Theory, which clear the way to thinking widely, deeply and sensibly about economic affairs. Reason cannot destroy the original Adam's urge to be his own master, and have his own way, but it can lead him to share many values, and be reasonable about those that differ.

§8.2 Reasonableness and Rules

Gödel's theorem was deployed in defence of Freedom³ It also illuminates the nature of Reason, showing that Reason is not merely the following of rules, but stems from a basic Reasonableness, which is more than any set of specified reasons. Many thinkers have construed *being reasonable* as *being in accordance with a rule*; and in modern times logicians have set out to formalise *reason* in terms of *rules of inference*. But in First-order Logic or any algorithmic formal system—the sort of formal logic that a computer can be programmed to do—which is strong enough to do simple arithmetic (*i.e.* one in which the operations of counting, adding and multiplying can be carried out) Gödel's theorem shows that there are well-formed formulae that are evidently true, but cannot be proved by means of the system's rules of inference. That is, there

³ See above §1.2,

is an evidently valid inference not validated by the rules laid down. Reason cannot be completely defined in terms of rules.

Rules are none the less important. They are characteristically clear and definite. Even in our disagreements we can usually agree on what the rules are. You and I may disagree about whether some proposition is true, but can each tell whether it has or has not been proved in First-order Logic. Moreover, it would seem that some sort of rule-observance was inherent in reasoning. Reason is universal, and bids us treat like cases alike. If we recognise some inference as valid, we should allow that any similar one is valid too. If Gödel's theorem shows that the Gödelian formula is in any one case true, then we should recognise that it does so in all similar ones, and formulate an extra rule to validate this inference. This we can do, but then there will be some further Gödelian formula of the strengthened system which cannot be proved in the strengthened system, but is evidently true; so there is a further inference not validated by any rule in the strengthened system, but evidently valid none the less.⁴ We can repeat this manoeuvre *ad infinitum*, and beyond into the realm of transfinite numbers, but however many extra rules of inference we add, there still will be further valid inferences not yet included. Although we ought, indeed, to treat like cases alike, we cannot specify exactly all the respects in which other cases are to be accounted alike.

It might seem that this account deprived the demand for universality of all content. Indeed, some philosophers have held that value-judgements are intuitive assessments of particular cases, analogous to perception. But that is perverse. I cannot say that Tweedledum is good, and Tweedledee is bad, and then, when challenged, simply say that I perceive in Tweedledum, but not in Tweedledee, the property of goodness; I must cite some property, characteristic, action, or feature, that one of them does, and the other does not, possess to justify the difference of judgement. The requirement of universality should not be formulated in the rigid canon formulated by Kant: "Act only on that maxim which you can at the same time will that it should become a universal law."⁵ and followed by many modern philosophers as a requirement for the

⁴ See 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.*

⁵ it Groundwork for the Metaphysics of Morals 2nd ed. p.51/421, tr. H.J.Paton, *The Moral Law*, London, p.88.

reasonableness of value-judgements and attributions of causality,⁶ but by the line of argument suggested by the challenge above, that discrepancies in judgements must be accounted for by showing that there was some relevant difference between the two cases.⁷ Instead of there having to be a rule that precisely specifies all the cases that are to be treated alike, it is required only that relevant differences can be cited to justify differences in treatment.⁸ In terms of a dialogue there is a shift in the burden of proof. Instead of my having to cite antecedently specified rules to justify my judgement, leaving you free to pick holes in it, I wait for you to suggest somewhat similar cases I might well judge differently, and it is up to me to show that they are not really similar, because there is some relevant difference between them. The requirement of universality remains: but instead of a rigid requirement to satisfy some antecedent formulation of uniformity, it can flexibly accommodate the particularity of the individual case, while still requiring that value-judgements are not arbitrary, but do depend on the facts of the case. Aristotle's word ἐπιείκεια (*epieikeia*) catches the sense of something general being applied to a particular case.⁹

Reason
(i) inexhaustible

Although reason does manifest a sort of uniformity, it cannot be exhaustively characterized in terms of rules alone. It is possible, in

⁶ See, for example, R. M. Hare: *The Language of Morals*, Oxford, 1952, pp. 52, 129-133, 156; P.L. Gardiner, *The nature of historical explanation*, London, 1952.

⁷ P.H. Nowell-Smith, *Ethics*, Harmondsworth (Penguin), 1954, p. 309.

⁸ Logicians will see this as a switch in the order of the universal and existential quantifiers, (\forall) and (\exists); Thus though it is false to say that there is a number greater than every other number, it is true that for every number there is another number greater than it.

⁹ It is standardly translated as 'equity', which has become a legal term. In *Philippians* 4:4 a similar word is translated in the Authorised Version as "moderation"; sometimes wares are advertised as "reasonable", by which is meant that they are moderately priced and not too dear. For a fuller discussion, see J.R. Lucas, "The Lesbian Rule", *Philosophy*, 1955, pp. 195-213.

Plato's terminology, to possess reason, *λόγον ἔχειν* (*logon echein*), without being able to give one's reason in words, *λόγον διδόναι* (*logon didonai*). Reason needs to be unconfined by rules, not *κατὰ τὸν ὀρθὸν λόγον* (*kata ton orthon logon*) but still *μετὰ λόγου* (*meta logou*), "Not according to the correct rule but still with reason",¹⁰ in order that we can take on board everything about the situations we find ourselves in, so as to respond to them adequately. It is unwise not to allow oneself to notice the approaching sabre-toothed tiger, as one concentrates on proving a theorem.¹¹ And generally in all our thinking we need to be alert; rules may need to be observed, but still we should look around and survey the whole scene to see if there are any further factors we should take into consideration.

Reason

- (i) inexhaustible
- (ii) holistic, and so cumulative

Rules arise not only from the universality of reason, but from our necessary ignorance of other men's intentions. Since other people are initiators of action, free to make up their own minds independently of me, we need rules we all abide by, in order to coordinate our actions, so as to avoid bad outcomes.¹² Most important are the rules of language. They enable us to coordinate our activities, by sharing our reasons. We are under pervasive pressure to

Reason generates rules, though never completely subject to them
But Rules needed:

- (i) when we cannot know what others are going to do
- (ii) when teaching, or instructing those with lesser grasp

engage in dialogue and articulate our reasons; and it is good to do so to the best of our ability, remembering that we cannot always articulate all the reasons that weigh with us, and so should not attempt to cut down reason to what can be explicitly formulated. If I fail to spot a relevant consideration that tells against me, you

¹⁰ Aristotle, *Nicomachean Ethics*, Bk.VI,I3,5, 1144b1-45.

¹¹ See above, §1.2, p.5, fn.3.

¹² See above, §2.3, pp.22ff.

will point it out, and contrariwise, as I try to overcome your doubts about the strength of my case, I will cast around for any further factor that I can adduce in its support. There always may be one when people are involved, because they are of infinite variety, as poets have long proclaimed, and now can be argued for prosaically from the ability of the human mind to reflect upon itself and its workings.¹³

Reason

- (i) inexhaustible
- (ii) holistic, and so cumulative
- (iii) dialectical

The dialectical structure of reasoning in the Moral Sciences¹⁴ stems from the infinite complexity of human beings together with the need reason has for rules coupled with their inability to articulate it exhaustively. Its practical conclusions are great.. It shows that we should respect rules, but not worship them. They may be necessary, and it may be important that we follow them exactly, but the question whether they are really necessary needs to be asked, and if they are not, they should be framed as guide-lines rather than rigid rules, and should leave room for individual judgement. The French principle of subsidiarity, that decision-making should be devolved to the lowest practicable level is a good one. It shows trust and enhances the esteem of the lowly, increases their sense of responsibility, and often results in better decisions being made.

¹³ Dedekind showed that self-reflection leads to infinity: and, in the opposite direction, an infinite sequence of counting numbers is assumed in Gödel's theorem.

¹⁴ See above, §1.2, pp.5ff.

§8.3 The Value of Money

Money is valuable, because it serves a social function. It verges on being a self-sustaining confidence trick, but is so valuable socially, that a currency goes on being used, like the Somali shilling, unless and until it is obviously worthless.¹⁵ We do not ourselves ask why a £5 note or a dollar bill is worth anything, because it is enough for our purposes that other people think it is, and will accept in return for doing something for us. So long as the question is not being asked, it does not need to be asked. But if there is a widespread breakdown of trust, due to a general perception that the issuer is untrustworthy, we cease to be confident that others will remain confident of the acceptability of the currency by yet others. The travail of the Euro, with the prospect of sovereign default, the inability of the American political system to achieve a balanced budget, and widespread quantitative easing, are making people wonder whether any currency is really a secure store of value. And so now the fundamental question, “Why is a £5 note, or a dollar bill, really worth having?” is beginning to be insistently asked. A £5 note promises on behalf of the Bank of England to pay the bearer Five Pounds; what does that mean? What in the last resort makes that or a dollar bill worth having?

In time past many banks used to issue their own notes; in Scotland they still do. In the early Nineteenth Century such bank notes flooded the United States, until Congress passed a law requiring all taxes to be paid in US currency. That made the difference. The tribute money has value, because it is what has to be rendered unto Caesar. We have to pay taxes. The ultimate reason why I, a Briton, can regard a dollar bill as worth something, is because there are a lot of Americans who have to pay taxes, and need dollars to pay them with.

Even so, there is room for rational distrust. Throughout the ages sovereigns have debased their currencies; Mr Mugabe inflated his currency into worthlessness, as did the Weimar Republic between the wars, and now it is regarded by many as the economically correct thing to do. As national governments forfeit financial trust, so confidence in the currency ebbs. The dependence of currencies on national governments is unhealthy. It was a merit of the gold standard that the value of sterling did not depend on the

¹⁵ See above, §3.2.

fiscal rectitude of Mr Gladstone and other Chancellors of the Exchequer, but on the judgements of innumerable traders in all parts of the world. Bad judgement, or arbitrary misbehaviour, on the part of any single person, would have negligible impact, and would do little harm. Paper currencies are more precarious. They depend on responsible government, and responsible government is in short supply.

We may hope that the pressure of rationality will nudge governments into fiscal responsibility, though we have long been warned not to put our trust in princes. But other grounds for hope are beginning to show themselves. Although our confidence in the pound, the dollar and other national currencies, depends at present on the ability of national governments to extort taxes, and is likely to remain so for the foreseeable future, the idea of a minimally coercive State prompts us to query the absolute need for coercive enforcement.¹⁶ All that is required is that there should be a large body of people who wanted to buy the currency in question. Suppose the Pope magnified the practice of Peter's Pence, and required all loyal Roman Catholics to use only specially minted Peter's pennies for collections in church: Peter's pennies would be much in demand, and would therefore be tradeable currency. Since there were money-changers in the Temple, some such practice must have obtained in Jerusalem in New Testament times. We should not need to be compelled to render unto Caesar the money that is Caesar's, if we were ready anyhow to contribute our due to God—or to some other worthy cause.¹⁷

Such speculations are not practical politics at present, but to pursue them further casts illuminating light on the nature of money, and what we may hope for in time to come.

¹⁶ See above, §7.3; see also §7.4 for enforcement not being an absolutely necessary condition for effective adjudication.

¹⁷ Including Mammon; see next Section, p.177.

§8.4 Optative Economics

Many thinkers and visionaries have imagined an ideal world in which we should be free of all the travails and injustices of economic life, a paradise in which we could buy milk without money and jewels without price. It is easy to mock. Isaiah's vegetarian lions lack plausibility. But optative ethics, though unrealistic, is important. The unrealisable superlative shows the direction of the feasible comparative. And sometimes contemplation of an unrealisable ideal helps us to realise that we would not want it anyhow. Even my sweet tooth might become satiated in a land flowing with milk and honey. In a world of plenty, economics could not be about scarcity, and as we contemplate it, we are led to understand that it is about choice and cooperation rather than competing for possession of material goods.

Optative economics is much derided—
but much practised.

Economics is non-tuistic,¹⁸ not in the sense that I necessarily do not share all thy values, but that I do not have to. It thus widens my opportunities of cooperation. I can collaborate not only with my family and friends, but with strangers and foreigners on the basis of a limited range of values held in common; and the money they give me enables me to exercise choices unfettered by family preferences or neighbours' tastes. My horizons are enlarged, my ego is boosted. But that does not necessitate my living an anonymous life, devoid of all human ties and obligations.

Is it a good thing to enlarge my horizons and boost my ego? Many have denied it, and urged me not to survey the distant scene, but be content with just one step, and to deny myself, and practise complete selflessness. But am I never to lift up my eyes to the hills, and to impose on my neighbour a selflessness similar to that which I impose on myself? If we are to live life abundantly, we need to expand our aspirations and achievements for ourselves and for others alike. Besides the negativity evident in our moral tradition, there is another, much more positive, strain. Much of the negative strain can be understood either as limited counsels of prudence, or as justified protests against the immoralism in standard expositions

¹⁸ See above, §4.1.

of economics. I do need to keep my feet on the ground. It is dangerously easy for me to decide that because I am idealistic, others will be also. We need to have ideals, but tempered by strong dose of realism. And although selflessness is an affliction of the moral mind, selfishness is an endemic illness. The chemotherapy needed to combat cancer of the ego can have bad side effects. We need to counter them, but not to abandon the treatment of the main disease. I am appalled and affronted to be told to think of myself as an Economic Man, devoid of all motives save that of making profits, and having nothing in common with any of my fellow men. I am against the selfishness that Ruskin read into Mill's "In all reasoning about prices, the proviso must be understood, 'supposing all parties to take care of their own interest.'"¹⁹ and am ready to agree with him that we need examples of people, who, leaving Heaven to decide whether they are to rise in the world, decide for themselves that they will be happy in it, and have resolved to seek, not greater wealth, but simpler pleasure; not higher fortune, but deeper felicity; making the first of possessions self-possession; and honouring themselves in the harmless pride and calm pursuits of peace.²⁰ We should not be snooty about people wanting to better themselves, and should allow that some people should use their talents to do what other people are prepared to pay for. But it is neither the only nor a complete path to betterment. Although, as we have seen,²¹ economic activity characteristically leave those engaged in it better off, they are likely to be even better off if the cooperation involves no transfer of money. The alternative to paid employment is not just holidaying in France, but engaging with fellow-workers in all manner of worthwhile activities: in running youth clubs for the young, shelters for the homeless, or soup kitchens for the hungry; or taking part in choirs, concerts, amateur dramatics, art groups, or book clubs. In all these and many other ways people cooperate, and in addition to bringing about desired outcomes, enjoy a fellowship uninhibited by pecuniary considerations. Economic activity provides economic betterment, which is all Economic Man desires: but no real man is an island. I can only

¹⁹ J.S.Mill, *Principles of Political Economy and some of the applications to Social Philosophy*, (ed. in 2 vols. Parker, 1848) III,i,5.

²⁰ John Ruskin, *Unto this Last*, London (9th ed.) 1893. §77, p. 156n.

²¹ See above, §5.4.

be me if I am a *we*, committed, and committing me, to various values.

Although we are social animals, we are also individuals, each unique, able to make up his own mind for himself, and able also to have different aspirations from those of others. If I am free to follow my own bent, it is not only the case that we may all benefit from the crock of gold I stumble on at the foot of my rainbow, but that I, at any rate, will have had the satisfaction of the search. My water colours may not hang in art galleries, and be admired by many, yet, if but poor things, they are my own. Idiosyncratic activities need not be mere time-fillers. They can be work, sometimes the main business of a man's life. Because their value depends on one individual's valuation, they may not possess unquestionable value in the public estimation. but they are valuable none the less, and monetary values can actually possess value, only if individuals have other values too.²²

It is easy to argue from the last two arguments that the ideal society would be one in which everybody was an autonomous agent, freely choosing to do what he thought best. But that would be a mistake. Once I recognise the importance of other people being free, I cannot be completely autonomous. I can autonomously choose to do what I believe they need me to do, but not what they actually want me to do. Their aspirations and actual choices are necessarily opaque. If they have in some areas untrammelled freedom to choose, they may choose differently from what I expect, and think right. Indeed, they may choose wrong. I often do, and it is only by having chosen wrong I sometimes come to recognise that I did, and learn from my mistakes. Sometimes my choice may be different from what was expected without being actually wrong. We create different identities, manifest in our different choices, and develop each his own style of existence. That being so, if I am to respect your being someone different from me, I must on occasion, be ready to be guided by your wishes, and not second-guess them with my better ones. Loyalty is the ultimate token of trust, and loyalty is, by a settled determination of the will, an exercise in heteronomy whereby I do not as I would, but as you will.

If we are to combine idealism with realism, we cannot wish away all awkwardness. Even if we, who first set up our ideal brotherhood, *kibbutz*, or Callipolis, exclude all undesirables, our children

²² See above, §3.5.

will sometimes be naughty, and we shall have on our hands, delinquent youths and wayward wenches. who yearn for the bright lights, and prefer foolish fun to virtuous pursuits. We need to accommodate actual people, and not only idealized ones. We can require those who want to make a pile to make it honestly, and to take measures and establish institutions to promote fair dealing, but we cannot expect that nobody will feel pressured to earn more money in order to satisfy his wants, or in order to amass a fortune. Nor should we. Unless the brotherhood is so exclusive, that I am the only person good enough to belong, it will contain other people who are different from me, and will have different talents, ambitions and achievements. Although it is reasonable to hope that in time to come, many jobs will be undertaken not solely for money, and will be sufficiently rewarding that those who can afford to will do them without pay, our minimally heteronomous ideal cannot be completely autonomous, or do without money altogether. Autonomy, although inherently desirable, must not be sought to excess. I ought to be willing to spend time doing things that other people have chosen to spend their money on, because only so can they exercise a limited, but within limits unfettered, choice, and be self-creating selves, just as I can discover what I really want only if sometimes I am free to make choices all on my own.

It is difficult. We have a fear of freedom. Free choice can hurt, not only, obviously, others, but, insidiously, ourselves. In society, as in theology, we often want to be pets, nicely looked after in return for our obedience. But that is to deny freedom. If we are free, we make mistakes, and suffer for it, and decisions which others suffer for. But would we rather be pets?

If we not only recognise the existence of others but respect their choosing differently from what we would have chosen, we can base on this respect a further underwriting for the value of money. It is socially useful, giving to individuals a choice, conditional on other individuals being willing to do another's bidding in return for money.²³ I can choose, provided others are prepared to do what I want in return for money; or generalising to an omni-personal "one", one can choose provided one is ready, in return for money, to do what one would not have naturally wanted to do. Professor Higgins was a professional man, not just a gentleman of independent means who happened to have an interest in linguistics. If Eliza

²³ See above, §3.2, p.51.

Doolittle was prepared to pay his fee, he was under an obligation to render her the service she desired.²⁴ Although it can grate upon our Kantian sensibilities, it can also provide a way for money to have value not ultimately dependent on the coercive power of the State. Once I become a non-autistic human being, I recognise that other people exist, and have a right to be themselves, and to make up their minds for themselves. I am led by a rational heteronomy of the will to put myself at their disposal, by making their money valuable in that it can command my services. I ought to earn money, not because I want to spend it, but as my contribution to making it valuable for everybody else. Not only should I render unto Caesar my taxes, and perhaps to the Pope the pennies that are Peter's, but to Mammon too I ought to acknowledge a social obligation.

In a very small way some models already exist. Local charities raise funds by getting supporters to agree to provide some goods or services, and then having an auction of the pledges. I might agree to wash a car, and in due course someone would turn up to have his car washed by me. Such pledges could be traded. An enterprising Tom Sawyer might acquire a surprising number, and astonish everyone when he came, as it were, to cash them. Of course, with a charitable auction of pledges, it is unlikely that people will have bid for anything they did not want; but some villages have tried to set up a system of tradeable favours, where good turns are organized on a communal, rather than a bilateral, basis. (H.M. Treasury is said to be vigilant to stamp out any such practice, which might well erode the tax base.) We could call it Ambridge plus. It would be better than Ambridge in giving people a much wider choice in how they could use their talents and what they would get in return, and also in giving individuals unfettered choices, but would depend on a principled and generalised willingness to give goods and render services not simply as a personal favour to insiders, but available to outsiders too, as an impersonal obligation due to the community as a whole.

Ideas about a non-coercive State, and autonomously adopted principle of heteronomy, are the stuff that dreams are made of. Our present concern must be with more practicable measures.

²⁴ I owe this point to Mr R.G.C. Levens, Fellow of Merton College, Oxford.

§8.5 What Should We Do?

It is easy to criticize and point out the errors in what others think and do; more difficult to say what actually ought to be done. But on the view of reason that underlies this book, I ought to be ready to enter into dialogue with those I criticize, and expose myself to their counter-attacks; else I am an idle sceptic, difficult to refute, but not worth bothering about. So I must stock my neck out, even though often my advice is to do nothing.

The advice to governments, *Noli Nocere*, do no harm, is not just based on a weak analogy between the body politic and the bodies medical men treat. but arises from the positive feed-back in macro-economics, In an environment where people do what they think other people are expecting other people to do, a lead from the government is likely to create a Gadarene rush. If the government were to conclude that our present troubles were due to people being in debt, and therefore said we should aim to reduce indebtedness, everyone would expect everyone else to do so, and would think it wise in consequence to act similarly themselves, with the consequence that those who could borrow—young couples wanting to take out a mortgage, large institutions seeking to finance long-term improvements—would be discouraged from doing so. If we find ourselves with a shortage of generators to provide power for peak loads, and the government appeals to people not to use electricity before noon, the result would be a peak surge in demand at 12.01pm. Banks, like electricity companies, can work on a relatively low load factor, because demand is staggered. It is crucially important to keep it that way, allowing individual initiatives to mature at different times, and not swamping them with changes in public policy.

Changes in public policy are likely to be damaging also, because they increase uncertainty. If I get wind of an initiative to give grants to firms that take on extra employees, I shall defer hiring someone to replace a retiring worker in the hope that I may get a grant for doing so. Even if I do not get wind of an initiative that is actually under consideration, I may well conjecture that it is a likely response to the next set of disappointing figures. The more I can count on the government not changing its mind, the more I am encouraged to take firm decisions now, and commit my resources accordingly.

Quite apart from these two general arguments against over-much government activity, many of its present policies are counter-productive. If there is a lack of liquidity, lowering interest rates will

make it worse. Those who hold liquid assets will have less incentive to sacrifice liquidity by lending to others. If my firm has a cash reserve of £1,000,000 I should normally seek to earn some interest on it by putting it on deposit, buying government bonds or other blue-chip shares, which I could readily liquefy when I wanted to spend it. The interest rate represents a premium on forgoing liquidity. In a depression people are wanting to be liquid in case of untoward eventualities. It is not sensible to add to this by making the cost of being liquid unnaturally low. Very low interest rates benefit banks especially, and generally those who have already borrowed, but penalises would-be borrowers. After the Second World War governments instituted rent control, in the belief that this would benefit householders and penalise landlords; but those who suffered most were would-be tenants who could not find any property to rent because rents were fixed too low for anyone with property to want to let it. Rather than hold down interest rates, the government should let them rise, so that people are willing to lend money to the government or other credit-worthy institutions to undertake counter-cyclical investment,²⁵ or to those enterprises that are most willing to pay for loans.²⁶

It would be unpopular. But there is evidence from Japan that low interest rates do not cure depressions. Some advocates of low interest rates have argued that if near-zero rates do not do the job, negative interest rates should be instituted. But that would be to destroy the value of money. For a short time habits of thrift might persist, but if I cannot save for the long-term future—my pension, my children's education, or some charitable ambition—I shall stop working hard, and only earn enough for my immediate needs.

What Not To Do

1. Announce New Initiatives
2. Hold down Interest Rates
3. Inflate the Currency
4. Continue Deficit Financing

²⁵ See above, §5.2.

²⁶ Already eBay services are developing to bypass banks and match willing borrowers with willing lenders at rates acceptable to both. See, for example, *Zopa.com* or <http://fundingcircle.com>

Quantitative easing is always tempting, but disastrous as a general policy. It increases uncertainty—because people do not know what prices are likely to be—and hence the urge to be liquid, and destroys confidence in the government—and hence its ability to borrow in order to finance counter-cyclical investment. If the government does not destroy its own credit, it can borrow—run a deficit—and in some circumstances this may not only make good commercial sense, but also aid recovery. Or it may not: it will not, if the government’s borrowing crowds out other borrowers, who could put the money to better use. And all borrowings have to be repaid. In the present juncture it is not enough to say that the deficit will be reduced in a few years’ time: it needs to be eliminated now, if Great Britain is not to follow Greece in drifting to disaster. Balancing the budget is the priority, raising taxes if it is impossible to prune expenditure rapidly enough.²⁷ It needs to be done quickly because the government’s credit, like that of most other sovereign states, is no longer rock hard, and could easily melt away. Deeds, not Micawber-like resolutions to stop borrowing some time in the life of the next Parliament, are what will begin to restore trust, and ease the liquidity crisis. The effect would be enhanced if the government were to cut out expenditure on public relations, forswear spin, and concentrate of substance, and rein in expenses, and reduce the democratic deficit.²⁸

Deficit Financing

Either we do, or we do not, intend to pay back what we are borrowing

If we do intend to repay, then we are landing our successors with not running a deficit.

If that is reasonable for them, why is it not reasonable for us?

If it is not reasonable for us, then we are being unfair to our successors.

If we do not intend to repay, then

We are being dishonest

Servicing existing loans will become hugely expensive

²⁷ See next Section.

²⁸ See above, §5.6. §7.4 and §7.8.

Although macro-economic policies are the ones that governments are tempted to adopt, it is to the micro-economy the government should look for the springs of recovery, and do what it can to facilitate them. Stephen Leacock wrote, in *The New Yorker* during the American slump in the 1930s, that what the government should do was to get the wide boys out of Sing Sing prison, write out a concession for them, and let them get on with it. Their trained greed would spot where profits were to be made, and in making them would create jobs for many others. Leacock was a humourist, but was making a serious point. It is enterprise from below, rather than initiatives from above, that will lift an economy from depression. The one thing governments can do, and in recent years have most notably failed to do, is to avoid strangling enterprises with red tape.

Easier said than done. Regulations often crystallize best practice or demarcate a balance between conflicting interests, in much the same way as laws about weights and measures and other consumer legislation did in time past. When the government proposed abolishing many of the planning regulations, there was many protests from lovers of the countryside, who did not want it spoilt by High Speed Railways and housing estates. There was a conflict of interest between developers and construction firms on the one hand, and walkers, countrymen, and those who valued beauty, on the other. Not all regulations are bad—it was the absence of certain crucial regulations that allowed banks to over-extend themselves,²⁹ and even “Elf-and-Safety” regulations serve a laudable purpose. Regulations and regulatory agencies have a life of their own, which can easily lead to frustration and ineptitude. The proper procedures for promulgating and applying rules have not been followed. Although the reason for having a regulation is evident, the reasons against are not. In particular, the cost of compliance, both financial and in terms of forgone activities, is invariably overlooked. Often, indeed, in guarding against a remote risk, much greater risks are run of much greater damage. The prime need is to find out the disadvantages and real cost of having the regulation, not only for the administrators in the Department, but for the public in having to comply with it. Regulations already in force should be reviewed every few years, and should not be renewed unless there was good evidence that they did more good than harm. New regulations

²⁹ See above, §4.5.

should have a sunset clause attached as a matter of course. The suggestion that when any new regulation is proposed, the Department should be required to put forward one to be repealed, has much merit.

Regulations, like laws, are rules that are general, and may in some circumstances cover cases inequitably. As with laws, there are problems in supplying equitable relief,³⁰ but the difficulties are less acute, because there are fewer large interests and established expectations to consider. It follows that in many cases the requirement is the same for adjudication as for legislation: in applying regulations we need to be made aware of the real costs as well as of the hoped-for benefits. The problem at present is that those who enforce regulations are characteristically bureaucrats, with the mentality “whatever happens, it must be clear that it was not my fault”. Clearly, he would be to blame, if he did not enforce a regulation, with an untoward consequence, whereas he would not be to blame, if his enforcing a regulation led to an untoward consequence—any adverse criticism would be of the regulation itself, not of the official who was merely doing his duty. It follows that if we want to bring some element of common sense into the enforcement of regulations, decisions should not be vested entirely in the hands of officials. The natural source of lay authority in English society is the magistracy. It should be possible, either prospectively or retrospectively, to apply to the magistrates for an exemption on the grounds that the main purpose of the regulation would not be compromised in the particular case in question, or that compliance would either be unreasonably expensive, or would prevent other worthwhile purposes being achieved.

These particular remedies may work for particular cases, but fundamental changes in the whole culture of public decision-making are required. Safety at all costs is actually dangerous, and makes for general lethargy and laziness. Bitter experience is what teaches people to take care. Only by running risks and sometimes making mistakes do I come to recognise the dangers around. If everywhere there is a safety notice they all will be ignored. And if there is a plethora of regulations protecting us from every kind of hazard, there is an effective barrier against competition from new entrants. Only those who are in the know about the regulations currently in force can navigate safely around them. Established providers

³⁰ See above, §7.4 and §8.1.

need not bother to find out what the customer really wants, but can cite the regulations, and demand further security measures, further certificates, further insurance, at further cost, safe in the knowledge that the customer will have no option but to pay the price demanded. We need wide boys from Sing Sing, cowboy operators, outsiders ready to cut costs as they try to break in, because only so can established providers becoming closed shops. Although the public need to be protected against dishonest exploitation, as they do against dishonest weights and measures, they need also not to be completely protected against their own folly, but to be free to make their own mistakes, sometimes taking risks which turn out to have ill consequences.

There is also a pervasive anti-enterprise culture that looks askance at those who try to do well. The Rawlsian argument noted in §7.7, that people do not possess their own talents is one example of a generalised envy that permeates society. The reasonable resentment at bankers who, collectively, ruined their banks, and brought the world's financial system to crisis, awarding themselves large bonuses, has been transmuted into a generalised hatred of anybody's being rich. It is difficult to see why J.K. Rowling's being rich should incur disapprobation. She has not down down anybody, merely made many children happy. many others have become rich by having benefited humanity in various ways, inventing computers or pharmaceuticals, or organizing businesses that give people what they want at prices they can pay. Quite apart from the good they may have done in becoming rich, they benefit us simply by being rich, because they can afford to be independent of the powers-that-be, and on occasion to lead opposition to an overweening government. We may find their extravagance distasteful, but exaggerated consumerism tends to drive up standards, and gradually to make more and better products and services available to the less well off. And rich people may desire, and can afford to pay for, services that the otherwise unemployed can provide.³¹

Political short-termism inhibits the wide-ranging, long-term thinking that sometimes produces winners. British universities are pressured to concentrate their energies on activities that will bring economic benefits before the next review of funding. It is questionable whether such a policy pays off even in the short term, but it

³¹ See above, §6.2.

Stranglers of the golden goose

- (i) bureaucrats who must make it absolutely clear that they were not to blame
- (ii) administrators, who lay down regulations for laying eggs, and disallow eggs that weigh more than the EU norm
- (iii) established providers for whom regulations offer protection against competition
- (iv) egalitarians, who complain that the golden goose is better off than other geese, and seek to equalise outcomes
- (v) politicians who want all the gold they can lay their hands on now, before the next election

does engender an atmosphere in which it is hazardous to pursue any other goals.

These factors hamper the de-regulation needed to overcome the recession. Some laws should be repealed: the Data Protection Act, for example, which prevents patients' relatives being told how they are faring; likewise the Freedom of Information Act, which makes it almost impossible for proper references to be taken up; and the Charities Act, which requires charities set up in the Middle Ages to prove that they were properly set up as charities. These and similar measures merit simple repeal. Without some measures such as these the anti-enterprise culture of modern Britain will stifle any rapid recovery from depression. The most effective step the government could take is a self-denying ordinance to stop doing things, and to stop stopping people from doing things.

§8.6 Balancing the Budget: Pensions and Thrift

The most pressing task is to balance the budget. But there are three different understandings of what it is to balance the budget. There is a minimal sense, in which the expenditure of the government on goods and services is covered by money raised by taxation, without taking account of interest having to be paid on debts already incurred; If that is taken into account we have a sense in which external observers would reckon that the economy was not heading for disaster and default. A more stringent reckoning would take into account not only current expenditure and the interest on outstanding debts, but the pension rights and other entitlements which the government was creating without adequate funding—in effect issuing IOUs for next generation to repay.

It is a moot point how far one generation is entitled to land later generations with onerous obligations. At one extreme it is argued that but for us later generations would not exist, and owing everything to us, they ought to accept whatever burdens we choose to load on them. To which it is replied at the other extreme that posterity did not ask to be procreated, and sees no reason to recognise obligations foisted on them by oldies. More reasonably it is evident that each generation inherits enormous benefits from its predecessors, and ought to be ready to shoulder some burdens too. Britain would be a much less good place to live in if Napoleon or the Kaiser had conquered it; my life would have been wretched, and probably short, if we had not successfully stood up to the Nazis in the Second World War or to the communists in the Cold War. I ought, therefore, to be willing to pay some part of the cost of defeating Napoleon, the Kaiser, Hitler and Stalin. Debts incurred in the fight for survival are debts the survivors ought to acknowledge, service and in due course repay.

It is different with debts incurred for less good reason. Although traditionally there was an absolute obligation to care for one's parents, to whom one owed one's very existence. Solon made the obligation of a son to support his father in old age conditional on his father's having taught him a trade. There are obligations, and hence conditions and limitations on both sides. It was reasonable to take steps to prevent Huckleberry Finn's father squandering his son's fortune. Russian novelists do not condone the father's demanding his daughter sell her body so that he can buy drink. Similarly we cannot make out that we are entitled to be profligate at our our successors' expense. Instead, we need to particularise.

We can generalise Solon's principle, and see the obligation as not only on children towards their parents, but on all workers towards all those no longer able to support themselves, and with there being conditions on either side. The young inherit their parents' world. It is a much better world than the state of nature. Modern man enjoys not only a rich culture, but peaceable institutions, and a technology that enables him to work far more productively than his forefathers. It is reasonable that he should make some return. But it was not all due to the retirees themselves. They too entered into an inheritance they had not earned, and as they had benefited from other men's labours, should have laboured themselves to benefit their successors. Admittedly, some of the fruits of their labours are enjoyed now in the form of improved technology and institutions. The young twitter on mobile phones, which were developed only in yesteryear. It could be argued that the institutions of today are better than those of the mid-twentieth century—though the argument might go the other way—but it is more difficult to maintain that debts wantonly run up by one generation, should be, without question, something that their successors should repay. Although the cost of fighting the Second World War is one that the present generation can be required to shoulder—life for them now would be immeasurably worse if Hitler had won—or if the communists—had taken over later (and perhaps the argument could be stretched to cover the cost of the Napoleonic wars), the improvidence of modern deficit financing is different. In the short term we may be able to balance the budget only in the first, and then the second, sense; but only in the third sense is balancing the budget a satisfactory long-term aim.

Each generation owes it to its successors not to burden them with debts unmatched by improvements to their inheritance. There can always be disputes about the value of such improvements to the generations that inherit them, and such disputes can poison relations between the generation, and if they become an issue in politics, undermine the basis of public decision-making. The way to avoid this, provided the currency is stable, is to fund pensions by each person saving part of his income, while he is working, to fund his pension after he retires. The savings can be invested, mostly in gilt-edged stock or blue-chip equities, to provide a secure minimum when the pension becomes due. Some issues are removed from politics. Individuals get what they have paid for. National insurance contributions would be really what they claim to be. Pensioners

would be free to make further contributions in their working lives to pay for larger pensions in old age (but it would be sensible to do so, only if there were constitutional safeguards to prevent the government from raiding pension funds and depreciating the currency).

At the present time government pensions are not funded, and raise divisive issues. To many it is obvious that the pensionable age should be increased, in view of our living longer and in better health. It is a reasonable argument, and applies to most people, but not to all. Elderly soldiers cannot complete assault courses. It is an inherent element in a serviceman's pay package that he will have to leave the forces while still fairly young, and find another job, where he will be at some disadvantage, not being an insider, with the particular experience and skills that insiders have. Previous promises to servicemen should not be swept away on the grounds that other people can remain in their jobs longer than previously supposed. And it is not only servicemen who cannot continue their employment into their later years. Heavy manual labour is beyond most people at an age when they can still perform sedentary tasks. It may be that the furniture remover can find other employment when he can no longer lift pianos, but it remains the case that raising the pensionable age bears more heavily on him than on an office worker. This is not to say that the pensionable age should not be raised. It should, and more quickly than presently proposed. But "contractual" pensions should be sacrosanct: government employees, especially in the armed services, were paid less well than comparable workers in private employment, with the prospect of the pension making up for the difference. In such cases the pension was effectively part of the contract of employment, and should be honoured as such. Pension rights accrued in time past should be honoured, though from now on the conditions could be altered to take account of increased longevity. These should apply to new entrants; those in mid-career should be given a choice of accepting them for the remainder of their career, or leaving the public service, but retaining a right to a pension in proportion to the time spent in the public service.

Funding is not the only problem with pensions. To many it seems that the conflict is not just about money or due to inflation, but inherent. Each generation is having to work harder to provide services not only for their young but for their elders, who are living

longer and dying more expensively than in days of yore. The burden of an ageing population is increasing. We must, therefore, it is often further argued, recruit young immigrants from overseas, to come and help bear the burden, or else it will be insupportable. Or so it is said. It is obvious that the latter argument is wrong. The young immigrants we import will themselves become old, and the burden for caring for them will likewise need the import of more young people to help carry it. Sooner or later the inflow must come to a halt—when there is standing room only in the British Isles, if not before. In the end the population must be static or declining. The only stable solution must be one where the actual generation of workers must deal with an actual number of oldies, who had once been young and working, but were now past it. But old age is changing. The elderly are much helped by modern medicine and modern technology. Like the working young, they are subject to fewer lengthy illnesses. The TB sanatoria of the early twentieth century have been turned over to other uses. Hospitalisation lasts days, not weeks. Although the elderly go to the doctor more often, and consume more pills, they are not normally crippled by ill health. And, thanks to modern technology, they are much better able to care for themselves. Freezers and microwave ovens mean that they can stay indoors in icy or inclement weather. E-mails and mobile phones enable them to keep in touch even if they are housebound. Handrails and alarm systems make it safer to live alone. Only in extreme old age is expensive care needed. It could become the case that we died not only expensively, but slowly. If that were to be the case, the burden would become very great. But it is not the case now, nor is likely to become so. Medical science can repair some failing organs, but others continue to age, and before long general failure supervenes. The grim reaper may be kept at arm's length for a season, but closes in eventually for a final brief encounter.

Old age has its problems, but the financial problem of an ageing population is to be solved not by perpetual growth and immigration, but by each generation providing for its old age while it is working, and by the country as a whole balancing its budget in the third, strict, sense. In order to eliminate a deficit, it is necessary either to cut expenditure or to raise taxes. Cutting expenditure quickly is difficult: public money is highly addictive, and the withdrawal symptoms painful. The administrators who administer the cuts tend to be to be lenient towards administrative costs, and

are inclined to cut nurses, teachers, and others actually providing public services; And in any case, cutting jobs may be counter-productive because it increases uncertainty. It may seem a good idea to cut the money allocated to the Inspectorate of Quota Compliance, but so doing may alarm many public employees, who will rein in their expenditure, and seek more liquidity, in case the axe falls on them too. And it is not obvious that Inspectors of Quota Compliance are well qualified to do other things, and will be able to get another job. Many of them may end up unemployed, drawing unemployment pay which will eat up most of the saving from not paying them a salary. Although it may well be the case that much public money is wasted on paying people to do work that is of little—indeed often of negative—value, cutting out waste is a difficult and slow process.

If public expenditure cannot be cut, taxes must go up. Most of the existing taxes are difficult to raise. The top rate of income tax, it seems, brings in less revenue than a lower one would. VAT is about as high as it can be without causing a black economy to boom. Although there are calls for taxes on alcohol and tobacco to be raised on ground of health, to do so would greatly increase the quantities brought in from Europe. The tax on petrol was unpopular, and one can understand the political reasoning that led the government to shrink from imposing the increases already scheduled by its predecessor, but from an economic point of view, it was perverse. In fact it ought to be generalised into a carbon tax on fossil fuels, starting at a low level, but increasing every six or twelve months. It would be easy to collect, difficult to evade, widely based, and with benign effects on the world's climate. It would not create great disruption if it started low, and by increasing only gradually, would give people time to adjust their life-styles and business practices. Its level would be constrained by what other countries, particularly those in Europe—we could afford their being a bit a higher, but not enormously so without our manufacturing industries being put at a great disadvantage. And it is unlikely that other governments would long forgo the opportunity of raising revenue with the added bonus of its being a positively virtuous imposition.

In the short term the only way to cure a big deficit is to raise taxes. But this, it is claimed, will stifle growth, and make the recession worse, since then taxpayers will have less money to spend, which will reduce sales, and cause a double-dip recession: rather

than balance our budget, even in the minimal sense of raising enough money by taxation, we should go on borrowing money, and merely express an intention to reduce the deficit in time to come. Of course it is true that if a taxpayer has to pay more taxes, and is unable to increase his income, he will have less money to spend. But other people will have more. If the deficit is reduced, the government is borrowing less, and if there is a surplus, borrowers are being repaid. Money taken from the taxpayer is money not borrowed from, or money given back to, a creditor, who will be able to spend it or lend it. Purchasing power lost on the swings will, by and large, be gained on the roundabouts. There are exceptional cases. What if the creditor is a foreigner? Borrowing from him need not crowd out other investment at home, and repaying him may not lead to his spending or lending money to us. True, but only up to a point. Although an individual foreign creditor is free to spend and lend elsewhere, in not purchasing, or in selling, his £s sterling he is encouraging other foreigners to lend or spend in Great Britain, which is the natural habitat of £s, even if traded abroad, and where that they come home to roost. Although there is difference between debts owed at home and debts owed abroad, the difference is mostly short-term, and diminishes with time. Sterling repaid or not borrowed by the government will be, in the fulness of time, expended or invested in the country where it is legal tender.

A second objection is more weighty: money repaid to banks may not get lent again, but will simply “disappear”, as bankers reduce the ratio of loans and deposits to a safer level. This has been happening. There is a mortgage famine. But reducing the ratio of loans to deposits is a crucial safeguard against a loss of trust, resulting in a run on the banks and a collapse of the whole banking system. In calculating the load factor, it is necessary to enter not only the probability of different demands being made at any one time, but also an estimate of how bad it would be if the load were ever too much for the system. If a bank is “too big to fail”, because a failure on its part would cause a collapse of the whole world economy, it needs to be very safe indeed; and in view of the Gadarene propensities of depositors, the load factor is large, perhaps even 100%. Various safeguards have been tried, particularly in the United States, such as separating the money-handling business from the risky lending business, or preventing banks from becoming too big, and precautions have been suggested, but it may well be the case that in the immediate future repaying debts may

diminish the money supply, as banks draw in their horns, and instead of lending again what has been repaid, simply draw in their horns. Economic activity will be reduced, but the whole economy will be less precarious. As in many other walks of life, we have to pay in order to gain security. The Thames barrier cost a lot of money. Money spent on the armed forces could have been spent on welfare or the National Health Service. Often in retrospect it seems that insurance premiums were wasted. But with the financial sector, as with the armed forces, the mere fact of being visibly able to deal with an emergency makes the emergency less likely to occur.

The financial crisis is due to a lack of trust, which leads to a loss of liquefiability and hence to a demand for complete liquidity. The immediate need is to balance the budget in the first sense, and not to borrow in order to finance current expenditure. It is usually impracticable to cut expenditure quickly, so taxes must be raised. For the most part money not spent by taxpayers will be spent as repayments to creditors, but some may go to reducing banks' over-exposure, as insurance against unwise risk. Prudence can inhibit enterprise, but desirable none the less; there is no value in an enterprise that ends in disaster—new firms often go bankrupt on account of early over-expansion. A period of reduced economic activity may be needed in order to consolidate loss of liquidity in the system made up for by restored confidence in government. But in any case better a double-dip recession than a full-scale depression and slump.

§8.7 What Can I Do?

Often there is not much an individual can do. Most are not in a position to take decisions that have much economic impact. And often there is no call to do anything special. People are alarmed when they are told there is a recession, and output is down by 6%. But that means that it is still 94% of what it was before. Shops are still open. The streets are thronged with people going about their daily business. The micro economy is managing. Times may be hard for some people, and we should not be unconcerned at their plight. But we should not forget that the moneyed society is serving most people well, and enabling them to work to much greater effect, and enjoy a much higher standard of living, than would be available without money. For many people the watchwords “Don’t Panic” and “Business as Usual” will serve them well—and others too.

The underlying reason why panic is inappropriate is that entities in the micro-economy have negative feedback, and are unlikely to engage in lemming-like behaviour. If I am in a line of business that is severely affected by a downturn—say a ship builder specialising in luxury yachts—I can respond in a variety of ways. I may simply sack workers and build fewer yachts. Or I may hire Russian-speaking salesmen, who can speak sweetly to Oleg Garkhov and his friends, and persuade them to think that now is just the time to splash out. Or I may expand the range I have available in my showroom, so that a prospective purchaser can find one that exactly suits his aspirations. Or I may think through the way I build them, to find new materials, or better ways of putting them together, so as to be able to produce them more cheaply. Different firms and different families will react in different ways. The responses will be staggered, so that their effect is muted, and each will select that mixture of responses which will least diminish their overall satisfaction. But there may be hardship still; in particular, there may be unemployment, especially of the young, the unskilled and the unenthusiastic. It is reasonable to regard long-term unemployment as socially pernicious and unacceptable. But that is a political, not an economic, policy, to be financed as part of ordinary public expenditure along the lines discussed in §6.2.

Although governments should for the most part avoid action, and individuals often cannot do anything special to mitigate the effects of a recession, there are some things that some individuals can sometimes do. They arise from the connexion between liquidity and trust. Monetary transactions constitute a loss of liquidity by

the party that pays; on buying a meal at a restaurant, I give up the option of putting it towards a new car later on. An atmosphere of fear or distrust inhibits economic activity—I do not part with my money for fear I shall need it later for I know not what. So, since economic activity is choked by a lack of liquidity, and liquidity is diminished by distrust, an individual can help foster economic recovery by being trustworthy and not unreasonably distrustful. It is easy to be too prudent, to over-insure against unforeseen contingencies. Reasonable prudence requires one only to quantify one's risks, and for the remoter one's to make reasonable provision, by keeping some assets in liquefiable, though not completely liquid, form. It is reasonable also, if one has resources and security of income, to embark on long-term projects, and take on unusual expenditure for long-term benefits. But many people are not in a position to increase expenditure on long-term projects. All, however, can do something towards dispersing distrust by being trustworthy, and therefore creditworthy. If I am a man of my word, you do not need to conserve your resources against the possibility that I may let you down. As soon as I have commissioned you to paint my windows, you know you can count on your bill being paid, and can go ahead with ordering paint, and arranging domestic expenditure, confident that the money is as good as in the bank. There have been flagrant breaches of this principle in recent years. One large manufacturer of electrical goods pursued a policy of not paying its suppliers until the last possible moment before the writs were served. A television company negotiated with a number of independent producers to produce films suitable to be shown, and then at the last moment before signing legally binding contracts backed out altogether. Gazumping became commonplace. Such practices are not only reprehensible morally, but damaging to the general economy. In every cooperative exercise each party makes itself to some extent vulnerable to the other, and if the other cannot be trusted not to take advantage, prudence will advise against engaging in it, unless strong, and therefore costly, guarantees can be obtained. Many opportunities will not be taken up, and those that are will be less profitable. So, if we want the level of economic activity to pick up, we must foster trustworthiness.

Economists, as we have seen,³² are inclined to deny that economic agents should do more than keep the letter of the

³² See above, §1.1, p.2, §3.5, pp.72ff., §4.1 p.76, §4.2 pp.79ff., §7.1 p.136.

law. But the analysis of law given in chapter 7 shows that they are mistaken. Law differs from custom and morality in that its requirements will in the last resort be enforced by force, but for that very reason we are reluctant to promulgate laws against undesirable behaviour. “There ought to be a law against it”, we say; but then draw back for fear of being too-heavy handed, of creating opportunities for blackmail, or of diverting those who enforce the law from more important tasks. Suitable laws can, of course, help to maintain and restore trust. They can help by removing competition from operators who cut corners, in the same way as they reassure those who pay their fares that they are not simply giving a free ride to fare-dodgers. If those guilty of flagrant sharp practices get punished, law-abiding financiers will not be made to feel mugs for having kept to the straight and narrow way of financial rectitude. But the law can only punish proven breaches, and there are many others. A distinguished Member of Parliament remembers that as a young man in the City he once went to the senior partner and said “There is this piece of business that has come in: I can’t see what’s wrong, but I don’t like the smell of it”, and was told “Don’t touch it: we can manage without it”. Now, he reckons, the response would be “I will call up our legal adviser, and find a way that is legally water-tight”. Fair dealing can be codified up to a point, and codes can, to some limited extent be enforced by sanctions. But again and again we shall find that the code does not completely express all that is required of cooperators. The letter of the law is guided by the spirit of the law, but is not a substitute for it; and this is not due to some incompetence on the part of legislators, that a better legislator could put right, but is a facet of the inexhaustible nature of reason,³³ and gives rise to the problem of equity in the administration of the law, and is witnessed by successive enactments that move on from the simple prohibition of violence, to the establishment of weights and measures, the Sale of Goods Acts, and take-over codes. Contrary to the minimalist views of many economists, we see that unless most people are most of the time trustworthy, economic activity will break down. It is a limited morality that is required, but a morality none the less. To that extent, economics is a moral science, not only in the old fashioned Cambridge sense but in its usual modern sense too.

One step towards recovering trust is that we reckon not just to obey the letter of the law, but to abide by the spirit of the law.

³³ See above, §8.2

It is irrational to think that because something is prohibited by law, one is entirely free to do it, or to try to get away with everything one can. Rather, taking account of the setting in which economic activity can best take place, one should take “best practice” as the appropriate guideline. But often it is unclear what constitutes best practice. The underlying principle is to treat people as people, not commodities or machines. It is not to adopt their point of view, but to recognise that they have one, and to see one’s actions from their point of view. It is a useful exercise to think about “Electronic Etiquette” in the modern age,³⁴ because no conventions have established themselves as yet, and it is simply a case of figuring out how to manifest in one’s communications that it is a dialogue with a person, not a manipulation of a machine, that is the rationale of the activity. I am not entering into a dialogue with someone if I send him a “no return” E-mail, or have a web site that does not give postal or E-mail addresses, and telephone numbers. Nor if I subject incoming callers to long announcements telling them things they do not want to know, or telling them that their call is important though not actually answering it. Other examples will occur to readers, who may begin to formulate suitable maxims to guide us.

Many other areas of life could be improved if there were changes of attitude on the part of individual members of society, and we began to value substance rather than spin, and instead of hiring public relation experts to improve our image, appointed complaints managers to improve our performance. For it is not just others who are at fault. We complain that politicians treat us as a commodity, dealing in votes as others deal in oil futures, but need to remember that we are at fault, if we will not enter into dialogue with them, and take on board the fact that there are few options open, and none of them very attractive. If we persist in treating politics as a popularity contest, in which we simply choose the candidate we like best, we make ourselves responsible for the failures of the political system.

But in the end, it is no good, we are tempted to conclude. My own puny efforts will get us nowhere. It could be so. But it is worth thinking of the virtue of graphite in an atomic reactor. It does not **do** anything. It merely puts up with bombardment and absorbs it

³⁴ For some suggestions, see Juliet Blackburn, *The Oxford Consumer* **200**, December 2011, p.16.

and does not bounce it back. Similarly in society. Although there are cynical politicians, greedy financiers, bent coppers, hidebound bureaucrats, lazy workers, benefis cheats, there are also many others who are not that bad. Each time I am done down, but do not respond in like manner, I send a message to others also wondering whether they are not being mugs in trusting untrustworthy people, reminding them that there are still trustworthy people around, and that being taken for a ride is a price it may be worth paying for the continuance of civil society and hope of better things in time to come. People who put up with the bad behaviour of others, and do not retaliate, but go on doing good when they can, may seem ineffective, but can in fact save their world from disintegration and collapse.