Chapter 1
Economics as a Moral Science

§1.1 . . . as a Moral Science
§1.2 Natural and Moral Sciences
§1.3 The Moral Sciences

§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 irrational 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 forego 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 accepted 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 *moral*. 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 un estimable, 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


Economics as a Moral Science

§1.1

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 Keynesianism, 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 and businessmen that needs to be exposed and criticized. Stereotypes, though unfair, are pervasive and important. I use them freely. Let 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 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 Moral Sciences

The natural and moral 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 interacting 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 defined 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 representation 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

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. They are summarised
here simply to show that, despite appearances, the natural and
moral sciences can bed down together each giving its own perspec-
tive 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 characterize
phenomena precisely enough to warrant definite definite conclusions
being drawn from the available evidence. Human affairs, by con-
trast, 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 sit-
uation. 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 moral sciences we
can empathize, whereas in the natural sciences we cannot. Empa-
thy 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

\footnote{For that, see J.R.Lucas, \textit{The Freedom of the Will}, Oxford, 1970, and
Roger Penrose, \textit{The Emperor’s New Mind}, Oxford 1989, and \textit{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 moral 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 moral 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 \(ceteris\ p\ aribus\), “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.

Moral 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 morality 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.

In brief, the moral 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. Whereas the natural scientist deals with uniformities

---

7 See further below, §8.1.

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 physicists' 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 fond better. But Godel's Theorem proves the opposite. Reason often follows rules, but cannot be exhaustively characterized in terms of rules alone. See below, §8.1.
and causality, the moral 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.

Natural and Moral Sciences

<table>
<thead>
<tr>
<th>Subject</th>
<th>Natural Sciences</th>
<th>Moral Sciences</th>
</tr>
</thead>
<tbody>
<tr>
<td>Explanation</td>
<td>Impersonal</td>
<td>Individual</td>
</tr>
<tr>
<td>Sought</td>
<td>Reality</td>
<td>Persons</td>
</tr>
<tr>
<td>Watchword</td>
<td>Causal</td>
<td>Intuitive</td>
</tr>
<tr>
<td></td>
<td>Regularity</td>
<td>Understanding</td>
</tr>
<tr>
<td></td>
<td>Nature is</td>
<td>People are</td>
</tr>
<tr>
<td></td>
<td>Uniform</td>
<td>Different</td>
</tr>
</tbody>
</table>

§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 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 judgment 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-judgmental, again taking no account 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.\(^{10}\)

\[\begin{array}{l}
1. \text{Economics is not autonomous.} \\
2. \text{Economics must be understood in context.} \\
3. \text{Economic decisions do not have to be taken without regard to social context and responsibilities.} \\
4. \text{Economic Man is a fiction—sometimes illuminating, often misleading.}
\end{array}\]

\(^9\) See below, §7.4.

\(^{10}\) See below, §3.5.
Chapter 2
Cooperation

§2.1  Agents and Actions
§2.2  Ego ergo Ago
§2.3  The Theory of Games
§2.4  Selflessness
§2.5  Utilitarianism
§2.6  I and We
§2.7  Interests
§2.8  Cooperating
§2.9  Transferring benefits

§2.1  Agents and Actions

The Moral Sciences are concerned with actions. Actions matter. Our universe is not a completely deterministic one, and we cannot always find antecedent physical causes for actions which would explain without remainder why they had to happen, and did happen. But they may be explained by giving the reasons for which the agent decided to do them. In such cases the centre of initiative, the originating cause, the \( \delta \rho \chi \nu \gamma \tau \eta \varepsilon \zeta \iota \iota n \varepsilon \nu \) (arche tou kinein), in Aristotle’s terminology, is the agent’s decision. Unless we are willing on occasion to take cognizance of the decisions of agents, we cannot give an adequate account of the course of events.

1. The choices a man makes make a difference
(as against determinism: it is not all fore-ordained; it is up to us what we do).

2. Not all outcomes are equally good:
some are worse than others; so... some are better.
    So...

3. It sometimes matters what we do.

Agents decide. And they can decide differently. It is up to me what I do. Many actions are ruled out by legal, social, prudential, or moral, prescriptions, which constitute good reasons—provided I am reasonable—for not doing them. But I do not have to be reasonable; that is, if I were not reasonable, no law of physics or
physiology would be falsified. Although I am due to give a lecture in an hour's time, read a paper in London tomorrow, and later in the week attend a committee meeting and prepare party games for my daughter's birthday party, I could catch a bus to Heathrow, fly to Paris, and stage an art exhibition in a public pissoir. If I did, people would shake their heads sadly at yet another instance of the fickleness of friends and the frailty of human flesh, but they would not have to revise their views of natural necessity, as they would if I started being able to levitate at will.

The ability to make up one's mind differently provides the key to personal identity. The difficulty is not to articulate the criteria we normally use to tell who a person is, but to tighten them so that in all conceivable cases not more than one candidate will come through as the one and only person that could possibly meet all the requirements. Ordinarily we recognise people by their faces, voices, gait and self-avowals. But features are not unique, and identical twins sometimes pass themselves off each as the other. According to Locke, it is memory that really individuates: I remember doing things; you may remember my doing them, but cannot remember having done them yourself. Provided we are honest, or at least not so fiendishly clever as to be able to pretend to first-personal memories that are not our own, memory serves adequately in fact to guarantee uniqueness; but not absolutely in all conceivable circumstances. Bernard Williams deploys the Reduplication Argument, in which he imagines the case of two people, identical in all respects, each claiming to be Guy Fawkes, each apparently having the same memories of trying to blow up Parliament, and of having been discovered, tortured and executed.¹ The (modified) Lockean position fails to guarantee uniqueness. Just as physical appearance and behaviour can be duplicated, so memory claims, character traits, and avowals of identity can, in principle, be duplicated too. If ever we were presented with grounds for identifying someone as Guy Fawkes, it is logically possible that there could be another candidate with exactly the same features, and therefore equally worthy to be identified as Guy Fawkes. Having unreservedly accepted the first as the genuine Guy Fawkes we should be deeply embarrassed on encountering the second, and should be impelled either, like Buridan's ass, to conclude that since they cannot both be, they

¹ B.A.O. Williams, Problems of the Self, Cambridge, 1973, pp.***.
neither of them can be, the real Seventeenth-Century assassin, or else to seek some further surety for uniqueness.

Williams finds that surety in bodily continuity. Bodily continuity, he holds, cannot be duplicated, and thus can be the constitutive condition of personal identity. But does bodily continuity guarantee uniqueness? It is only a contingent, not a necessary truth that material objects do not divide or join up like rain drops, and it is not even contingently true that organisms do not: witness the amoeba cited by Lord Quinton.\(^2\) Although in point of fact we never have seen anyone getting fatter and fatter, and then after a Siamese phase ending up as two identical twins, such a possibility is no more far-fetched than tele-transportation, or indeed meeting two people (except inside a lunatic asylum) each possessed of all the characteristics and memory-claims of Guy Fawkes.

Although bodily continuity may not be able to make good the inadequacies of the traditional account, the traditional account remains demonstrably inadequate: personal identity is necessarily unique, but every characterization of a person in terms of memory claims about the past or other present mental features, habits, or abilities, can be duplicated. We need to look to the future, and consider not only actual intentions, but possible ones. Tweedle dum and Tweedledee were more than ordinary identical twins: they shared consciousness and experiences. Each knew what the other was doing, felt the other’s pains, and remembered what the other had done. We might be tempted to say that there was only one person, Tweedle, but with two bodies. So long as there was unity of control, and one body could not act to frustrate the intentions of the other, it would be right to regard the two bodies as having but a single mind, and therefore as being just one person. It would be quite different if there was, or at least potentially could be, some conflict. Then there would be two persons, perhaps in very close telepathic communication, and often of one mind on matters of importance, but not necessarily agreeing on all things. If, as Alice was assured, Tweedle dum can quarrel with Tweedledee, then they are indeed two separate centres of decision-making, and not two arms of the one unified Tweedle. Tweedle dum has a mind of his own, different from Tweedledee’s, since he can make it up differently. Even if they always in fact agree, they could differ, and

so are different. Having a mind of one’s own is being able to make it up differently.

The future encompasses many possibilities, whereas the present consists of only one actuality, and the past of only one unalterable course of events. In talking about the future, therefore, we have to consider all possibilities: if Tweedledum and Tweedledee can decide to attempt different things, then, whatever the harmony hitherto, there is some future possibility in which one is trying to counter what the other is trying to do; if Tweedledum and Tweedledee cannot decide to attempt different things, then among all the possible future courses of events there is none that represents the one trying to thwart what the other is endeavouring to achieve. And since we are already in the realm of possibility, there is no room for a further appeal to possible duplication to confuse identity. If we are faced with someone plausibly claiming to be Guy Fawkes, it is always possible that there should be someone else, with the same features and same memory claims, also a plausible candidate for being Guy. But then let them meet each other. If each denounces the other as an impostor, then we can be at least sure that they are not both the same person in the way that Tweedle, were it not for the possibility of battle, might be: they are not both Guy Fawkes; one of them at least is an impostor; we may not be able to tell which, and we may have another Tichborne case on our hands. But that will be good news for the lawyers rather than bad news for the philosophers. If on the other hand, each treats the other with fraternal affection, taking him for granted as a fully accredited and completely appraised fellow worker in the Fawkes field of endeavour, we have a bilocated person enjoying two bodies but with only one will. When we survey the future, either there is a possible course of events in which the two putative Fawkes fight, or there is not: if the former, they are different persons, not both Guy Fawkes; if the latter, there is only one person we are dealing with. There is no third possibility: having considered all possibilities already, there are no further ones to generate further putative persons. Moreover, the all-or-none character of all possibilities secures the all-or-none character also of individual identity. When dealing with individuals, there is no room for a nicely calculated less or more: each someone is definitely a one, as well as necessarily not anyone else. By considering all the possible actions of an agent, we secure that each agent is of conceptual necessity one and only one.
Underlying the Reduplication Argument is the tension between the necessary uniqueness of the self and the possibility of multiple instantiation of any set of qualities. So long as we are dealing with only a finite set of qualities, they specify some \textit{infra species}, which only contingently and not necessarily has only a sole specimen. If, however, we move into the infinite realm of possible courses of events, we can hope to specify an individual uniquely by an infinite specification characterizing every response he might make under every set of conditions. If two putative persons would respond to every situation in the same way, then they are one and the same person, numerically identical; if there could be some discordant response, they are to that extent qualitatively as well as numerically distinct. Instead of needing the bodily continuity of the corpuscularians to guarantee the separate individuality of each entity necessarily located in space, we can take a Leibnizian stance, and hold that each monad differs from every other one by virtue of the way it actualises the infinite potentiality open to it as an agent.

The Reduplication Argument traded on the necessary uniqueness of an agent. Behind the contingent fact that people are not fissile, and do not divide like amoebae, lies the metaphysical doctrine of classical atomism, that the world is constituted of classical atoms (or corpuscles, or material point-particles), which are idealised things, possessing no other essential qualities, and subject to the two theses that a thing cannot be in two places at the same time, and that two things cannot be in the same place at the same time. So classical atoms have to be individuated by contingent spatial position alone; that is to say each classical atom necessarily occupies some place or other at any one time, but without there being any place that any necessarily occupies at any given time. Spatio-temporal continuity emerges as the only available criterion of identity for classical atoms. From a materialist point of view, spatio-temporal continuity is the one condition necessarily satisfied by material point-particles that confers necessary uniqueness on them, and the only condition available for securing necessary uniqueness to personal identity. Leibniz occupies the opposite metaphysical extreme. Whereas classical atoms are minimal substances, possessing no essential qualities, monads are maximal substances, each characterized by either possessing or not possessing every one of an infinite set of qualities.

In practice we do not need to go to metaphysical extremes. Our ordinary criteria work well enough in all ordinary circumstances,
but we should not confuse criteria with constitutive conditions. Criteria are features which serve as handy indicators; they are subject to constraints of practicality: they need to be accessible, easy to apply, and reasonably reliable under commonly prevailing conditions, but do not need to exhaust the whole content of the concept, nor to be infallible, nor even reliable under conditions which seldom, if ever, obtain. The Reduplication Argument does not concern criteria—after all, except in hospital or prison, we hardly ever can use bodily continuity as a criterion of identity. What the Reduplication Argument does is to pick out one essential feature of our concept of a person, and to claim, on the strength of the materialist metaphysics of classical atomism, that only bodily continuity will satisfy the requirement of necessary uniqueness. But the argument is flawed. Human bodies are not idealised things, but processes involving a continual flow of energy and matter, with no particular material particles reliably continuing as permanent constituents of any human body. The requirement of necessary uniqueness can be met if, instead of looking only to the actual present and past, we look also to possible futures, where a Leibnizian Identity of Indiscernibles will secure uniqueness more surely than the spatio-temporal continuity of classical atoms.

§2.2 Ego ergo Aego

Actions and possible actions provide the key to personal identity. They also are its most characteristic feature. I am, therefore I act. To be a person is essentially to be an agent, not just a sentient recipient of sense-data. Contrary to a long Empiricist tradition, experience is not passive reception of sensations imprinted on our consciousness, but, rather, feedback on our activities, often on our probings, listenings, watchings, even our sniffings. Sense-experience is not a matter of sense-data being given us, but of information being elicited by our senses. And granted I am not completely paralysed, I not only try to find out what the world is like, but I seek to alter it in accordance with my wishes. I act.

Actions have two aspects. They are causes and they are manifestations. They are causes, typically causes of events; they make a difference to what happens in the public world. But they are done for reasons, and therefore manifest the mind of the agent. Sometimes this is their prime function, as when I give a gift as a token of gratitude or good will. Even when they are primarily causes of
events, we need to be ready to construe them as having meanings as well as being causes. They make a statement.

Actions as causes look to the future. St Augustine’s characterization of time as *distensio animi* captures the sense of the agent’s stretching out to the future in his thought, and Gregory of Nyssa’s doctrine of *epektasis* is even more oriented to the future in our leaving behind the things that are past. To live entirely in the present, simply seeking immediate pleasure, *τὸ παρόν ἡδυ* (*to paron hedu*) is to live a limited life. In order to make rational decisions now, I must not only be aware of myself now, but envisage my situation and feelings in the future too. I must be able to imagine myself at some future time, and re-assess things from that standpoint. It is stupid to want to be Prime Minister, or Pope, or Emperor of the World, without imagining what one would do as Prime Minister, or Pope, or Emperor of the World. In particular, actions have consequences, and I need to consider consequences before undertaking an action; sometimes because it is the favourable consequences that give me reason to do it, sometimes in case there are adverse consequences that would constitute a reason for not doing it. Most, though not all, reasons for doing something are concerned with the future, and even when I act, for instance out of gratitude, entirely on account of past events, I still need to be aware of possible consequences, so as to avoid potential embarrassment: even when the prime reason looks to the past, the duty of care requires me to have some thought for the future. I must not only be aware of myself now, but envisage my situation and feelings in time to come. Prudence is a necessary concomitant of rationality.

§2.3 The Theory of Games

If we are to be fully rational, we shall need to conjugate not only over tense, but over number and person too. This runs counter to the received wisdom of the present age, according to which each agent is supposed to survey the options open to him, and to choose those that will suit him best. Rational Choice Theory holds that

---

\(^3\) *Confessions*, XI, XXVI, xxxiii.

an agent, if rational, will seek to maximise his concerns. A rational agent is portrayed as considering what he might do, and the consequences of doing it, and evaluating them in accordance with his preferences, and then acting so as to bring about the outcome that he values most. Often numbers, called “pay-offs”, are assigned to the outcomes, to measure how much they are worth to the agent, and then the agent can be thought to be trying to maximise his pay-offs. Each individual is out to realise his set of values as completely as possible. In particular, he is out to maximise his wealth. Economists have seen their discipline as a study of what happens when different wealth maximisers do business together, taking it for granted that it is rational to maximise one’s own wealth. They are wrong. Although often, of course, we do consider only our own preferences, and act so as to achieve our own most preferred state of affairs, and are right to do so, nevertheless and contrary to expectation, a maximising strategy can fail, even according to its own standards. Protagoras, Protagoras, Plato and many thinkers since have sensed that a general policy of πλεονεξία (pleonexia), me-have-more is unsustainable. This is shown by “The Prisoners’ Dilemma”. The argument is expressed in the abstract terminology of the Theory of Games, which gives a general understanding of reasoning when we make decisions involving more than one agent. Each agent, or “player”, (that is to say decision-maker) has a number of choices, yielding a large number of outcomes according to the

5 The pay-off is normally expressed in numerical terms, with the suggestion that we are dealing with the cardinal, interpersonal utilities that utilitarians believe in: but there is no need to assume that they are always cardinal and interpersonal; for most purposes it is enough that each player can decide his order of priorities as between the various outcomes that may result from his and others’ choices.

6 Due to A.W. Tucker. His formulation did not come out in a research paper, but in a classroom. As S.J. Hagenmayer wrote in The Philadelphia Inquirer (“Albert W. Tucker, 89, Famed Mathematician,” Thursday, Feb. 2, 1995, p. B7) “In 1950, while addressing an audience of psychologists at Stanford University, where he was a visiting professor, Mr. Tucker created the Prisoners’ Dilemma to illustrate the difficulty of analyzing certain kinds of games. “Mr. Tucker’s simple explanation has since given rise to a vast body of literature in subjects as diverse as philosophy, ethics, biology, sociology, political science, economics, and, of course, game theory.”
choices made by himself and other players. Each outcome is evaluated by each player according to his system of values, and the value he assigns to it, is his pay-off.

**The Prisoners’ Dilemma**

<table>
<thead>
<tr>
<th></th>
<th>You Play fair</th>
<th>You Maximise</th>
</tr>
</thead>
<tbody>
<tr>
<td>I Play fair</td>
<td>6 (Both fined £100)</td>
<td>10 (You go free: I spend ten years in gaol)</td>
</tr>
<tr>
<td>I Maximise</td>
<td>0 (I go free: you spend ten years in gaol)</td>
<td>2 (Both in gaol for one year)</td>
</tr>
</tbody>
</table>

In the matrix above we represent two decision-makers, me on the left-hand side and you on the top. We each have two choices, yielding four possible outcomes, each of which has its pay-off for me (shown by the numeral at the bottom left of the outcome), and its pay-off for you (shown by the numeral at the top right of the outcome). The Prisoners’ Dilemma establishes the irrationality of my always seeking to have more, or “more-for-me-ism”, where each individual seeks solely to maximise his own pay-offs. The best joint outcome is only available if we both stick to our joint strategy, which in turn is only possible if we each can trust, and be trusted by, the other to stick to it.\(^7\) With every man for himself, life in the jungle, Hobbes said, would be solitary, poor, nasty

---

\(^7\) This may be the evolutionary reason why we are good at recognising faces. We need to know whether the person we encounter can be trusted. If we can recognise him, we can remember whether he proved trustworthy.
Cooperation

brutish and short; and so he argued for there being a State having coercive power to restrain individual self-aggrandisement. Other lessons have been drawn: Protagoras argued that it showed the need for conventions which we all agreed to keep; Plato concluded that we should be governed by selfless guardians, who had wives and children and all their possessions in common; modern utilitarians likewise teach that everyone should selflessly aim to secure the greatest happiness of the greatest number. Each of these responses takes account of the fact that a maximising policy in this situation yields worse outcomes than could be obtained if each took a less self-centred outlook, and considered what was best for us all. We do better if we cooperate with one another, than if I, and everybody else likewise, thinks only for himself. “Only for himself” not “only of himself”. It is easy to conclude from the Prisoners’ Dilemma, as Plato did, that our troubles are all due to

<table>
<thead>
<tr>
<th></th>
<th>She shops</th>
<th>She gardens</th>
</tr>
</thead>
<tbody>
<tr>
<td>He gardens</td>
<td>good garden</td>
<td>super gardens</td>
</tr>
<tr>
<td></td>
<td>good food</td>
<td>poor food</td>
</tr>
<tr>
<td>6</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>He shops</td>
<td>super food</td>
<td>poor food</td>
</tr>
<tr>
<td></td>
<td>poor garden</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Altruists’ Dilemma

some original sin of selfishness, and that the remedy is altruistic self-denial. But this is a mistake, as can be seen if we consider the Altruists’ Dilemma, where He does what She wants, and She does what He wants, with the consequence that they both end up with the worst possible outcome. In the matrix above we represent

previous encounters. If he was, we trust him again. If he let us down then, we shall know better this time. In either case “Do as you were done by” is the wisest maxim.

See further, §7.1.
two decision-makers, He on the left-hand side and She on the top. Again, each has two choices, yielding four possible outcomes, each of which has its pay-off for Him (shown by the numeral at the bottom left of the outcome, and for Her (shown by the numeral at the top right of the outcome). He would rather garden than go shopping, and would like to have her around to empty the wheelbarrow; She would rather go shopping than garden, and would like to have him around to carry things. If they each did what they wanted, the result would be quite good, though not as good for either as it would be if the other were there to help. But He, knowing that She would like to go shopping, insists on doing the shopping, while She, knowing that he prefers gardening, is determined to do gardening; so that each has a miserable time doing alone the least favoured option.

What the Altruists’ Dilemma shows is that it is not our each wanting our own good that is the root of trouble, but our each maximising according to our own lights. Plato was right about the πλεον (pléon), more, but wrong about the εξια (exía) from ἐχω (echo) I have, I possess. It is not what I seek to have—money, kudos, power, sanctity, or even my partner’s enjoyment—but my seeking to maximise it without regard to others’ priorities, that gives rise to both the Prisoners’ and the Altruists’ Dilemmas. Both can be avoided if we each choose with an eye to what each person values.

Thus the lesson to be learned from the two Dilemmas is that it is not each decision-maker having his own values and being guided by them that gives rise to the paradox, but rather their each doing so regardless of what other decision-makers may be wanting. He should not attempt to maximise either a revised set of pay-offs, or some total of them, but should evaluate outcomes by taking into account not just his own pay-offs, but those of the other decision-makers as well, seeing them not only from his own point of view, but from theirs also. Just as reason bids us see things both from the present and from a future point of view, so it bids us move from the first person singular to the first person plural.

This lesson is one that economists are extremely loth to learn. They subscribe to Rational Choice Theory as an axiom, allowing of no exceptions. The Prisoners’ Dilemma shows that Rational Choice Theory, thus construed, is wrong. It only works in a solipsistic world in which there is only one decision-maker. If I am not the only pebble in the beach, I must take account of the other
agents with minds of their own, who can take decisions which may affect me, determining which outcomes will eventuate from the decisions I take with pay-offs often outside my control. Rational Choice Theory combines maximising with extreme egocentricity, and the combination proves under some conditions to yield bad outcomes. Either the maximising principle must be modified from an unqualified superlative to a qualified comparative, that other things being equal it is reasonable to go for the greater benefit, or we must abandon extreme egocentricity, and conjugate, in the first place from the first person singular to the first person plural, and then in the light of further arguments, shortly to be given, from the Theory of Games to other persons, other tenses and other moods.

The Rule of the Road reveals the importance of the third person plural, and of conventions—"Coordination Norms"—in enabling players in a many-person game to concert their decisions so as to secure outcomes that they all prefer. In driving, in communicating, in dancing and in many other social activities, we need to coordinate our actions with one another, so as to concert our efforts and avoid collisions.

The Rule of the Road

<table>
<thead>
<tr>
<th></th>
<th>Mr Knight goes right</th>
<th>Mr Knight goes left</th>
</tr>
</thead>
<tbody>
<tr>
<td>M. Chevalier à droite</td>
<td>each passes each other</td>
<td>collision</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>M. Chevalier à gauche</td>
<td>collision</td>
<td>each passes each other</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>5</td>
</tr>
</tbody>
</table>

Two motorists, Mr Knight and M. Chevalier are approaching each other, and needing to move over in order not to run into each other. They are represented by the matrix above (with Mr Knight's pay-offs in top right of each outcome, and M. Chevalier's in bottom left).
Provided both go right, or both go left, they will pass each other safely: but if Mr Knight insists on being English, and driving the English way, and M. Chevalier insists on being French, and driving the French way, there will be a smash; and so too, if Mr Knight wants to be courteous to the Frenchman, and drive on the right, and M. Chevalier wants to be courteous to the Englishman, and drive on the left.

What is essential is that they do not each decide what he, on his own, thinks best, but both abide by some convention, or rule, or law, or mutual agreement. That is to say, I should not attempt to do whatever seems to me to be productive of the best consequences, but should reliably act in the way that other people expect me to act. I should drive on the left and not cut corners, give way when the other driver has the right of way, and press forward when I have, so that other drivers know where they are with me, and can plan their own movements accordingly. There is a necessary imperfection of information about the future actions of free agents: a simple maximising strategy is impossible, and each player must keep in step with others, usually by means of their all abiding by some relevant convention. Whatever the apparent attractions of consequentialism for the single operator, they are shown to be illusory, even by consequentialist standards, once the agent sees himself to be not a solipsistic loner, but one person among many, each needing to recognise others as initiators of action with minds of their own whose decisions can be anticipated only if they adhere to well-known rules.

The Rule of the Road requires us to conjugate into the third person plural, and to recognise a rational limit to rationality. I have to allow that they signify, and that I must on occasion go along with what they do irrespective of my own better judgement. “When in Rome, do as the Romans do.” And the Romans’ decisions may well be opaque to my understanding. There is no correct side of the road that a rational agent could identify as the correct side. We may be able to achieve some historical understanding of how a society came to have the mores that it has, but whether we can or cannot is irrelevant: their way now is the way things are, and we must simply accept it. If I am able to make up my mind differently from everybody else, other people are likewise able to make up their minds differently from me. And the Rule of the Road shows that it is rational for me to go along with the decisions of others, even though I cannot myself see the rationale of them, rather than
presume that my reasoning is so rational that everybody else will agree with it.

The Rule of the Road is not only an argument against maximising one's own interest, but also an argument for a rational heteronomy of the will. It is sensible in many situations to do not what I will but what they will. The paradigm example is language. Words do not, puce Humpty Dumpty, mean what I want them to mean, but what everybody else wants them to mean. In a non-solipsistic world I have to wrap my tongue round other men's syllables if I am not to be an incommunicado barbarian. Similarly in many social situations, I must conform, if I am to get anywhere. It is not up to me, as an angry young man, to decide whether I accept society or not. Accepted or not accepted, society exists, and if I won't cooperate, I shall forgo the fruits of cooperation. It is unrealistic not to take account of the third person plural.

We need to conjugate over tenses too. Modern thinkers often make out that the past is water under the bridge which we cannot do anything about, and should not take into account in deciding what to do. But that is a mistake, as is shown by the Battle of The Sexes. In the Battle of the Sexes He and She want to spend their holiday together, but He would prefer to go mountaineering in the Alps, whereas She would rather they both spent it sunbathing by the sea. Since for either of them the second best is so much better than the third or fourth alternatives, it would pay either to settle for that if the very best appeared unattainable. And therefore it would pay the other to make it seem so. If She can throw a fit of hysterics and say she cannot abide the Alps and will not go there at any price, then He, if he is reasonable, will abandon his hopes of an Alpine holiday, and settle for the sea, which he would like twice as much as solitary mountaineering. But equally He may see that the moment has come to take a firm masculine line, and let the little woman face up to the realities of the situation, and either come along with him or go her separate way. And if once it becomes clear that this is the choice, She will have no option but to cave in, and buy a knapsack instead of a new bikini.
The Battle of the Sexes

<table>
<thead>
<tr>
<th></th>
<th>She goes to Alps</th>
<th>She goes to sea</th>
</tr>
</thead>
<tbody>
<tr>
<td>He goes to Alps</td>
<td>lovely for him: good for her</td>
<td>“wish you were here too”</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>4</td>
</tr>
<tr>
<td>He goes to sea</td>
<td>lovely for him: beastly for her</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0</td>
<td>10</td>
</tr>
</tbody>
</table>

It is irrational to be guided only by the pay-offs of the outcomes that are available at any one time, because that enables the other to manipulate one’s choices. If I am to retain my autonomy, I cannot be altogether a direct consequentialist. Once you know that I am guided by consequences alone, you can induce me to do whatever you want by rigging the situation in such a way that by the time I come to make a decision the least bad outcome available to me is to fall in with your plans. The strategy of Mutually Assured Destruction only worked provided both sides believed that the other was not governed solely by consequentialist considerations, and really would retaliate if attacked, even though there would be then no advantage in doing so. In order to reinforce this expectation, mechanical devices were constructed which in the event of a nuclear attack would operate automatically without the possibility of being switched off by any consequentialist survivors. In a less grisly way the whole logic of making and keeping promises is to ensure that some actions of an agent need not be altered simply by reason of factors, which had been future, becoming, by the effluxion of time, past. If we discount all past considerations we not only lay ourselves open to manipulation, but give only a partial account of the context in which our decisions are made, and from which
they obtain their significance. I cannot be coherently oriented towards the future alone, once I recognise that all my futures will one day be past. Rationality requires that we extend our consideration over time past as well as time yet to come, that is to say that we conjugate over all tenses as well as persons and numbers.

Each of these arguments from the Theory of Games is a *reductio ad absurdum*. We start by assuming, as the Rational Choice Theorists do, that rationality can be defined in terms of maximising one's own preferences—usually one's own future pay-offs—and then show that even within its own terms, such a definition is self-contradictory. The Prisoners' Dilemma shows that I should take into account not only the existence but the interests and ideals of other people, and that it is irrational to ignore the collective point of view. The simple maximising strategy would leave us all worse off than we should have if each thought of himself as one of us. Once I acknowledge that other people, as well as I myself, are decision-makers, the Prisoners' Dilemma and the Altruists' Dilemmas show the irrationality of simply maximising one's own preferences, regardless of others'. The same lesson is taught by the Rule of the Road, which shows that it is better to keep to the rules than to try, as the Act Utilitarians counsel, to perform the act that will have the best consequences: each of us should recognise that he is not the only pebble on the beach, that it is not always for him alone to choose which course of events shall occur, and that often the best he can do is to fit in with what other people are likely to do. Rule Utilitarianism recognises this, and the need generally to abide by established norms, but still professes principled unconcern with the past. The Battle of the Sexes shows that it is irrational to have regard only to future outcomes; an agent has a past as well as a future, and should make up his mind what he is going to do with regard to what he has decided in the past as well as what will ensue in the future.

Maximisers try to accommodate objections by extending the concept of what is being maximised: I may make another's priorities my own; I may profess Rule, rather than Act, Utilitarianism; I may ascribe to people in general retributive sentiments which would justify my punishing malefactors for what they have done, rather than to alter what they will do. But these *ad hoc* modifications will not work. By extending the concept of preference to accommodate every counter-example, they evacuate it of all content. All we are left with in the end is that a person's preferences
are revealed in the decisions he makes, and that when we say he
is maximising his preferences, what we are really saying is the he
does what he does. The attraction of classical economics, Utili-
tarianism and modern accounts of rationality, is their simplicity.
They offer a key to understanding, and if necessary correcting, our
often muddled thinking about what to do. As they are modified
to take account of some of our actual thinking, we find they need
to be modified further and further, and thus will lose all claim to
be providing a new sweeping insight. It is the simple, unmodified
claims that need to be evaluated. And the Prisoners’ Dilemma, the
Altruists’ Dilemma, the Rule of the Road, and the Battle of the
Sexes reveal internal inconsistencies in the claims.

The arguments from the Theory of Games are primarily nega-
tive, but of great importance in delineating the mind of an agent.
They defeat the widely held and deeply entrenched doctrine of self-
ish consequentialism which understands rationality exclusively in
terms of maximising desired consequences. It is important, there-
fore, to prove that this is wrong, and that rationality cannot be
explicated in terms of maximising desired consequences. Contrary
to the static, solipsistic, future-oriented, exclusively individualistic
standpoint of the classical economists and their successors, we are
forced to recognise that rationality is dynamic, leading us to take
a longer temporal and wider personal view of what is involved in
the decisions we are called on to take.

§2.4 Selflessness

The arguments of the previous section defeat selfish consequen-
tialism. But if selfishness is bad, it might seem that what we
should aspire to is selflessness. Plato did. Many people, both
in the monasteries of the Christian Church and in the kibbutzim
of modern Israel, have attempted to live according to Plato’s ideal
of everyone’s being moved solely by selfless concern for the welfare
of the community. But though they were successful in abolishing
private ownership of possessions, bitter conflicts often raged as dif-
ferent individuals each tried to secure that it was his ideas of what
ought to be done that were actually adopted. Adam can be per-
suaded, for the sake of some great cause, to give up possessions,
even sex and the hope of posterity, but he is still an agent, making
up his own mind about what ought to be done, and believing that
what he thinks ought to be done is what really ought to be done.
The origin of sin lies not in fleshly lusts or worldly possessions, but
in each agent being a different originator of action, and hence the necessary egocentricity of decision-making, which all too easily becomes cancerous. It follows that we should not seek to be selfless, which is an unattainable and undesirable ideal, often clouding our judgement, and leading to hypocrisy. The opposite of selfishness is unselfishness, not selflessness; but often the virtue of unselfishness is transformed into an ideal of complete self-abnegation, sometimes tinged with a degree of self-hate, which does indeed secure our relations with others against the ravages of selfishness, but provides no positive basis for getting on well with them. I cannot love my neighbour as myself, if I do not love myself at all.

The fear of the self arises naturally from the need for self-discipline. We need to urge people to take some thought for the morrow, and to practice prudence, and not seek only ποταμός ἰδίω (to paron hedon), immediate pleasure, but again all too easily the virtue of prudence is taken to extremes, and made a fetish. Taking thought for the morrow is often taken to exclude any awareness or enjoyment of today. But there is sense in gathering rosebuds while we may, and not always putting off the enjoyment of good things until a later time: it may be too late then to enjoy them at all. The present is the time that is actual, and if we mortgage the present entirely to the future, we deprive the future, and indeed all time, of its actuality. We should conjugate, taking cognizance of the future as well as of the present, but should always remember that the present is the time we live in, and that there is wisdom in leaving unto tomorrow the troubles thereof, when there is nothing effective we can do today to ward them off.

The present tense is covertly egocentric. It is now, the time at which I am speaking. So, too, the past is the time before the time at which I am speaking, and the future the time after the time at which I am speaking. In order to avoid all taint of egocentricity, language must be purged of tenses as well as persons. This is seen as a rational reflection of reality. Reality is "what there is anyway", irrespective of personal choices and aspirations, and should be described in an impersonal, passive, tenseless, scientific
language. Reality does not conjugate, so we should not conjugate either.

The argument is powerful, but misconceived. The short answer is that although it may be true that the language of natural science should not conjugate, economics is not a natural but a moral science, dealing with human beings, not an impersonal Reality, and must recognise that different persons have different viewpoints at different times. More fundamentally we may question whether the account given of Reality is correct. Admittedly, the equations of Newtonian mechanics and electromagnetism do not distinguish between future and past, and confer no special status on the present, but quantum mechanics does distinguish the range of probabilities open to a system in the future from its definite state in the past, with the present as the moment of collapse of the wave packet.\textsuperscript{12} And although Electromagnetism can be treated tenselessly and impersonally, when we come to the Special Theory, it is illuminating to consider different inertial frames of reference as quasi-personal spatiotemporal standpoints, and it is possible then to derive the Lorentz transformations from minimal assumptions about them.\textsuperscript{13} All that should be conceded to the anti-conjugationists is that for some purposes and in some disciplines, an impersonal, tenseless language is appropriate.

In a society of selves, selfishness is a recurring danger, since each sees the world from his own standpoint, and is tempted to ignore others, as he seeks to accomplish his plans. But the remedy for selfishness, is unselfishness, in which I consider other people—other selves—as well, not selflessness, which denies selfhood not only to myself, but to everyone else too.

\textsuperscript{12} For fuller discussion, see J.R. Lucas, \textit{Reason and Reality}, users.ox.ac.uk/\texttt{jr-lucas/reasreal/quanchp3.pdf}, 2006, or Ria University Press, Pao Alta, Ca, 2009, ch.11, \S11.7, esp. pp.332f. See also above, \S2.1, p.7.

§2.5 Utilitarianism

The sin of selfishness is to seek to implement one’s own plans regardless of those of other people. It might then seem that the Utilitarians were right, and we should each seek to maximise the grand totals of everyone’s pay-offs (assuming that they are comparable and can be added). Indeed, in some cases this is the right method to adopt. When the State, or a private charity, or some other public authority, has limited funds and choice of how to employ them, a Cost Benefit Analysis (COBA) is always a useful adjunct and sometimes the determining factor in reaching a decision. But often there are factors which cannot be properly priced: when it was being proposed to build a third London Airport at Cublington, a Norman church was valued at £2,000. Utilitarianism, taken as a complete guide to conduct, fails to register the importance of each person as himself an agent making his own decisions along with others, themselves also agents. People are treated as units rather than individuals: they are thought of as patients, capable of feeling happy or unhappy, that is, each one having his pay-offs, which, since each is to count as one and nobody as more than one, can be simply summed; but no account is taken of the fact that each person is not just a feeler, but a doer, with a perspective all of his own. Different people have not only different pay-offs, but different projects, as Bernard Williams calls them, which should be respected, not homogenized into one maximum total pay-off. What is important to a mother is not just that there is a nice birthday cake for her child, but that she it was who made it.

From the standpoint of this chapter, Utilitarianism is to be seen as the limiting case of a one-person game, in which the Utilitarian is the sole decision-maker, and decides so as to bring about that outcome which will have the highest pay-off. It has what Williams calls the “Government House” attitude; it is benevolent, but a benevolent despotism; it wants to do what will be best for

---


15 It should be noted that in the Prisoners’ Dilemma, if the pay-offs were those given in §2.3 above, the Utilitarian would conclude the best thing would be for one prisoner to confess and the other keep silent (yielding a joint total of 10 rather than the 4, if both kept silent)—but that there was no indication which should do what.
its people; but it does not reckon that their acting according to their lights is something that should be accorded serious respect. If there are separate decision-makers, they will not all always be of one mind. They will differ, and as different agents, their perspectives should register in any overall decision. We should conjugate, not homogenize.

The attraction of Cost Benefit analysis remains strong. As with the crude maximising strategies in the Theory of Games, it seems to be able to accommodate every consideration that ought to be taken into account: any objection can be reckoned a cost, and every advantage can be deemed a benefit. As before, such accommodation ends by making the concepts of cost and benefit vacuous, but this is not readily recognised. Grisly examples are needed to shake the confidence of its advocates. With the advent of spare-part surgery, it could become the case that if we carved up one healthy individual, we could save many lives, donating his heart to one invalid, a kidney each to two others, a spleen to another, and an eye each to two further others. In suitable cases the benefits would be enormous, enough to outweigh the admitted cost of one individual’s life and happiness. Whatever price we put on a single life, it could be exceeded by a sufficiently large number of other peoples’ benefits.

Most objections to utilitarianism, however, are on the score of justice. Utilitarianism fails to protect the rights of the innocent and fails to vindicate the rights of victims. Utilitarian criminologists see their job to minimise harm. Statistics suggest that it is possible to predict the likelihood of someone’s committing murder. “Someone who is convicted of violent robbery or rape at the age of 12 has a lifetime risk of killing somebody that is far in excess of somebody who is not charged with a serious crime until 18 or 19.” Rape is a horrible crime, and perhaps a life sentence on a boy of 12 convicted of rape could be reckoned fair, though harsh; but for violent robbery? We certainly want to prevent people being killed, but there are considerations of justice, responsibility and desert, which weigh with us, though they find no place in the calculus of harm.

16 See above §2.3.

17 Professor Lawrence Sherman, Cam, 61, Michaelmas 2020, p.31.
The issue may become clearer if theories canvassed at the American Association for the Advancement of Science prove correct.\footnote{At its meeting in Washington, D.C., in February, 2011, reported in The Daily Telegraph, 22 February, 2011, pp.1 and 9.} If brain scans on children can pick out future criminals, harm will be minimised if they are forthwith incarcerated for life. True, it will not be nice for them. But we can estimate a value for the harm imposed, as we can estimate the loss for a child found to be suffering from an incurable disease which will leave him paralysed for all his adult life. In each case there is real deprivation. But the harm caused by a delinquent’s life of crime could well turn out to be greater. He might turn out to have a 99\% probability of committing at least one murder. But though we might well want to keep an eye on him, and to provide special counselling, and encouragement to keep straight, we would think it unfair to punish him for a crime he was going to commit. \textit{Pace} the Red Queen, punishment must come after an actual crime, not before a merely possible one.

Justice is equally affronted when criminals are let off simply because it is too costly to punish them. It is expensive to investigate muggings and burglaries, expensive to take the miscreants to court, expensive to punish them effectively. It is cheaper to give the victims a police number, and tell them to claim on their insurance. But it is letting them down. In civil society the civil authority has a monopoly of coercive force. The quid pro quo is that the civil authority sides with the victims of crime. More generally the civil authority is entitled to, and largely depends on, the cooperation of individual members of society. They cooperate with authority, and in return authority is expected to cooperate with them. If authority on utilitarian grounds abandons its duty to each individual, \footnote{See further, §5.6.} it is ceasing to do its job.\footnote{See below, §7.1, §7.3, p.143n. and §7.5.} Utilitarian calculations have a proper place in public debate, but not an over-riding one.
§2.6 I and We

The moral sciences are fundamentally first-personal, in contrast to the natural sciences, which are impersonal. The first-personality is centred on the first-person singular, but is under pressure to widen its scope to the first-person plural. It is centred on the first-person singular, because to be an agent is to be someone who can say “I did it” and is open to the question “Why did you do it?”, to which the response sought is some reason for the action. To understand the actions of another agent is to empathize; I put myself in his place, and seeing what he did from his point of view, come to realise what his reasons must have been. Reasons are shareable, and usually shared, so that although it is I who make up my mind what I am going to do, my reasons can be shared by others in my circle, who may endorse them to such an extent that my action is not mine alone, but ours.

The pressure to move from the first-person singular to the first-person plural is partly physiological, partly psychological and partly logical. The physiological pressures are obvious. I have to sleep. For one third of the time I am vulnerable to predators and attackers. If I am to be safe, there must be others who will protect me while I am asleep. They and I must form some sort of community with sufficient community of values that my life will be dear to them. There are many different forms of such community, from the soldiers with sentries posted to the master with loyal household servants, but in every case I must trust other people while I am asleep. Moreover, sooner or later I shall die. If there are to be any successors to come after me, some cooperation will be needed. I cannot procreate alone. Samson needs some Delilah or other if there are to be Samsonets. And this being physiologically necessary, we have evolved to feel it psychologically compelling also. Sex has been the undoing of many strong men, but sexless men leave no descendants.
Psychological and logical considerations reinforce one another. In theory it should be possible to practise minimal acceptance of first-person plural identities, but in practice we cannot cast them off as easily as we might wish. Plato argues that first-person-singular maximisation fails as a life strategy, because the corporate identities we acquire in the course of living with other people conflict with the tenets of self-aggrandisement a consistent maximiser seeks to adopt, thus causing psychological stress and ultimately disintegration of the whole personality. In order to survive in society the individual must be thought by others to be keeping the rules—else he would be treated as an outcast, punished, exiled, or in some other way excluded from social institutions. He must seem to conform. He must, therefore, sometimes actually conform, and so must know how to conform, understanding the reasons for conforming, and to some extent sensitive to their force. And when in pursuit of his maximising strategy he breaks the rules, he will know it. He may be successful in deceiving others, but himself he cannot deceive. He may be able to maintain his reputation of law-abidingness, but he will know what he is doing, and also why it is wrong. Having internalised the precepts of common morality enough to be able to pass for a moral person himself, he will be unable to externalise them entirely, so as not to feel discomfort atouting them. There will be war in his soul, and he will suffer psychologically. It is a counsel of prudence, and not just an imperative of morality, to be moral, in order to enjoy psychological health and peace of mind. Plato buttresses this argument, which he gives in book four of the *Republic*, with the converse account, given in book nine, of the misery of the autistic autocrat, who is doomed to a lonely life on account of his repudiation of all social bonds, and a fearful one by reason of his attributing to others the same uninhibited pursuit of personal advantage as he practises himself. The only decision-maker who can fearlessly pursue an unbridled strategy of maximisation is one for whom no unwelcome outcome can come from any other decision-maker's choice, guided solely by self-interest. But any other decision-maker, supposedly as unscrupulous as the autistic autocrat himself, would see him as a successful rival, to be envied and out-classed; and even if he was not a would-be competitor, he would be rationally afraid of what the autistic autocrat might be going to do to him at some future time; and therefore he would not have a personal interest in the autocrat's well-being. Traditionally, tyrants have tried to overcome
this natural non-congruity of interest by adventitious bribes and threats, which can be effective—for a season. But such effectiveness is not inherent. It is contingent on conditions which may not always obtain, and which, even if they do obtain, cannot be relied on to continue. The autistic autocrat has good reason to be fearful, even if he has been successful so far in manipulating the perceived interests and actual hopes and fears of those around him. The pure strategy of first-personal aggrandisement leads to a life that is not only necessarily solitary, but likely to be short, and unable to offer any prospect of a long-term future.

Social psychological pressures are powerful. We identify. I am an Englishman, an Oxford man, a Christian, a philosopher, an academic, a traditionalist, a Royalist, a Wykehamist, and many other sorts of -ist. I feel it deeply if my country or my university is attacked, and I take pride in the academic successes of my school and my college. Others feel similarly. Moreover, although the ultimate anchor of first-personality is one's own agency, the degree of participation can be minimal in some group identities. If I take part in the decision-making of a group, I naturally see its decisions as my own, but I may still do so when I have no effective voice in what shall be done by us. After the Nazis came to power, ordinary Germans had no voice in what Germany did, but many enthusiastically identified with the Nazi programme all the same. Group rallies, patriotic expression, national festivals, all contribute to a sense of national identity. The pervasive pressure of the Rule of the Road is often enough to lead the individual to construe the rules he has to comply with in order to collaborate with others as rules that he makes his own. This is especially true of language. Typically, though not always, a common language goes together with a common national identity. Compliance and conformity constitute acceptance and ownership. It can go too far. In our present age nationalism is by many too keenly felt, and the history of the Twentieth Century might have been happier if fewer men had believed that dulce et decorum est mori pro patria. Nevertheless, some patriotic loyalty is essential if civil society is to survive; and

21 Elinor Ostrom won the Nobel Prize in Economics for showing, contrary to the received opinion of professional economists, that small social groups often managed to avoid “The Tragedy of the Commons” by social cooperation, establishing sensible rules for the use of common facilities. Here, as in many other cases, small is not only beautiful, but effective.
other group-identities are equally necessary for a robust sense of self and psychological well-being. I need to be able to use the first-person plural naturally, if I am to be comfortable with my use of the first-person singular.

It is not just physiological vulnerability and psychological pressure that impels us to be sociable. Even if we strip away all human attributes and weaknesses and consider decision-making as a pure exercise in the Theory of Games, we still have found that excessive egocentricity is self-defeating. The Prisoners’ Dilemma showed that two exclusively self-regarding decision-makers would fare worse than two who were ready to forgo some possible advantage for the sake of their joint good. If I am to be one of we, I must be prepared on occasion to act in accordance with our values rather than my own exclusive ones. So there must be some possible occasions when I acknowledge an obligation to do what we want even though it be to mine own hindrance. The paradigm example is when I have given an undertaking. Only if I keep promises can other people regard me as fellow members of their society. Marx scoffed at the bourgeois morality of honesty, but it is the exemplar of all corporate morality: even among thieves there has to be honour.22

More pervasive pressure is exercised by the Rule of the Road, where no great sacrifice is called for, but great costs are suffered by those who do not keep to the rules and conventions observed by others. I cannot communicate unless I abide by the rules of a common language, rules that I cannot alter arbitrarily by my sole dikrat. I may feel aggrieved at words not meaning what I want them to mean, and may think I ought to be master of them, rather than the other way round, but I shall not be understood as I sound off syllables according to my rules rather than those recognised by my hearers. Although it is up to me to decide what to do, it is, then, sensible for me to take into account not only my interests, but ours as well, and sometimes to forgo those that are exclusively mine for the sake of those that are jointly ours.

The move from a first-person-singular to a first-person-plural standpoint is possible because we can share reasons for acting, reasons are shareable, because we can conjugate not only from the first-person singular to the first-person plural, but from the first person to the second and third persons. I can understand why

22 Compare Plato, Republic I, 351–352.
you do things, because I can imagine myself in your position, and what I would do if I were you. And similarly, what I would do in his situation. Hence on occasion I can understand, and sometimes endorse. Although we, as individuals, are necessarily unique and different from one another, we can act for the same reasons. Values, reasons for actions, concerns and interests have a different logic from possessions, which are private: whereas my possessing a car excludes its being possessed by others, my having a reason does not. Reasons are inherently shareable. If I share my possessions with you, they are no longer totally mine, but if you and I share a concern, for neither of us is it in any way diminished. You and I can both share a concern about global warming, we can both have the same interest in train spotting. We often engage in joint activities. Each member of the cricket team plays his part in winning the match, and can be proud that our team won. It is the shareability of reasons that makes the move from the first-person singular to the first-person plural natural and easy, and enables us to talk about our values, concerns and interests, and to engage in cooperative activities.

It is difficult to talk about reasons for action at the highest level of generality, because no one word is adequate. 'Reasons' is too unspecific. There are all sorts of reasons, not just reasons for actions, and we need to exclude those other reasons from our consideration. 'Consideration' is suitably specific as a reason for, or against, an action, but covers also the activity of considering. 'Concern' is often appropriate, but looks towards future pay-offs, and it is not only concern for outcomes that guide my actions: actions are often bearers of meaning more than causes of results. 'Values' describes well the high-level reasons that guide our most important choices, but sounds too grand to explain my train-spotting. Such hobbies can be described as interests of mine, but interests, as we shall see, have a special logic of their own that can easily lead to erroneous conclusions. 'Values' in spite of its grandeur, is perhaps the least bad general word for the considerations that guide an agent in deciding what to do.
§2.7 Interests

Interests are multiply conjugated. I have interests, which I view and cherishes from my first-personal standpoint. But I can then consider them third-personally. In deciding what to do, I can and should consider the interests of those affected. It may be in my interests to grow a high Leylandii hedge at the end of my garden to protect my privacy, but I ought to consider whether it might take the light off my neighbour's garden. A lawyer can forward the interests of his client, much as a doctor seeks to promote the health of his patient, but whereas health is much the same for all human beings, interests vary much more from person to person, and are more a matter of first-personal assessment. Mostly, interests are
thought of in worldly, usually monetary, terms. But not necessarily. In a debate where your ideas are being discussed, I may defend them on your behalf, though not myself agreeing with them. "He would rebut that argument by pointing out . . .". I am telling them, on your behalf, what you would have said, on your own behalf, had you been there. It is like the future perfect, which expresses from a future standpoint what at that time had been the case at some earlier time; only instead of iterated temporal standpoints, we have iterated personal ones.

In fact, we conjugate further. Although mostly we simply try to view things from a third person’s first-personal standpoint, we do not always accept his assessment of his own interests. We may seek to protect them against his immediate desires, giving greater weight to prudence, the concern for the future, than to the actual inclinations of the present. We may also pare down his wider interests to prudent ones. Out of gratitude he may be interested in the welfare of a dead colleague’s orphaned children; he may be a leading light in the British Legion, a big donor to War on Want, an enthusiastic supporter of the United Nations—these, as well as his hobbies, are described as interests of his, but they do not register third-personally as much as his shares and his pension rights.

The reason is that with interests we do not conjugate only over person, but over mood. Some interests are necessary interests, and we are ready to ascribe necessary interests to people without their avowing them, and even in the face of explicit disavowal. That agents have necessary agency follows from the concept of agency. Agency implies a propensity to form intentions, a desire to carry them out, and a profound aversion to being altogether unable to do so. An agent, therefore, has necessarily an interest in his future ability to carry his decisions into effect. For human beings life and limb, health and liberty, are necessary if they are to continue to be effective agents. These are bodily concerns, since it is through our bodies that we act, but even if we were not embodied in the way we are, we should still be vulnerable if we were able to act in a public world where other agents could act too. For in such a world our intentions could not always be guaranteed success; they might be thwarted by the actions of differently-minded other people. And it is therefore possible that they should be systematically thwarted, so that we were altogether frustrated in our attempts to carry out our own intentions; which for an agent, even a disembodied one, is necessarily A Bad Thing.
It follows that if we regard someone as an agent, we impute to him certain interests, life, limb and liberty, as a matter of course. We have little hesitation in resuscitating would-be suicides, in doing all we can to restore an unconscious man to health, in proscribing and preventing mutilation, in enforcing writs of *habeas corpus*. Recent heart-searchings over euthanasia and assisted suicide for the terminally ill, show our reluctance to allow the expressed wishes of the patient to override these imputed interests. Only if we are certain that there is no prospect of becoming an effective agent again are we prepared even to consider countenancing someone's foreclosing all chance of doing things in this world. Similar concerns are emerging over sex changes and gender re-assignments. An initial presumption against what was seen as bodily mutilation has given way to a recognition of a patient's settled determination to abandon all hope of posterity and the sex determined by nature in order to lead a more fulfilled life in a different sex. It is likely that in the future, when the importance of choosing one's sex before puberty is more widely recognised, that we shall have more qualms in overriding what we take to be natural interests at the instance of the agent's own actual and explicit choice.

Interests, then, are not always a simple matter of choice. But often they are. You have an interest in train-spotting and fishing, I in hiking and country churches. Hobbies are first-personal concerns that are rather light-weight. But an agent may also form long-standing concerns, which are far removed from his immediate sphere of action and sentience but constitute a major part of his life's significance and his own identity. Asked about his religion, his war-time heroism, his subsequent career as a dedicated doctor, he would give reasons why these were ideals that ought to inspire him, not pass them off as things he happened to like doing. His major commitments are not just choices he happened to make, but ones he had to undertake for reasons which seemed good to him and which should be recognised as weighty by any reasonable person. But they did seem good to him: he acknowledged their weight, and adopted them as reasons for action, and is responsible for what he did on account of them. Luther may say "I can no other", but still must avow his stand in the first person, accepting it as something that thereafter will be partly constitutive of himself.

Liberals often say that the individual is the best judge of his own interests. We now see that this is necessarily false as a universal precept, but necessarily true as a general one. People can
be foolish and imprudent, and act against their own interests. An undergraduate may want to study a course he will not be able to master in the time available. An entrepreneur may want to expand his business faster than his capital will permit. A politician may lend his name to trendy initiatives that will bring him down in the end. The Middle Ages distinguished the King’s two bodies, or as we should say two capacities, the actual monarch’s actual desires and the long-term interests of the crown. It makes perfectly good sense to say that a man is acting against his own interests, and there are occasions when we have to conclude that someone is not being the best judge of what his interests really are. But only occasionally: unless there is some real contact with what people actually want, interests wither and perish. I may think it is better that you should spend all your time doing gymnastics and studying mathematics, but I cannot say that it is good for you, unless there is some connection with your actual or plausible wants. The boundaries of what you might come to want are vague, and may be extended to unlikely lengths; but the fact that they sometimes are thus extended in the course of argument shows the need for there to be some such connection if the claim that the course of action is in someone’s interests is to be made out.

The conceptual link may be tenuous in view of the wide range of possible concerns an agent may have, but empirically the link is usually much closer: besides the necessary link, conceivably tenu-ous, between a person’s interests and his choosing, there is an empirical truth about most people’s competence. Each person thinks about his interests far more than most other people do, and is peculiarly sensitive to any mistakes he makes, and so very ready to learn from them. He is likely, therefore, to judge better.

Interests give good guidance to interpreting agents’ actions. But their internal logic may mislead. When we are concerned with a number of agents, the interests we can ascribe to them all will tend to be those they necessarily have: when we are concerned with a single individual, it is likely that his first-personal interests, which are his alone, will be those that matter to him most, and have a predominate role in his decision-making. Numbers thus tend towards materialism. If we are to talk about the interests of many, since we are being unable to have meaningful second-personal discourse with a large number of people, we have to ascribe them, not learn them by self-avowal. Paradoxically, the active voice implies the passive: since it is through our bodies that we act, the
interests we can ascribe to people merely on the basis of their being agents, are largely a common denominator of bodily concerns; but then, since it is through our bodies that we pre-eminently are patients, potential sufferers of the stings of fortune or the attentions of malevolent agents, it is our bodily welfare that distant authorities are most concerned to promote, although each individual, when addressed individually in the second-person singular, is likely to avow many different interests, mostly active and often of a non-materialist character.

I act for reasons that seem good to me, and my would-be choices cannot be altogether ignored if it is to be me that is said to be acting. But though the first-personal root of agency is necessary, we are impelled by another rational necessity to conjugate, moving from a first-person singular to a first-person plural standpoint, and to conjugate generally, not only over number, but over person, tense and also mode.

Taken to extremes, these different facets of the concept of interest underlie political doctrines. Erroneous understandings have led to political extremes. Mill famously proclaimed the only purpose for which power can rightfully be exercised over any member of a civilized society, against his will, is to prevent harm to others. His own good, either physical or moral, is not a sufficient warrant. He cannot rightfully be compelled to do or forbear because it will be better for him to do so, because it will make him happier, because, in the opinion of others, to do so would be wise or even right.\(^24\)

Mill goes on quickly to except children and savages from this principle, but maintains that it should hold in Great Britain, a view shared by modern libertarians, and the leaders of the student movement in the universities during the last third of the Twentieth Century. Paternalism is anathema. The compulsory wearing of seat-belts was said to be an unwarrantable invasion of the citizen's right to choose, and its defenders often had recourse to the argument that it would cost other people money if the non-wearer had to be treated in hospital. In universities adolescent ardours should

be given unrestricted rein, because any mention of the unwisdom of promiscuity was an attack on the autonomy of the eighteen-year-old adult. Dangerous drugs ought to be legalised, with people free to experiment and learn through their own or others’ misfortunes to steer clear of them.

Such contentions are too absolute. Once interests are not construed exclusively in first-personal terms as a matter of conceptual necessity, and the empirical claim recognised as being only for the most part true, we cease to have qualms about compulsory seat-belts and forbidden drugs. The other arguments adduced in their favour do not support an absolute stand, and any that did would lead to other manifestly absurd conclusions. What we really have are various presumptions in favour of freedom, presumptions that can be overridden only by serious considerations. Arguments of practicality tell. Prohibition did not work in the United States of America. It may be that smoking and drinking are bad for health, but the causal connection has not been shown to hold in all cases, and the damage is not in some cases all that great. If tobacco and alcohol were recent discoveries, there might be a case for banning them, in order that smoking and drinking should not become socially acceptable, but in a society in which there are many drinkers and smokers it would be burdensome, as well as inexpedient, to try and root them out. Sexual misconduct is difficult to police and often better left to be judged by social disapprobation than by the law, but a concern for the future happiness of individuals and for the family as part of the social fabric of society is a perfectly proper concern on the part of public institutions. Addictive and destructive drugs merit control, because even temporary lapses of prudential judgement on the part of individuals can have irreversible and devastating effects. Very different considerations apply in different cases, and it is a matter of judgement whether they outweigh the presumption of free choice. The presumption is in favour of choice, but it is only a presumption, not an absolute.

The Marxists went to the other extreme. Dialectical materialism discounts the ideals and aspirations of the individual, and stresses the material, that is the economic, interests of various classes. "To each according to his need"—needs being something objectively determined, not, like wants, a matter for each person to decide. But once wants were ignored, needs were no longer enough. Communist governments set out to meet all needs, only to find their workers unmotivated by having all their needs met, and only really moved by the opportunity to buy silk stockings, Levi jeans, or personal toiletries.25

§2.8 Cooperating

We cooperate. Often it comes naturally. We like having meals together. The Rule of the Road enables willing cooperators to cooperate successfully. It is no imposition, as we gossip, to have to use the same language as our fellow networkers. Similarly, the customs of our social group help us to accommodate our behaviour to one another, often, as with a common language, expressing and reinforcing the group identity we value as part of ourselves.

Although there is a essential egocentricity in agency, it is an egocentricity nuanced by conjugation, which leads us to move, as we have seen, from a first-person singular to a first-person plural standpoint, and indeed to conjugate generally, not only over number, but over person, tense and even mood. We can cooperate because we can share values. We may share many or few. Lovers share many, making themselves vulnerable to each other, confiding guilty secrets and confessing weaknesses. They come to constitute an item, and can achieve together what neither could do unaided. The mutual trust and affection between parents and children and between brothers and sisters enhances their economic effectiveness as well as their emotional lives. But we can cooperate even if we share only fairly few values. It is the merit of business transactions that they can take place between parties who have relatively little in common. They play a dominant role in the modern State, which protects the individual, giving him a veto over personal matters and securing to him the ability to act as an independent agent in bilateral transactions with possible partners drawn from a wide range.

Although cooperation is possible when many values are not shared, some must be. In the Odyssey, Nestor asks Telemachus "Are you here on business, or do you roam at random like pirates on the sea, who risk their lives inflicting harm on men of other lands?" Business is possible, only if force is altogether out of the question. Economists recognise this, and state explicitly

---

26 See further below, §4.3.

27 Odyssey bk.3 ll.71-74; tr. Richard Wilding, The Odyssey of Homer, Brighton, 2011. The same question is asked of Odysseus and his companions by the Cyclops (Odyssey bk.9 ll.252-255).

28 Indeed, even in warfare there are often recognised laws of war; in ancient Greece, after every battle there was a truce for each side to bury their dead; and the Geneva Conventions lay down rules for the treatment of non-combatants and prisoners of war.
that economic activity presupposes the rule of law, which does not just prohibit the use of force, but typically includes some requirements of honesty and fair dealing (even currency dealers rely on one another to keep promises and not to try to pass off forgeries). These requirements tend to grow with the relationship between the parties. Economists, however, are disposed to resist this, and seek to keep to a minimum the values that must be held in common, if business is to be possible. That is a mistake. Togetherness requires trust, and although some aspects of trust can be formulated in formal rules, rules are inadequate in articulating all that trust involves. Although cooperation is possible when only few values held in common, this a 'possible' not a 'necessary': many—perhaps most—business transactions take place between parties who share more, and need to share more, than the bare minimum of values.

Between the extremes there is a gradation between currency dealers, who share only honesty and respect for the law, and families, who have much in common, but still have individual bank accounts, and sometimes make payments to one another. Cooperators need to be able to think of themselves as "we", but there are many different "we"s. Since almost every social interaction involves some shared values, each individual in the course of his life is a member of some group holding some values in common. Many are transient, but some are long-lasting, and give rise to group identities of social and economic significance. In the Middle Ages craftsmen formed guilds: they competed with one another, but were collectively concerned to protect the good name of their trade. Modern shop-keepers sometimes combine to establish and maintain the good name of their street or town as one where the customer can count on helpful service and reliable goods. Bankers now are only too well aware of how they all suffer in consequence of the bad behaviour of some. Most business transactions take place between parties who share some important values, but do not share many others. In spite of there being values they do not share, they cooperate in accordance with values they do share, in order to bring about outcomes they both want. In this way, in business as in other walks of life, an individual comes to cooperate with and identify with different groups, and thus acquires a corona of values that provides the ground for the various obligations that should guide him in his social and business transactions.

29 See above, §2.3, p.19.
30 See above, §2.6, p.35.
Cooperation can be costly. I forgo taking your possessions as the price of not having mine taken by you or someone else. Much more so when the underlying structure is not the Prisoners’ Dilemma but the Battle of the Sexes. As She trudges up the mountain path, She feels that He has got the best of the bargain. She may still feel it is worth it in order to be with Him, as I may resist the temptation to take your bike when I cannot find mine, but there is some tension in our psyches, and a consequent instability in the arrangements. Although often they do maintain themselves, they occasionally break down, and the possibility that they might is itself a weakening factor. It would be better if there were some adventitious incentive to induce conformity. In the case of the Prisoners’ Dilemma there often are sanctions, either legal penalties or the pressure of public opinion, to deter would-be cheats from actually cheating. What is called for in the Battle of the Sexes is not a sanction but a compensatory incentive to equalise the pay-offs. If He is carrying her rucksack, and is looking out for a secluded lake where She can go swimming, She will climb the mountain path more cheerfully. Or He might have helped Her decorate Her flat. Often in families and small groups there is no explicit bargaining: the greater benefit is remembered as a favour received, and returned at a later date by some joint enterprise in which the other benefits more. He might have simply helped Her decorate Her flat, with no hoped for *quid pro quo* ever mentioned. You owe me a favour, since I put in a good word for you when you were applying for that job, and so you babysit for us when we are invited to the theatre. The trading of favours plays quite a large part in Ambridge and in many real-life communities, but is inevitably limited in scope. They may never find a secluded lake where She can go swimming, or the sun will have gone in when they reach it, or She may be too tired to enjoy it. If the bond of mutual attraction is strong, the holiday will survive none the less. But in many cases it is not. And—obviously—there will be very many cases where cooperation would be feasible, but the benefits fall unevenly, and there is no strong bond to reconcile the one who stands to lose out to the resulting imbalance. He will not cooperate unless there is some way of evening up the outcomes, so that, although the other gets the lion’s share of the naturally occurring fruits of cooperation, some of the benefit comes his way too. But how to bring this about?

The answer is money.

---

31 See further below, §3.3.
Chapter 3
Money

Money, I despise it,
Many people prize it,
Hey willow waly O.

§3.1 The Concept of Money

Money is the answer. It is not the only answer nor always the best, but it facilitates cooperation by enabling it to be jointly beneficial in many, many cases where otherwise one of the parties would be unwilling to collaborate; it thus greatly extends the range of possible cooperation. In particular, it covers the cases where one party gains hardly anything from the cooperative transaction in itself, but will find it worth his while to earn some money. Money is an oil that lubricates social interchange, overcoming the friction of the unwillingness of parties to collaborate when not to the inherent advantage to both.

Money is valuable, because it confers choice; and money confers choice, because it is generally regarded as valuable. Although not everyone will do things for money, and there are some things which most people are not willing to do for money, it is an incentive to cooperate. It works because it is what most of us mostly could do with more of. It follows that we must think that it is scarce: if we all had all the money we wanted, it would be no good to any of us, because nobody would bother to do anything any of us wanted in order to acquire more money. Imagine that the mediaeval dream of transmutation had become a reality in the early nineteenth century, and it was possible, thanks to radioactivity, to turn base metals into gold. The gold standard would have collapsed. Gold would still be useful in dentistry and for making pretty jewels, but they would have been no more valuable than trinkets made of paste diamonds and gold-coloured plastic are now. Some economists have thought that economics is about the allocation of scarce resources,
but this is to project onto reality a conceptual constraint created by ourselves. Money is scarce, not because nature is niggardly, but because it has to be in order to work.

Money is valuable, because it confers choice. Choices have to be exercised by choosers, and choosing is essentially a first-person, egocentric activity—*ego ergo ego*—and money is, therefore, privative: the money I have, other people do not have; if I give you a pound, I no longer have it. Money is a possession, necessarily owned.

The money I possess is not possessed by others, though would be valuable to them, if they had it.

Although essentially egocentric, money needs to conjugate in order to work. It conjugates over person, being valuable to me, because it is valuable to you, and valuable to you, because it is valuable to others with whom you might want to do business, and valuable to each of them for the same reason. It needs also to conjugate over time. If money is to have value for me, for you and for other people, it must also have value at other times. If you give me money on account of help I have given you, in order that I shall be able to use it to further my own purposes, the time I spend that money must be later than the time I earned it. Since the value of money lies in its encapsulating choice, I want to be able to choose not only to whom to give it, but when; I want to be able to postpone spending it to a later time of my own choosing. Furthermore, if I can choose when to spend my money, I can choose when to choose. If I have money now, I may choose to spend it now, but I may choose to keep it, so that I can spend it next week. But next week, I may choose to defer choice yet again, so as to be able to choose at some later date. And so on. We can always go on deferring the spending of our money. Money in order to be desirable now, needs to be desirable in the future. If a government were to announce as part of a currency reform that certain notes were to be worthless after the first day of the next month, without any provision for them to be exchanged before then for money that would go on being valuable, the notes would become worthless immediately. Nobody would accept them for fear of being left holding them at the end of the month, since nobody else would accept them for the
same reason. This constitutes a deep conceptual argument against inflation. Once it is believed that there will be a time when a currency will be worthless, the *Sorites* (step-by-step) argument just given can take a hold, and future worthlessness will imply worthlessness already now. Although people will put up with inflation to a limited extent, they will do so only so long as they believe that there is going to be a time when inflation has completely destroyed the value of their money. Inflation erodes trust, and once trust is eroded, money ceases to be a desirable token that confers choice on its possessor. That is, it conjugates over tense as well as person.

As with tense, so with mood. If you can choose when to spend your money, you can choose whether to choose—money conjugates over mood as well as tense. Money is potential choice, and is governed by the logic of potentiality. The modal logic of possibility has the characteristic theses:¹

\[
\text{possibly implies possibly possibly},
\]

and

\[
\text{possibly possibly implies possibly}.
\]

In formal logic:

\[
\Diamond p \rightarrow \Diamond \Diamond p
\]

and

\[
\Diamond \Diamond p \rightarrow \Diamond p
\]

If you have money, it is possibly the case that you choose to spend it now, but it is also possibly the case that you choose to have it still possibly the case later that you will spend it; and in the latter case it is possibly the case that you will decide again not to spend it then, but to have it possibly the case still later that you will spend it. Whereas with ordinary activities modal logic distinguishes sharply between actually undertaking them and possibly undertaking them, when it comes to possibly choosing, modal logic runs possibility and actuality together. Much as we use money to defer choice, we use it also to de-actualise choice. That is, we do not want only to choose, but want often simply to have a choice whether to choose or not. If I have money in my pocket, I can choose what to spend it on, but may not want to make a definite choice, only to be able to make choices in a general sort of way. I want choices to be there, but not to be taken.

¹ The former is a substitution instance of \(T^*\), the Schoolmen’s *Ab esse volet consequentia posse*; the latter is \(4^*\), a characteristic thesis of the modal logic \(S4\).
The conjugability of money over person, tense and mood is an essential feature, but leads to tensions, tensions between unactualised availability and actual use, between future value and present spending, and between omnipersonal acceptability and egocentric choice. Money, in order to be usable now, needs to be a store of value for the future. If money can be stored against its being used at some future time, it seems that it can be just stored as a valuable substance. In time past it was, because it had some further use that conferred independent value. Gold, silver, brass and even iron, the stuff coins used to be made of, can be used to make jewels and weapons of war. In the Eighteenth Century the Fellows of Magdalen College, Oxford, received part of their stipend in lumps of sugar, and after the Second World War cigarettes served as currency in liberated Europe. But modern currency has minimal intrinsic value—a very rich man might use five-pound notes to light his cigars or to cover walls, but there are better cigar-lighters and wall-papers available. The real value of a five-pound note to me is that you value it too, and that I can give it you, in order to get you to do something for me. It is valuable because it can be spent, and it is only because it can be spent that it is valuable.

Suppose a kindly government gave everyone a nest egg of £1,000, but insisted that it should always be kept as a nest-egg, and must never be spent; would we all be better off? Possibilities are slippery entities. They can exist and not exist at the same time. It is quite right to see money as encapsulated choice, enabling one to choose to spend it when and where, and hence if, one pleases. But choices to be real need to be actually made. If always ify, and never actually made, they cease having value. Unless there is going to be some ultimate choosing, possibilities of choice are pointless. Although it is easy to think of money as a substance, yet as the word ‘currency’ indicates, it is really a function of an activity, a social token intended for current use. We may want to save it—thrift is a virtue—but that requires social artifacts to float something enduring on a sea of change. We can see this if we imagine ourselves back in the time when the only store of wealth was gold, and everyone practised thrift to an extreme degree. Every household would have its pot of gold safely concealed in the cellar, but since everyone would rather save than spend, nobody could sell, and trade would come to a standstill and everyone would be worse off.

We are wrong to think of money as a quantifiable substance. Although modern currencies are visibly not the same as traditional ones: the assumption that money is essentially something like gold is as common as it is mistaken. Monetarists make many trenchant

---

2 I am informed by Dr. R.C.S. Walker, Vice-president of Magdalen, that this is no longer the case.
criticisms of Keynesian economics, but put forward no coherent positive view, because of unclarity in what “the quantity of money” is a quantity of. Although it was once possible to attach a meaning to the gold, silver and bronze coins in circulation (M0), and talk about the quantity of them, that makes little sense these days, and monetarists now talk of M3, M4, “broad money” and the like. But not being substances, they carry no guarantee of being quantifiable.

Conjugability of money over mood, then, is limited by the consideration that absolutely un-actualised possibilities are not real possibilities at all. Conjugability of money over tense is similarly limited by the consideration that although it has to be possible to defer indefinitely the spending of money, it is not possible to defer it infinitely. Money is meant to be spent, not necessarily now but perhaps later. And later. And, again, later. We can always defer spending, but if it is never spent, it is no good. An old lady in Devon told her solicitor that she was getting a night-flight to Trieste to visit her daughter. Asked why she was going by night, she explained that it was much cheaper. “You are saving for your old age?” he asked. “Why, Yes, of course.” “Has it occurred to you, Madam,” he replied, “that your old age is already with you?”. Jam tomorrow is an empty treat, if it is never going to be jam today.

Money, then, is not a something, a substance, that has inherent value, but a social artefact to be spent due course. It has value for me because I can spend it as I think best; it encapsulates choices I can make, and it confers choices on me, because other people think it valuable, and will do things for me in return for my giving it to them, themselves valuing it on account of the choices it confers on them, on account of its being valuable for the same reason in the eyes of yet other people. Modern currencies are self-sustaining confidence tricks. We value them because we think they are valued by others, who equally value them on the same supposition. The value of money depends on our being content with the second-hand
judgements of others, who in turn rely on the second-hand judg-
ements of yet others. While it works, it works; so long as there is a
circle of trust, it is mutually re-inforcing. In Somalia there has been
no settled government for years, but the Somali shilling is still used;
it is used because it is useful for local transactions, and because it is
useful, it is still used. Indeed, so great is the utility of money, that
it is not merely self-sustaining, but even self-generating. Bitcoins
were invented in 2009, when national currencies were losing their
lustre, and seem to be thriving in spite of their having nothing
supporting them except their perceived utility. But once con-
dence is lost the currency is worthless: I cannot prize it if others
all despise it. Dollar bills of the Confederate States of America are
no use to me, because you do not think they will be accepted by
any third person as tokens of value. But so long as people do not
demand a first-personal justification of its value to the individual,
and feel no need to ask why we should trust dollar bills of the
United States of America any more than dollar bills of the Confed-
erate States of America, money can serve its purpose as currency
with its value conjugating over all persons.

Although money confers wealth, wealth is not purely pecuniary.
In time past artisans and trades-men who were owed money by
the Big House, preferred to keep it that way: if the money were
actually paid them, they would spend it; if it was simply owed,
it was not in the pocket, liable to be spent, but it was still there,
available if needed. Higher up the social scale or more modernly, we
are happy to be owed money by the bank. We deposit money with
the bank, and have money paid into our account, which is really
a tally of what the bank owes us. Very rarely do we take all the
money the bank owes us, and spend it. Rather, being owed money
by the bank is part of our way of life, enabling us to organize our
financial affairs sensibly, and make long-term plans for achieving
the goals we really value. Economic transactions can take place
with IOU notes just as well as with coins, so long as everyone trusts
the credit-worthiness of the issuer. In England treasury notes are
IOUs, signed by the chief cashier of the Bank of England, promising

5 If the question is asked, see below, §8.3.
6 See more fully, §4.4 below.
to pay the bearer on demand the sum of five, ten, twenty, or fifty, pounds. Money is thus extensible by credit. Credit, unlike cash is not privative: if I give you credit, it does not follow that I no longer have it. This is why monetarism fails. Money now is based not on bulky bullion, but on credit, which is non-privative and evidently insubstantial.

Credit depends on trust. Trust, we have seen, is an essential background for any trade, but is much wider than economic activity. It is only if we view it in its social setting that we can understand money aright. Money widens the range of potential cooperation, but is only one form of it. Even then the benefits of cooperation fall unevenly, we often cooperate, sometimes out of the goodness of our hearts, sometimes in a social setting, where favours are done and returned. Economists need to look to Ambridge, in order to understand the mysteries of high finance, for economic transactions are but one form of social activity, and can be understood only if they set in a wider social scene.

§3.2 Funny Money

People are funny about money. Many lust after it, some spend it, some hoard it, in ways, viewed in a cool dispassionate light, that are irrational. But the irrationality of men’s behaviour stems largely from the concept itself. The tensions in the personal, temporal and modal aspects of money teeter on the edge of a contradiction, and give rise to unedifying acquisitiveness, irrational thrift, compulsive spending and pathological miserliness.

All too often, when money is in issue, the original Adam takes over. It is what I could do with more of, and I become possessive, keen to ensure that it is I who have it, and not you or anybody else. I mind unreasonably much if I lose it, forgetting that of all the things one can lose, money is the the most replaceable. Alternatively, I may seize upon the fact money is a social artefact that has value because it is meant to be spent, as a reason for always spending it, while other people are led to become not irresponsibly

In §§3.2.6, 2.8.
spendthrift, but unreasonably thrifty. We read sometimes of paupers, who after their death are found to have amassed large sums, sometimes deposited in a savings bank, more often kept safely in a sock. Were they rich? While still alive they had the legal possibility of spending their money, and according to that criterion, they were rich. But, evidently, they did not have the psychological possibility of spending any of it, or they would have spent some on mitigating the discomforts of their actual situation. They were, effectively, paupers. (Of course, I could be a rational pauper if I had a passion for cats and was accumulating a vast fortune to leave to a cats’ home—though even then it would be more sensible to give some of it to the cats’ home before I died. But if I have no ultimate, perhaps testamentary, choice in mind, then increasing the possibilities of choice is pointless.)

As with time, so with mood: there is a tension between each being indefinitely extensible and its being infinitely so. Just as at any one time, if we have money we can defer spending it, so equally we can choose generally not to actualise the choice that money encapsulates. But just as an infinitely deferred expenditure ceases to be expenditure, so altogether un-actualised choice ceases to be available as a choice we can actually make. Irrational thrift modulates into miserliness. If the possibility is never actualised, and the money never actually spent, it loses its value. It is only in the context of its holder being able to use it in order to persuade someone to engage in some cooperative activity that money is worth having. In order to circulate, money must have value: in order to have value, it must sometimes circulate. Yet we often fail to register this fact, turning our attention from the possibility of choosing to the actuality of having a choice. The miser, apart from the cat-lover imagined in the previous paragraph, hoards money, not in the anticipation of being able to spend it, but simply in order to have it. The irrationality of this never strikes him, because an un-exercised choice is still a choice. He is sure he is rich, because what he has got possession of is something that people regard as riches, and he need not bother to wonder why.

Even if we are not misers, money-making can make us miserable, crowding out activities that are more worthwhile, impoverishing family life, and estranging us from friends, in the attempt to maximise our pecuniary wealth. People are funny about money, because money is funny.
\section*{Three Cheers for Money}

Money is funny. Still, while it works, it works. It works because it is useful, so useful in fact that the current currency goes on being used, unless and until it becomes, as in the Weimar Republic or modern Zimbabwe, obviously worthless. It does so, because it facilitates cooperation in the many cases where the benefits of cooperation fall unevenly, thus making it possible for business to be done in a large variety of heterogeneous cases. It is better than simply returning favours, because it is not limited bilaterally. In the little world of Ambridge, where everyone knows everyone else, cooperation is possible without money, because if I, as a favour, help the farmer build his haystack, whereby I benefit myself not at all, he will, on another occasion, return the favour by digging out my ditch, which is of no advantage to him. Ambridge often seems to offer a satisfying setting for our lives, but it is a limited world in which many goods and services are necessarily unobtainable. Only if we have access to a much wider world, can we buy many things we might need, or find a market for the peculiar skills and talents that we may possess. Ambridge can be claustrophobic in a psychological way too. I can ask for a return of favours, but only to a limited extent, and I do not know what the limits are. If I have money, I can draw up a precise budget, and make my own choice whether to have steak or only fish and chips. Money is better than a deferrable favour, it enhances choice, by making it wider and more specific. It does so by being generally acceptable, not only to the person who originally gave it, but to most other people too.

Money is better than entitlement. Rationing provided people with goods, but did not give them choice (with the partial exception of “points”). I was entitled to so much butter, so much margarine, so much sugar, but was not allowed to trade my butter for your sugar, or give you an egg in return for your doing housework. But untradeable entitlements are not worth all that much. I might work a little harder to earn some more butter, but when I had got all the butter I could possibly eat, I should let up, and not exert myself further. Money, however, is freely transferable and tradeable, and is for that reason much more useful than mere ration cards.

Money encapsulates choice. It therefore decentralizes choice, and makes it a bulwark against the tyranny of the State. Many arm-chair idealists imagine that if they were in power, they could allocate resources just as they thought fit. Money, they think,
just a resource, to be doled out according to some socially approved principle. One example of this way of thinking is given in a letter to the *Daily Telegraph*,\(^8\)

Sir—Inheritance tax is a tax on money passing from those who can no longer use it to those who have not earned it, making it the fairest tax of all . . .

If money were just an entitlement to a resource, like a butter ration, the argument would go through: when a person dies, his ration book reverts to the government, and is not inherited by his heirs. But if I have money, I can spend it how I please, and if inheritance taxes are heavy, I shall choose not to leave it to the Chancellor of the Exchequer, but to use it in my lifetime to achieve whatever purposes I have. Only if we abolish money altogether and forbid every kind of trading and exchange, can we ensure that people get only what we think they should get.\(^9\) Money confers choice, and if people are free to choose, they may choose differently from the way we think they ought to choose. Egalitarians are affronted at the huge incomes enjoyed by pop stars and footballers. But if people have money, they may all choose to buy the same albums, or give it to the same sports hero. Money entails the possibility of economic inequality. It also militates against a just distribution according to merit or according to need. Other people's choices may direct funds to the undeserving or the un-needy. Nurses deserve more than pop singers: football stars do not need all the money they get, which might be better directed to the poor and ill nourished. But other people have the choice, and have chosen otherwise. We may regret this restriction on our power to create a just society, but need to remember that money also clips the wings of authority, and protects us too from an overweening bureaucracy.

In an ideal world we might not need protection, but in our actual world, there are, besides some bad people, many who would have us do something different from what we want to do. Where that power is exercised through the coercive machinery of the State, we have no choice but to do what we are told, whereas money power, although powerful, is resistible. I may not feel I can afford to resist,

---

\(^8\) September 4th, 2008, p.21, from Mr Chris Williams of Mereworth, Kent.

\(^9\) Tradeable entitlements behave like money, and may end up, if Tom Sawyer has a hand in it, with entitlements distributed quite differently from what the entities originally had in mind.
but I always can. I can refuse to hand over my daughter to the
boss for his gratification, whereas in a police state, the authorities
can just take her. Even under relatively benign regimes officials
often have an urge to exert their authority, and to keep suppliants
waiting, or to queue, or to fill up forms. Money not only gives us the
power to say No, but also confers some ability to seek alternatives.
It does not confer complete protection—we may be wage-slaves, or
too poor to pay for the alternatives available—but the protection
it does provide is considerable.

Money not only provides some freedom from the power of
others—especially the authorities—but, as we have seen, enhances
our freedom to choose. It protects and promotes each person's in-
dividual identity. Of course, in a world in which there are other
people we cannot always get our own way. Many questions have
to be decided by authority, or by a vote, or by some other public
procedure, which leaves the individual feeling impotent and of no
account.\textsuperscript{10} It is important, therefore, that there should be some
questions on which he cannot be outvoted by others. The institu-
tions of personal liberty and private property are essential bolsters
of the individual's status as a decision-maker. The former gives
him at least a veto over the actions he is to undertake, and the
movements of his own body. But these vetoes, although very valu-
able, are apt to be negative. Money confers a positive choice. With
money in his pocket, he can choose whether to buy flowers for his
girl-friend, beer for himself, or a ride on the merry-go-round for
them both. Often, of course, he may not have money in his pocket,
but sometimes he does; and such occasions not only enhance his
sense of his own individuality, but also develop it, and constitute
an education in responsible decision-making.

Money enlarges privacy. I am naturally choosy about the peo-
ple I cooperate with, and need to be sure that they do espouse the
relevant values. But when nearly half the transaction is the trans-
ference of money, other concerns cease to signify. I need to know
that a potential partner or colleague is like-minded with myself, if
I am to collaborate with him over many years, but I do not know,
nor need to know, much about my grocer or tailor, except that
he provides me with wholesome groceries and well-fitting clothes.
Spinoza was a Jew living in a gentile city and much disapproved

\textsuperscript{10} See further, §7.2.
of by his Jewish co-religionists. But he was able to make a living by grinding lenses, and since the lenses he ground were good, and enabled spectacle-wearers to see better, they were glad to do business with him without enquiry into his religious beliefs; and he similarly was able to buy the things he needed with the money he earned from tradesmen who were equally unconcerned with his metaphysics. Money thus promotes freedom. By being impersonal it confers a cloak of privacy about one's personal values and commitments. I can be myself more, if I can surround myself with a firewall of money. Many people find themselves at odds with the society in which they live. J.S. Mill was felt the pressure of public opinion to be a tyranny. Even if I happily endorse the mores of the society in which I live, I may want to have some lebenstrum in which to speculate on the possibility of other values being better. Money, especially for spending it but sometimes also for earning it, means that I need to share relatively few values in order to enter into beneficial cooperation. I can be less beholden to others, which may mean that I can be more myself.

Money has been able to enlarge privacy by virtue of its adventitious anonymity. Money, as mankind has developed it, is anonymous. It carries its value on its face, and its bearer is not identified. This has been a great advantage, but is not inherent in the concept of money. Modern debit and credit cards leave a trail behind their use, which for some people is an advantage, or at least no disadvantage. But not for all. Would-be anonymous benefactors, and malefactors generally, want to conceal their identities, and would not welcome the advent of a cashless economy in which all monetary transactions were by plastic card. Although at present card companies are independent of the State, this need not be so, and it is possible that only the Bank of England would be allowed to issue cards, and that all our transactions were monitored by the Authorities. Often that would not matter, and it would be argued, as with the proposal to have compulsory identity cards, that the innocent had nothing to fear. Perhaps. But again, perhaps not. The anonymity of money in time past has been a great bulwark of freedom, and even if the State were reliably benign, I could reasonably prefer a little privacy. To be able to do some things unseen and unchecked is an important facet of freedom, and a necessary condition for the development of individuality. If plastic cards became universal, and we no longer had coins and treasury notes, it would be desirable to have something like oyster cards to enable
us to make unworthy or wanton purchases, and to buy surprise presents with no revealing price tag. But oyster cards could be forged. Worse, money can. Thus far, the Bank of England has been able to keep one step ahead of forgers (though it is rumoured that there are many forged £1 coins in circulation), but the increasing sophistication of copying machines may give forgers the upper hand. We might reach the situation where only the serial numbers on bank notes indicated forgery—if two had the same number, we should know that one was forged, though we might not be able to tell which. Ultimately, only the provenance of a monetary transaction can prove its authenticity. Anonymity is not inherent in the concept of money, though thus far it has been an adventitious advantage.

<table>
<thead>
<tr>
<th>Money</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. confers choice</td>
</tr>
<tr>
<td>2. protects against the State</td>
</tr>
<tr>
<td>3. enhances individuality</td>
</tr>
<tr>
<td>4. enlarges privacy</td>
</tr>
<tr>
<td>5. allows anonymity</td>
</tr>
</tbody>
</table>

Money may be, as will be argued, a bad master: but it is a good servant, and we should be lost without it.

§3.4 Two Cheers for Money

Money has many merits, but many demerits too. Many are simply the opposite side of its merits: divisibility breeds confrontation; incentives can exclude, or seem to exclude, disinterested values; the fact that we can do business with strangers easily slides from the permissive to the mandatory sense, that one should be estranged from those one does business with, and gives rise to the widespread belief that in business, one should have no regard for anything other than one's own interests. Such difficulties can, up to a point, be overcome by suitable customs and etiquette, but need to be recognised and understood if we are not to be hampered, and ill at ease in social situations where money is involved.

Money is divisible: in suitably differing amounts it makes it feasible to equalise all manner of differing pay-offs. But just because it is divisible it raises the question "How Much?" in an awkward way, which does not arise when some token of gratitude acknowledges the receipt of a favour. The awkwardness arises from
the answer's being one where the gain to one party is a loss to the other; although cooperation does indeed yield a "cooperators' surplus"—benefits not available to either party on his own—the division of the cooperators' surplus is a zero-sum game: the more one party gets, the less the other is left with. In itself a monetary transaction thus involves an element of confrontation. Although by cooperating both parties can benefit, when it comes to apportioning the cooperators' surplus, they are no longer cooperating with each other, but competing against each other. Money makes us mean.

Some people are happy to confront. The French housewife enjoys haggling, and returns triumphant at having had a good battle and won a good bargain; many young people in England like to compare prices when they go into town or as they surf the internet. But confrontation is not to everyone's taste, and sits ill with the basically cooperative nature of business transactions.

Bargaining is not only time-consuming and vexatious, but sometimes altogether inappropriate. Often, especially in the professions, one of the parties stands in a fiduciary relation to the other. I trust the doctor to do the best he can for me; the solicitor to advise me on what is best for my interests; the clergyman to put my spiritual welfare first; the teacher to help my children to make the most of their abilities. It is said that rich Arabs used to come to Harley Street with their digestive complaints, because if they went elsewhere they would always be told to have an expensive operation, whereas in Harley Street they would be given a true diagnosis, and often be assured that there was nothing fundamentally wrong, and that if they are less, the flatulence would disappear. But if I trust someone to put my interests first, I cannot very well bargain with him to get the best deal. Either no money should change hands, as with the clergy; or the professional's remuneration should be governed by some external scale of fees which determine the payment in the light of the relevant circumstances without either party needing to take a stand.

Ideally no money should change hands. To be a professional person is to be committed to the profession's ideal, so that a doctor wants to heal people, a teacher to teach them, a priest to minister to them. In each case, though the other party may by general reckoning benefit more, the professional too values that benefit, and—ideally—is sufficiently rewarded by having been able
to bring it about. But the disparity remains. The doctor is delighted that his patient is cured, but the cure means far more to the patient himself. The teacher is delighted that his pupils do well in examinations, but the pupils themselves even more so. So too the butcher is gratified that his joints are much appreciated by his customers, but the customers not only appreciate but are fed; the craftsman is proud of his handiwork, but it is the purchaser who enjoys it thereafter. The beneficiaries may show their appreciation by appropriate tokens of gratitude: patients say “Thank you” to their doctors and bring flowers for the nurses after they have left hospital, and pupils occasionally give flowers to their teachers at the end of term, and sometimes look them up in their old age. But gratitude pays no bills. Unless the pay-offs are adjusted, so that more accrues to the one who otherwise would gain little from the transaction, regular cooperation is unsustainable, and cannot be relied on in the long term.

Nevertheless, monetary gratitude is awkward for professionals. Since in a society like ours some monetary remuneration is essential, if the professional is going to be able to devote himself full time to his profession, we try to separate, so far as possible, the monetary remuneration from the professional activities themselves. Many professionals are salaried, and, free from having to make money, are expected to devote their energies to their professional duties, not seeking any further financial reward. In other professions there is a scale of fees. Similarly many municipalities fix the rate for taxi fares, or require guest houses to show in each bedroom the nightly charge. In these cases the prospective purchaser has a choice, whether to buy or not, but no contest as to how much. In the same way there was much talk in the Middle Ages of the just wage and the just price, which would enable people to do business together without either exploiting the other—the only difficulty being that there was no clear way of determining the just wage or the just price. Typically there are no natural guidelines: on the one hand the patient should be ready to pay almost any price for his life and health; on the other the doctor spent only a little time on that particular patient, and is receiving payments from many other grateful patients. What we can do, less grandiloquently, but equally effectively, is to avoid confrontation by using the going rate or the going price, to yield a solution each can be happy with; or in more difficult cases we get a professional valuer to estimate a value “as between a willing seller and a willing buyer”. We let
other people bargain, and let the market find the level at which the marginal producer and marginal consumer are just willing to do business. In effect we are setting our particular transaction, which would be a zero-sum game if it were carried out in isolation, into a general frame of similar transactions, where competition fixes the going rate or going price. Other people at one or two removes do the haggling, enabling us to avoid it. It does not suit everybody or every sort of transaction, but does save bargaining costs and engender an atmosphere of harmony rather than antagonism.

Externally determined wage rates and prices not only avoid hassle, but confer security. I can make plans for the future if I can predict within limits what the cost of particular goods and service is going to be. Professional economists often deplore the “stickiness” of wages and prices, and postulate an ideal market, where wages and prices adjust immediately to changes in supply and demand. But that is not only unrealistic, but undesirable. Admittedly, wages and prices cannot be fixed for all time. Instead of a just wage and just price laid up in a Platonic heaven, all we have is a going rate mediated through transactions, but ultimately based on actual bargains made in actual markets. But those many layers reduce the impact of sudden changes. Budgeting is impossible if prices of staples are liable to fluctuate as wildly as those of shares on the Stock Exchange. Money is good in so far as it gives us choices, but bad in so far as it makes us vulnerable to the choices of all others. The market affords protection against the choices of any single individual, but stable prices and wages at some remove from the market are better still.

Money energizes agents who are less than perfectly altruistic, but often thereby drives altruism out. The underlying difficulty is that of keeping mixed motives pure. I can do a magnificent professional job at the same time as trousering a fat fee—many barristers do—but there is always the possibility that the incentives may conflict, and even when they do not, that the financial incentive may predominate over the professional one. Motives do not always reinforce one another but can crowd one another out. People are more willing to give blood when it is done purely altruistically than when it is paid for, and likewise, it is thought, with organ donation.\footnote{Daniel Pink, \textit{Drive}, Edinburgh, 2010, pp.47-48. \textit{The Daily Telegraph}, 26 April 2010.} Similarly, voluntary work is often better done
than that undertaken for pecuniary reward. In some cases the mere offer of money makes people less good at doing the job. When we seek to carry into effect values we espouse, we act whole-heartedly, and do the best we can: when we act in order to earn a reward, we are likely to act for that reason alone, and to do as little as necessary for getting the desired reward. Sometimes some adventitious circumstance can alter our perception of the activity we are undertaking, and turn work into play, or *per contra* if money is offered, play into work. Pink calls this the Sawyer Effect illustrated by the way Tom Sawyer turned his having to whitewash his aunt’s fence into a much-to-be-desired voluntary activity. An intrinsically boring job can be converted into a fulfilling activity if seen in the right way:

> A servant with this clause  
> Makes drudgery divine  
> Who sweeps a room as for thy laws  
> Makes that and the action fine.

—but even good works, done for Mammon rather than God, lose their lustre.

The contamination of the money motive spreads far. It is one of the burdens of great riches, as of great power and great influence, that one cannot be sure of the motives of those one consorts with. “Do they really like me for myself, or are they just after my money?” “She seems nice enough, and always makes herself very agreeable to me; but can I be sure she is not just a gold-digger?” Rich men find it hard to find mates who, they can be sure, are not after their riches, and so tend to marry heiresses, who alone are likely to be unmoved by the prospect of even more wealth. Only of Miss Gates or Miss Buffet can I be sure she loves me for myself alone, and not my bank account.

Money not only contaminates motives, but debars intimacy. It is one of the merits of money that it enables us to do business with all sorts of people without our having to have many values in common. It protects privacy, ours as well as theirs. But privacy comes at a price. The very fact that it is useful in business transactions where the parties are at arm’s length from each other—able each to be private from the other—suggests that any transaction involving money is an arm’s-length one, in which the parties have no other values in common. Although an Alpine holiday is much more to

His liking than to Hers, it would not do for Him simply to pay Her to come with Him. The whole point of their holidaying together is that She, as well as He, would like it. Friends cannot be bought. Only if we have personal values in common, and want to do things together, can we be friends: if you need a compensatory payment to make it worth your while to do things with me, then you do not of yourself have in common with me enough commitment to be my friend. We find it difficult to have business dealings with friends, because it sits ill with the ties of friendship to keep ourselves at arm’s length from each other. It can be done, but it is awkward, because of the incompatible assumptions of togetherness and separation, closeness and distance.

We try to separate business life from ordinary social life. Complete separation is impractical, but we tend to avoid occasions where money needs to pass between friends, often by not accepting cash at the time but subsequently returning a favour. But there are occasions when money must change hands, and our social sensibilities reveal some underlying principles. Repayment of out-of-pocket expenses is different from offering rewards. If the fare to the Alps cost noticeably more than that to the sea-side, it might be acceptable for Him to pay Her fare, so that in having an Alpine holiday together She is not out of pocket, so long as it was clearly not the case that He was simply paying Her to come with Him. If someone does our shopping for me, I expect to reimburse her for the cost of the goods purchased, and would feel uncomfortable if payment were refused—it would mean I could not ask her again. The reason is that I am clearly the initiator of those purchases, and she would, in consequence, be out of pocket were she not recompensed for her expenses. I might also pay her bus fare if the expedition was entirely or very largely at my behest, but if she insisted she was going anyhow, it would be gracious on my part not to press the matter. In the house parties at the beginning of the twentieth century it was etiquette to pay the butler for any postage stamps required, though anything else one might need was on the house. Later one paid for trunk telephone calls, though not for local ones, and now almost all uses of the telephone are part of the hospitality offered as a matter of course to guests. Although the initiative is still the same, the action has become common-place, and the cost trivial.

Time is precious, but it is part of friendship to have time for each other, and though if I involve you in expenses, I see to it that
you are not out of pocket, I normally should not pay you for your time. The one exception is where you are a professional, and I take up time which you could have earned money from. (In pre-decimalised Britain it was the custom to pay in guineas rather than pounds, as an indication that this was a token of gratitude rather than a commercial transaction.)

Money gives me a choice, but gives other people choices too, and they may choose not to transfer money to me unless I do something that they want done, which may be something I do not myself want to do. Earning money involves a generalised heteronomy of the will that can grate upon our Kantian sensibilities. Artists sometimes feel that they would be prostituting their art, if they painted pictures that other people wanted to buy, and think they ought to be free to pursue their artistic vision untrammeled by market considerations. Writers similarly feel demeaned if they write pot-boilers that will sell in airport book-stalls rather than the great novel they believe they have it in them to write. Sir Arthur Sullivan wanted to get away from churning out catchy tunes for the Savoy Operas and concentrate on writing great music. Ordinary men, too, may want to escape from the tyranny of the moneyed life, and

\begin{quote}
Let other men make money faster
In the air of darkened towns;
I need fear no peevish master,
Though no man may heed my frowns.
\end{quote}

We can sympathize, but need to discriminate. Some enterprises need freedom from outside pressure, and it is reasonable to seek a sabbatical, at least a temporary one. But it is not prostitution, on occasion, to paint pictures, or write articles, that sell; and if these lesser efforts inhibit greater ones, it is possible for the painter to earn money as a chartered accountant or civil servant, and devote his uncontaminated free time to greater endeavours. Painting a picture that somebody would like to buy is not in itself a lapse from artistic integrity, any more than making a chair is, or knitting a jumper. Although for some the free life on the open road is the one that fulfills for many others fulfillment is found in the give-and-take of daily life. And in that social setting it is no derogation from my individual authenticity to oblige other people. A willingness to
Money may be good, BUT
1. Being able to divide the cooperator's surplus makes us mean.
2. Monetary incentives contaminate motives.
4. Money incompatible with complete autonomy

serve others is a sign not of servility but of respect for their being, too, initiators of action in accordance with values they esteem.

Money still deserves two cheers. Although it makes us mean, it makes possible many cooperative activities where the benefits need to be finely evened out, and which would not take place were money unavailable. It is a demerit that it crowds out better motives, but better motives on their own cannot get done all that needs to get done. Blood may be donated freely in sufficient quantities, but bread will not be given us daily unless we pay for it. The anonymity of modern city life may be disheartening, but can be overcome by having family, friends and neighbours with whom we can share values. Money enables us to do business with those with whom we do not have many values in common, but does not preclude our joining in common enterprises with others with whom we have much in common. Although for some the free life on the open road is the one that fulfills their personal aspirations, for many others fulfillment is found in ordinary social and commercial intercourse.

And in that social setting it is no derogation from my individual authenticity to oblige other people. A willingness to serve others is a sign not of servility but of respect for their being, too, initiators of action in accordance with values they esteem.

Money is not ideal, but the world we live in is not ideal either: it is very useful in many situations, but not in all; there are walks of life where it is best avoided altogether. It can have bad side effects, where we have to use it, but with suitable conventions these can be minimised. Money is a good servant, and so long as we treat it as such, we need not be led astray.
3.5 One Cheer for Money

Money is a bad master. Too often and too easily it achieves mastery, sometimes through psychological flaws, sometimes through force of habit, often through muddled thinking. Miser seeks to amass wealth not because it confers comfort or kudos, but driven by some inner compulsion that psychologists sometimes attribute to bad potty training in infancy. Even if we take psychologists’ findings with a pinch of salt, it is evident that people often fail to think rationally when money is in issue. Often the failure is a concomitant of a life-style. Financiers often go on working long after they have made enough money to keep them in comfort for the rest of their lives—having spent the best years of their lives making money, it has become the only thing they know how to do. Paradoxically, it is often in order to be free of monetary constraints that young men go into the City, so that they may may make a pile, and then retire and enjoy life, only to find that no amount of money ever seems enough, and that in pursuing it, they have lost the ability to seek goals that are more worth-while.

Making money is a difficult activity, like lowering one’s handicap at golf, and success in either is source of personal satisfaction. In some societies, especially those which do not have many substantial values in common, it is a status symbol, a sign of success. The more money I make, the better I have done. It seems to follow from money’s being that which, other things being equal, one could do with more of, money is what he should always seek to maximise. It becomes for him an absolute imperative; and *homo economicus*, Economic Man, is what he feels he is obliged to be, simply because in his concentration on money-making, he has forgotten the *ceteris paribus*, other things being equal clause.

Again, in a sceptical age we feel diffident in robustly defending any ordinary value, knowing that each can be questioned, and being unsure of our ability to answer the questioner to his satisfaction. Values are a matter of personal choice, and so, it seems, just a

---


matter of personal choice. Only money is an assured public value, being valuable whatever private values are adopted.

The idea that only impersonal money has objective value undermines our sense of self. It engenders a feeling of anomie, of being not an individual with values and an identity of one's own, but only a money-transferring unit, whose value is purely pecuniary. We are wrong to allow money to usurp the realm of values, and to exclude all the other values that confer meaning and significance on our lives. Economic Man, *homo economicus*, who always buys in the cheapest, and sells in the dearest, market, and always seeks to maximise his wealth, is an empty shell, having no other values than money, which is itself intrinsically valueless, unless there are other worth-while ends to which it can be a useful means.

There are other ends. We buy food because we get hungry, we buy birthday presents because our children grow up, we sell push-chairs because our children have grown out of them. Our lives are in constant flux, and money is valuable because it helps us adjust to constantly changing needs and circumstance. Economists distort their understanding in concentrating on money, and forgetting the other values which make it valuable too. It is only in order to facilitate cooperation whereby we can achieve the manifold and shifting purposes of ordinary life that money is useful.

But we find it hard to believe. In a society where few values are generally held in esteem, money may be the only thing generally esteemed; but being the highest common factor of everyone's set of values does not imply its having to be the greatest value for any one. Indeed—to repeat the argument—it cannot be. For it only has value for any of us by reason of its being a means whereby we can induce other people to cooperate with us in achieving the ends we want to achieve. If we had no non-monetary wants, we should have no use for money either.

Economists also distort their understanding in concentrating on money, and ignoring the social context in which transactions take place. Their picture of economic man is not a recognisable picture of us. We do not buy in the cheapest market. Sometimes, indeed, cheapness is no recommendation, but the reverse. In the time of the first World War a paper manufacturer prospered, but, believing that profiteering was unpatriotic, held his prices down, only to find that his sales were falling. A marketing consultant was called in, and advised that because the paper was now cheaper than other brands, it was being supposed to be inferior, and that
the manufacturer should simply raise its price; which it did, and
its sales recovered. Modern instances abound. Boxes of choco-
lates, which are commonly given as presents, have needlessly fancy
wrappings, to advertise the fact that they are expensive, and so
show how much the giver values the person to whom the gift is
given. Likewise flowers, likewise greetings cards. Even when our
purchases are not meant to carry messages, we do not regularly
aim for the cheapest. We mostly buy our groceries at the shop
where we always buy them, go to the same garage, the same news
agent, the same doctor, the same dentist, without checking their
prices, so much so that Which?, the Consumers' magazine has to
advise consumers to shop around and compare prices. It is not
only that time is precious. We go to our customary shops because
we know the shop-keeper: it may be that we feel some loyalty to
him; it may be only that we want to get the latest gossip. And
once in a shop we are moved to make purchases by all sorts of fac-
tors other than economic ones: we buy organic food, although it
is tasteless, because we disapprove of artificial fertilisers and pesti-
cides; we buy fair-trade goods, although they are more expensive,
because we think we ought to give third-world farmers a proper
price for their produce. Equally when it comes to being paid, al-
though money talks, it does not always talk very loudly. Many
teachers and clergy, many nurses and health visitors, earn little,
and are willing to be worth much more than they are paid. Even
when selling a house, vendors sometimes sell at a lower price to
someone who will continue to live in it as a family home than to a
builder who would replace it with a block of flats.

Economists not only suppose away the facts of ordinary be-
aviour, but idealise away also the limitations of ordinary life, as-
suming perfect information and instantaneous effects. They imag-
ine an unreal world of stable equilibrium, whereas the real world
is one of continual instability, and equilibrium is never reached,
but always disrupted by some further factor. It is due to another
illicit inference from the comparative to the superlative. It is true
that other things being equal, there is a general tendency to buy at
lower prices and sell at higher ones, but it does not follow that the
market reaches equilibrium. There is a tendency, but no reason to
conclude that it will work itself out before other factors supervene.

The economists' idealizations are much less unrealistic when
we move from micro-economics to macro-economics. Whereas or-
dinary people, workers and housewives have many other to think
about, financiers, stockbrokers and bank managers are primarily concerned with money, and think about it all the time. If I am dealing with hundreds or thousands of shares, it is well worth my while to spend time comparing prices, and seeing where the best bargain can be got. The market may not completely clear, and equilibrium is always being disturbed by adventitious factors, but the fact that large sums are in issue overcomes the resistance to market pressures which is characteristic of ordinary life. This makes for greater economic efficiency, but at the price of macro-economic instability. Monetary values, we have seen, depend on second-hand opinions about third-hand opinions. I value money because you and others value it, who do so because others do also. But if the reality of money’s value is simply its being thought to be so, there is an element of spin in financial affairs, which can prove dangerous. Financiers learn to be lemming-like as they concentrate on what others are going to think that others are going to think. Built-in positive feedback means that mistaken estimates are magnified, and easily become bubbles that go on expanding until they burst. Examples abound.

Money may be good, BUT

1. People get obsessed by money-making.
2. Money comes to be thought of as the only thing that has real value.
3. It beguiles economists into ignoring the real facts of life.
4. It encourages lemming-like behaviour.

But we do not abandon money. Greedy pigs may career down steep slopes to their destruction, but we mostly manage to remain on the high ground of Gadara, doing the shopping with the wages we earn, paying off the mortgage and saving for a holiday. For it is micro-economics, with its many inputs from society at large, that makes economics real. The macro-economic world of high finance, investment banking, and government bonds, can provide useful facilities, but is not self-sustaining. The Stock Exchange can provide funding for new ventures, making them possible on a larger scale than would otherwise be the case, but the ordinary buying and selling of shares is a zero-sum game: some canny investors gain,

\[3.5\] Money

15 See above §3.2.
but only at the expense of others who lose. The only unqualified gains occur when firms do well in their own business, which is a factor extraneous to the stock market. The macro-economic world can benefit—and can greatly damage—the economy; but it is the micro-economic world that provides the drive and makes it work.

The charge that economists are beguiled by their theories into producing fallible forecasts based on phoney figures has substance: but other disciplines, too, give rise to misleading models. Provided we treat long-distance economic forecasts with the same degree of scepticism as we do with long-distance weather forecasts, we shall not be greatly misled. More serious is the tendency to impute to economic generalisations a necessity that is properly due only to mathematical truths. People talk about the “iron laws of economics”, especially when seeking to justify unfair or harsh behaviour. But although the conclusions economists draw in their reasoning are sometimes valid deductive consequences of their assumptions, their assumptions are not true, and the conclusions drawn from them not true either. To repeat it yet again, economists need to set their studies in their social context, and not seek to exclude all non-economic considerations from their thought.

In our present age we are too diffident in defending our core values; but even if we are hesitant in taking a stand on any one of them, we still should insist that money is not the only objective value, for the reason we have given, namely that economic activity can take place—and money have value—only against a background of our having other values that lead us to want to cooperate with other people in order to achieve those values. It is noteworthy that the great expansion of economic activity took place against a background of strongly-held Protestant values: the Adam Smith who wrote *The Wealth of Nations* was also the author of *Theory of Moral Sentiments*. Money may be that which we each could do with more of, but it is necessarily not the only thing we value, and not something which we should want to have most of all.

Money-making can become an obsession. But human beings are also liable to be obsessed by sex, by food, by drink, by power, even by knowledge and the search for understanding. Although an obsessive money-maker may do considerable harm, no individual will be as grievously harmed as a victim of a Don Juan, and the total harm a money-maker can wreak is much less than the damage a power-maniac can do. Often, indeed, a money-maker benefits society in his efforts to get rich, and the chief sufferer is, as with
§3.5

Money

73

the glutton and the drunkard, himself and his family. It is bad
to be mastered by money, as it is to be mastered by sex, food,
drink, or power. But we do not seek to live sexless lives in which
we neither eat nor drink, nor exercise any power. Nor should we
abjure money, but only take care that it serves us, and not the
other way around.

Money is much misunderstood, because it has many faces: it
is easy to focus on just one, ignoring the many others that could
lead to a more balanced understanding. We need to distinguish its
various advantages and disadvantages, so as to see how to use it as
a good servant, and prevent its becoming a bad master.

If we are to understand money aright, we need to balance its
inherent egocentricity in being good for me because it gives me
choice, against its necessary social setting, in that one can get what
one wants on condition that one is prepared to do what others want;
and secondly to recognise its having universal value depends on our
having other values which are cherished for themselves alone, and
not for the adventitious advantages they bring. In our day-to-day
life, it is natural, and often enough, to take a partial view, in which
money is to be earned, and then spent as we please. But to have a
proper understanding, we need to take a complete view, recognising
that money only works in a social context among people who have
real, non-monetary values, which money may make more easy to
achieve, but can never supplant.

Contrary to standard economics, we should not think of our-
selves as isolated atoms, each seeking to maximise his own wealth
generous of others, and regardless of other values. Standard eco-
nomics teaches us to ignore most of the relevant factors in any
situation, and concentrate only on those that lend themselves to
mathematical formulation. Such models are often interesting, and
occasionally illuminating. But they do not adequately describe the
world as it actually is. Unfortunately, the rigour of the theorist’s
inferences is often taken to imply the necessity of his conclusions.
But, as Plato pointed out, deductions based on assumptions that
are not true may be deductively valid inferences, but that is no
reason to suppose that their conclusions are true.¹⁶ The so-called
iron laws of economics are not iron, are not laws, and do not ap-
ply straight-forwardly to economic activity. Economic agents are
not atoms, but people in various social settings, and needing to

¹⁶ Republic, VII, 533c3-5.
be mindful of others. Although money is that which we could do with more of, other things being equal, in real life other things are often not equal, and seeking to maximise is irrational as a general strategy. Although trade in goods constitutes a large part of the moneyed economy, it is wrong to focus on goods to the exclusion of services, and wrong therefore to think of the economy being fundamentally concerned with scarcity. Goods often are in short supply, but even in times of plenty, we would still want to cooperate to achieve our various ends, with the cooperator's surplus being unevenly distributed among cooperators, and calling for money transfers to even things up. By focusing on the general feature of cooperation rather than the simple case of exchange, we are less likely to ignore the importance of the social setting, and the relevance of the different values of the different cooperators.

1. Economic agents are not atoms, but people in various social settings, and needing to be mindful of others.
2. The iron laws of economics are not iron, are not laws, and do not apply to economic activity.
3. Although money is what we could do with more of, other things being equal, in real life other things are often not equal, and seeking to maximise is irrational as a general strategy.
Chapter 4
The Moneyed Society

§4.1 Majoring on Money

In the olden days money was peripheral to most people’s lives. Custom, law, feudal allegiance and religion constituted the basis on which they cooperated. Things are different now. We live in a moneyed society, in which the cash nexus predominates. It is a natural development, and the benefits are great, but the costs are considerable. Clear thought is needed if the balance is to be advantageous.

The moneyed society arises naturally. For money, as we have seen, enables us to cooperate with a far wider range of other agents than would be possible otherwise. It therefore encourages each one of us to specialise. If I lived in a village economy, I might render medical services to the sick, but I certainly could not devote all my time to gynaecology or eye surgery. Specialisation leads to an economy in which most people make their living by earning, or otherwise acquiring, money, and provide for most of their wants by spending it. It enables them to concentrate their efforts and be more productive, and widen the range of choices in using what they have gainfully got. Without it, we should be hungrier, poorer, more ignorant and unhealthy. The benefits of the moneyed society are so great, that even when the currency is being debauched, people go on using it for day-to-day transactions, because the alternative—a barter economy—is so much less convenient.

The moneyed society is often described as capitalist. This is a misnomer. It conjures up a picture of mill owners and mill workers, which could be found in parts of Victorian Britain, but does

1 See above, §3.3.
not correspond to the economic life of modern Britain or America. True, there are some capitalists to be found, and some employees who work in large factories. But rather few people can be said to own the means of production, and many who sell their labour are not noticeably poor. Most factories are owned by public limited companies with many shares held by pension funds, investment funds, and unit trusts. The people who actually run the factories are paid employees, who may own some shares but are primarily remunerated by a salary. The footballer, the film star and the chief executive officer seem implausible members of a down-trodden proletariat, just as the doctor, the solicitor and the small shopkeeper do not look like the capitalists of Marxist theory, even though owning their surgeries, offices and shop premises.

The Marxist analysis of the moneyed society is inaccurate, and darkens counsel. The important thing about the moneyed society is not that there are some large economic entities, but that there are many. It is not so much a capitalist as a decentralised society, with many relatively independent centres of decision-making. Money decentralises choice, and in the moneyed society, the decentralisation is very great. That in itself, as we have seen,\(^2\) constitutes a defence against tyranny. It also enhances each individual’s sense of his own individuality, through being often able to make some choices all of his own, which is not only good for him, but also good for society. Although many people make bad choices, some make good ones, which can be copied, and come to be generally adopted by society. Progress, both economic and social, will be facilitated. Inventors and entrepreneurs bring prosperity. Prosperous societies nurture artists, poets and thinkers. Genius is idiosyncratic, and idiosyncrasy is less hampered and frustrated when each individual has some measure of choice.

But money, again as we have seen,\(^3\) has disadvantages too. These are exacerbated in the Moneyed Society. One of the virtues of money is that it enables us to do business at arms length with people with whom we do not have much in common. From this it is easy to infer that business takes place between parties that share no values. That is a mistake. What is true is that business

\(^2\) See above, §3.3 p.55.

\(^3\) See above, §§3.3-3.5.
can take place without both parties having to have much in common. Business is "non-tuistic". But it is 'can' not 'must'. Those engaged in business can do so, even though they do not address each other as tu, du, thou, in the intimate second person singular; but they still need to recognise that they are doing business with a person, and use the normal second person mode of address, vous Sie, you. The fact that business is possible between parties with little in common does not establish that all business must eschew shared values, nor that business could take place in the absence of any common ground.

"Business is Business" is not a necessary truth
Money enables us to do business with those with whom we share few values;
but
it does not require us to share only a few values with those we do business with.

Since in the Moneyed Society money plays a dominant part in our lives, we again find it easy to concentrate on it alone, and to ignore the social setting in which monetary transactions take place. Money comes to dominate our thinking, both individually as earners and spenders, and corporately, when we come to reflect on the nature of society. We naturally think about money from our own limited point of view. Money is something we need to have,

---

\[\text{See above, §3A, p.63, and P.H.Wicksteed, The Common Sense of Political Economy, London, 1910, bk I, p.174, and F.A.Hayek, The Constitution of Liberty, London, 1969, pp.78-80. In French and other European languages there is an important distinction between the second person singular, tu and the second person plural, vous addressed to a single hearer. Tu is appropriate if I want to tutoyer, address, members of my family and close friends, with whom I have a lot in common: vous is for everybody else, and is distant, though respectful. German and Italian express respectful distance by using a third-person circumlocution. Indeed in Italian to use voi rather than Sie is almost rude. It is a great pity that modern English has lost this distinction, which is crucial for not misunderstanding the nature of economics.}\]

\[\text{See above, §2.6, p.36, §2.8, pp.43f., and below, §4.2, p.76.}\]
and have to earn. It is that which we want more of, and which, if we had more of it, would enable us to do more things. We would like to be “better resourced”, and come to think generally that if all good enterprises were better resourced, the world would be a better place. Instead of being an oil that lubricates cooperation, money is seen as a fuel that drives effective action. But in thinking in these partial terms we lose the context in which money operates, and which really gives it value. We are tempted to forget the ceteris paribus clauses that qualify the value of money, and to think that it, and it alone, is worth having. Concentrating on money, we disattend to everything else; the tin in the pocket breeds tin in the ears. We fashion ourselves on Economic Man, and enslave ourselves to the false idol of having as much money as possible, and live our lives according to the cruel paradigm whereby He devotes his entire life to making money that She, deprived of His counsel and company, spends on retail therapy, in order to make up for Her loneliness and boredom.

§4.2 The Social Setting

In the Moneyed Society people are tempted to overlook the social setting in which monetary transactions take place, and to assume that because business is business, ethical considerations and social obligations are entirely out of place. That is a mistake. Although it is true that ethical considerations in business are different from those in more intimate settings, some values can be inferred from the setting of a moneyed transaction. It is not only that traders are different from pirates in not using force, but in being committed implicitly to various standards of fair play. The typical transaction is not, pace Hayek, a South Sea trader exchanging beads for copra, but a shop-keeper with a customer, or an employer with an employee. These, as the word ‘customer’ shows are, essentially, not one-off transactions. The customer and the shopkeeper each have their own values and each have expectations of the other: the customer wants goods fit for the purpose, and expects the shopkeeper to supply him with such; the shopkeeper expects the customer to pay in good currency, and not to shop-lift or to tender dud cheques. There is an element of mutual trust—limited, indeed, but nonetheless the basis on which the transaction takes place. Similarly the employer and the employee have mutual expectations.

6 See above, §2.8, p.43.
without which no employment could take place. I will not employ you, if you will not do the work I employed you for, and do a reasonably workmanlike job; and you will not work for me, if you do not trust me to pay you your wages in sound money. Every economic transaction takes place against a background of shared values. Not only do the parties need to abjure the use of force, but each regards the transaction as being mutually beneficial—beneficial to the other party according to his values, as well as to himself. This commitment to a weak \textit{alteritas} provides the rationale to the Sale of Goods legislation. It is all right to exchange beads for copra, even though the beads are of trivial value in the Western world, so long as the beads are what the natives really want—if they value them as flashy adornment, and no more. In that case the appearance is the relevant reality. So, too, if the lady likes the hat, she is the authoritative judge of its suitability for her wardrobe. But often appearances are not constitutive of reality. I buy a screwdriver because I want it to screw and unscrew screws; if it bends or breaks, it is no use to me. It is the (usually unspoken) assumption of the transaction that what I want is a tool that is serviceable for its job, not just a particular object I have picked up and handed to the assistant. My actual choice is not determinative of the transaction. Its nature is determined much more by the context of the transaction, in which the shop-keeper's concern is not just to be given money, but to bring about a situation in which \textit{I}, too, have been benefited by the acquisition of a screwdriver that screws and unscrews screws.

\begin{center}
\textbf{Business transactions are non-tauistic, but not non-vouistic}
\end{center}

The same holds good for employment. If someone employs me to do something, I have to internalise his goals to the extent of understanding what he tells me to do, and trying to do it. Even if it is only hewing wood or drawing water, I need to set myself the goal of sawing up the relevant logs, or drawing clean water from the designated source. Often the goals are less specific, and require the employee to identify, at least for the time being, with his employer, and make some of the values of his employer values that he himself espouses. The valet wants his master to strike a fine figure; the chief executive wants his firm to prosper. In each case he may be motivated by the pay packet, but in each case the packet involves
not just his pay but the well performing of the job he is being paid for.

Even the simplest employment presupposes some common understanding and commitment. Hewers of wood and drawers of water need to have a language in common with their employer, and to set about hewing the wood in the forest, not the furniture in the house, and drawing water from the well, not from a stagnant pool or the cesspit; and at the end of the day their expectation of being paid their wages must be shared by their employer, who will see to it that their expectation is met by their being duly paid. Usually the common understanding and commitment is greater. The good workman knows how to do his job, and exercises his own judgement in doing it to the best of his ability. The business executive understands the business, and seeks to carry out the business in hand within the general guidelines laid down by his superior. Some degree of sharing is essential to collaboration, which means that neither party can be exclusively governed by unmodified individual self-interest alone. Self-interest may motivate me to collaborate, but effective collaboration requires me not to play truant while fetching the water, not to trouser the cash instead of giving it to those who have earned it, and not to betray trade secrets to rival firms.

The complex web of shared values, expectations and degrees of trust vary very much, depending on the transaction involved. Often there are laws spelling out what each side is entitled to expect. The Civil Authority does not just forbid the use of force, but rules out also many types of fraud and sharp practice. From time immemorial kings have prescribed standard weights and measures. Until recently coal merchants were required by law to have scales and a set of standard weights on their lorries, to enable the purchaser to make sure that each hundredweight sack really did contain a hundredweight of coal. The Sale of Goods Act, 1895, laid down that goods must be suitable for normal use, and this has now been extended to services similarly by the Sale of Goods and Services Act, 1982. "Cooling-off" periods protect purchasers from being pressured into unwise bargains. The laws against insider trading and on how company take-overs should proceed, are complicated in their attempt to articulate the best practice in the world of high finance. In each case legislation not only crystallizes but also alters mutual expectations. But legislation would not make sense if there
were no antecedent understanding of what the parties to a transaction might reasonably expect of the other, and what ought to be avoided as being unfair to one or the other of them. Although laws are different from social and moral norms, they are intimately interconnected with them.\footnote{See below, §§7.3, 7.4.}

Two points emerge. First, although the arms-length nature of monetary transactions makes business ethics different from other sorts of ethics, it is not the case that there are no shared values, nor that there are only some minimal set of them. Rather, the values that both parties may be expected to observe, arise from the nature of the transaction in question, and are likely to increase with its complexity. Second, the widespread belief among economists, that it is up to the legislature to lay down the rules, and that, provided he keeps within the law, the businessman is free to make money in any way he pleases, is unsustainable. Just as the law breaks down if witnesses are not trustworthy, judges are not honest, and jurors do not try to give a true verdict, so commerce breaks down if each party is trying to get as much as he can get away with.

Economists, too, who have claimed that their discipline is an autonomous one, are similarly mistaken. Although economics is about money, and money is about choice, it is not a matter of choice alone, but of choice allied with trust. The tag \textit{caveat emptor} captures the element of choice, but needs to be complemented by the equally essential element of trust. Only the lady can decide whether the hat suits her ambitions, but she cannot by herself make sure that the hat will not disintegrate when she wears it at the party, or that it does not contain asbestos dust that will bring her and her children to an early grave.

Most economic transactions are bilateral, and the prime obligations of either party are towards the other. Without enquiring into the whole range of values espoused by the other, each can have a fairly good idea of what the other is reasonably wanting. Such an idea often constitutes a large part of the identity of the cooperator. He is a tinker, a tailor, a physician or a sportsman, and tries to live up to the standards expected of that ilk. The workman takes pride in his workmanship, and knowing that he does a good job, can feel comfortable about himself, and be sure he is worthy of his hire. Traditionally we have distinguished the professions as cases where the professional man has a fiduciary relationship with his client, and
Economics as a Moral Science

§4.2

Owes him a duty to seek the client's interests rather than his own. But the professions are only an extreme case. In every transaction both parties are under some obligation to each other: the purchaser to pay promptly in sound currency, the vendor to do a good job for him, and not to try only to make money out of him.

Most transactions are not only bilateral, but limited in scope. The child buying sweets in the corner shop has a duty not to shop-lift, but is under little obligation to consider the global consequences of his choice. They will be minuscule, anyway. But with larger transactions the area of unconcern diminishes. That a decision one way will result in much unemployment in the town is a consideration—not a conclusive consideration, not always a decisive consideration, but a consideration all the same. Decisions are being taken by different decision-makers, each with his own standpoint and perspective. I am responsible for my own family, my own firm, and to a lesser extent my own locality, my own country, church, interest groups, and many other commitments; and these naturally loom larger in my scheme of things than in someone else's. It is not to be expected or desired that each decision-maker should make the same decisions as any other—indeed, it would be wrong for him to neglect his own special responsibilities out of excessive zeal for the greatest good of the greatest number. Our lives are constituted by a web of obligations, leading to specific duties incumbent on different agents in virtue of the place they occupy in society. A moneyed economy decentralizes decision-making, and thus lands each decision-maker with heightened individual responsibilities, but does not abolish all others. A small businessman is properly concerned primarily with his business, and cannot be greatly concerned about distant matters where his decisions will have little impact. But as his business grows larger, so too does the range of considerations he ought to take into account. A large employer in the locality may contribute towards providing a playing field or a swimming bath in the same way and for the same general reasons as a large landowner might have done so in the past. So too a large player in some particular industry may endow scholarships or bursaries to educate people in the particular technical skills needed by the industry, or general education desirable in all employees. The underlying logic is the necessary conjugation between the first person singular and the first person plural. “What is good for the United States is good for General Motors” is often quoted (and often misquoted). Although often condemned,
it is true. We can not only quote it with approbation, but argue for it on games-theoretical grounds.

### Business Responsibility

The responsibility of a business man, as with everybody else, increases with power. Being in business does not cancel obligations to other parties.

What has emerged is that to understand the moneyed society we need to think of it from a general, social, as well as a limited, individual, point of view. Although the value of money lies in each person being able to spend it as he thinks fit, it is not rational to think only of oneself, and each agent in making up his own mind how to exercise his choices needs to be aware of there being other people too, and ready to take some account of their values and choices. In the moneyed society money plays a pre-eminent role. But it is a society still, and money would be useless, were it not for its social setting.

### 4.3 Families and Firms

Families and firms are entities in the moneyed world that have economic relations with one another, but an internal structure not primarily economic. They can be distinguished crudely as those that primarily spend money—families—and those that primarily make money—firms. The distinction is neither rigid nor complete: there are extended families, networks of friends, trade associations and global conglomerates; and it is difficult, without distortion, to fit in churches, charities, museums, or universities. And, of course, there are many workers living on their own and some one-person businesses, but it is convenient to count them as special cases, in the first place of single-member family, and in the second of a single-member firm; a few—bachelor watch-menders—fall into both classes.

Families consist of people who share many genes—parents and children, brothers and sisters—or many values—husband and wive—and so find it natural to engage in shared activities and work towards shared goals. Firms survive because the fruits of their cooperative activities are of economic value to other parties. This sharing provides the basis on which members cooperate without money changing hands—not that no money ever changes hands:
children get pocket money, and employees wages—but within the structure of the family or firm members do what is necessary without further payment; the bread-winner does not pay the housewife extra to go shopping, (though she would naturally pay her bus fare or petrol out of the house-keeping); the employee, in return for his wages, identifies with some of the values of the firm, doing what his job requires, without further payment.\footnote{See further below, §6.1, pp.119f.}

Families and firms are entities that last, sometimes over many generations. Like biological entities they survive because they are homeostatic. They respond and adapt themselves to the outside world in order to secure some constancy within. They adjust their activity in the light of economic conditions. In the moneyed society money is the feedback factor. If the family does not practise housekeeping prudence, the money runs out; if the firm fails to satisfy customers, the profits dry up. The adjustment may be slow, and typically is influenced by many other, non-economic considerations. A firm may not sack a workman immediately upon a downturn of trade, and may instead increase unsold stocks in the hope of better times, not wanting to throw a loyal workman out of work, and putting up with a lower profit than might have been obtained with a more ruthless policy. Similarly, instead of splurging out on receipt of a higher pay-packet, a family may put it by for a better holiday next year. But economic pressures are over time effective. Firms cannot indefinitely trade at a loss, and money earned invites being spent.

Biological entities exist in a context of other biological entities, and just as one cell coexists with many others, one organism with some others, one territorial tribe with its neighbours, one species with some others, so economic units operate in a variety of contexts—customers, employers, competitors, colleagues, teachers, adjudicators, and many others. But cells, organisms, populations, species, and organisms, though not isolated, are insulated, and have membranes, skins, territorial boundaries, ecological niches, which separate them and protect their interior from the rest of the world; and families and firms similarly need an internal environment shielded from the harsh winds outside. But shielding cannot be total if it is to be effective and long lasting. The danger for institutions is to seek internal security by complete insulation, not accepting the correlative requirement of openness to negative
feedback. The mother defends her children from hostile criticism from the shop-keeper, but has failed to insist that they refrain from helping themselves from the shop-keeper’s trays. The Chief Executive Officer stands by his underlings, but fails to instil in them the importance of telling the truth, the Minister says that all the correct procedures were followed, but had never tried to persuade his officials that service to the public, not box-ticking should be their primary aim. Many institutions have public relations officers who issue self-congratulatory handouts telling people how high the aspirations of the institution are and how well it has done, but are impervious to complaints and criticisms. The mark of a good administrator is that his priorities are reversed. He leaves it to others to say how well he has done, and himself looks out for unwelcome feedback to alert him to where his institution is falling down. Many complaints, of course, are fractioned or factitious. But they should be listened to, and not automatically filtered out—else the serious ones may also fail to get through. Frederick the Great once saw a fly-posted notice, criticizing him, high up on a wall; he ordered a ladder to be brought, so that his subjects all could read what was said, thus showing that he deserved his title “the Great”.

The fact that families and firms flourish shows that not all beneficial activity is economic activity, and not all economic activity is beneficial. Within a family or a firm different members cooperate because they share common objectives, and can trust one another to do whatever is necessary to achieve them. I do not have to pay my brother for doing his part in preparing for our camping expedition, or for helping me put the tent up, because we both want to make a success of it; and I do not pay the secretary for each letter she types for me—she is paid a salary as a member of the firm, and then does, for no extra pay, reliably whatever is needed. What is done in either case is clearly beneficial, and is the reason why families and firms thrive: but it is based on trust and common objectives, not payment for each task performed. Of course, firms can out-source; sometimes it pays them to have contracts for having letters typed and telephone calls answered; but often they find it better to employ people to do the necessary work in house. Less money changes hands, but business efficiency is enhanced.

§4.4 Income and Expenditure

Other things being equal, families would like to be able to buy more goods and services, and firms would like to increase profits. A family can increase its income by the bread-winner(s) working longer hours, or moving to more lucrative employment. A firm can increase its takings by producing more goods or services that people will want to buy. A firm can produce more goods or services by being more efficient, employing more people, using more materials,
installing more, or better, machinery. A perfectly efficient firm, if such exists, can increase productivity by only the last three means, each of which involves expense. Increased productivity will not result in increased profit unless the expenses incurred are less than the additional takings. In estimating these, we must remember that the increased supply may result in a lower price for each item sold; but usually the difference will not be very great, and the additional takings due to the increased production will be considerable. As a general rule, it is reasonable to suppose that families and firms would like to have more money; but often the obstacles cannot be easily overcome.

Money coming in is income. Money spent is expenditure. Money comes in from many sources: from earnings, from royalties and rents, from investments, etc. And then we spend it, on food, on rent, on a lottery ticket, on taking a friend to the theatre, or on some other transaction in which the cooperators' surplus, were it not for the transfer of money, is very much to our advantage.

<table>
<thead>
<tr>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Earnings</td>
</tr>
<tr>
<td>2. Investments</td>
</tr>
<tr>
<td>3. Royalties and Rents</td>
</tr>
<tr>
<td>4. Inheritance</td>
</tr>
<tr>
<td>5. Gifts and Grants</td>
</tr>
<tr>
<td>6. Winnings</td>
</tr>
<tr>
<td>7. Theft and Blackmail</td>
</tr>
</tbody>
</table>

In most cases nothing tangible persists: the food is eaten, next month's rent falls due, the lottery ticket fails to win a prize, the evening's entertainment is only a memory. In some cases, however, there continues to be something to show for the expenditure. I have a mobile phone or a degree in the history of art; we have a washing machine or a house. Consumer durables last, and while they last they confer benefits: I can ring up my pals, knowledgeably show my friends round art galleries; the washing gets done quicker and better, we have a house of our own to live in. In other cases, still, the continuing benefit is entirely financial. The taxi firm buys radio telephones and satnav systems so that its drivers can be more quickly deployed and spend more time actually carrying fares. Although the immediate benefit of the purchase is the possession of a
desired facility, the long-term benefit, and chief reason for making the purchase, is financial. The firm buys the facility in order to increase production or reduce costs.

It is natural to regard the first sort of expenditure as for consumption, and the last as investment, but to equivocate about the second. Consumer durables tend to endure, and to go on giving satisfaction for a season, but are not inherently money-generating, though some may be money saving—by buying a scooter, I save money on fares, and the housewife with a washing machine may have time for a part-time job she could not manage otherwise. Because of this possibility, and because of the general future-oriented tendency of economic thinking, we feel encouraged to class all such expenditures as investment, and therefore virtuous. This encourages sloppy thinking. Politicians like to describe their expenditures as investments, and now even ordinary people talk of investing in a foreign holiday or a new dress. Such usages darken counsel. I may possibly work better if I “invest” in a holiday or slap-up dinner, but I deceive myself if I pass it off as the acquisition of a money-generating asset, rather than consumption. We need to keep the distinction between the general run of expenditure and the special case where we spend in order to obtain a good return at some later date. Only in the latter case can the expenditure be properly called an investment. And in such cases the prime criterion is the actual return obtained.

<table>
<thead>
<tr>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consumer Perishables; <em>e.g.</em> food, theatre tickets</td>
</tr>
<tr>
<td>2. Assets:</td>
</tr>
<tr>
<td>(i) Consumer Durables with no financial benefit; <em>e.g.</em> pictures, family silver</td>
</tr>
<tr>
<td>(ii) Consumer Durables with some financial benefit; <em>e.g.</em> moped, washing machine</td>
</tr>
<tr>
<td>(iii) maintenance; <em>e.g.</em> house repairs;</td>
</tr>
<tr>
<td>(iv) Investments; <em>e.g.</em> land, stocks and shares.</td>
</tr>
</tbody>
</table>

Families spend money on consumer perishables and consumer durables, and the acquisition of other intrinsically desirable assets, which together constitute consumption. Their expenditure over the long run cannot be greater than their income, but may be less. If it is less, they are saving, and may do so for many different reasons.
§4.5 Why Save?

After some collaborative effort, I come away with money in my pocket. I may spend it at once, calling at the pub on my way home. But I need not. I may put it in the house-keeping drawer, to buy food later in the week. I might put it by simply out of indolence—I just don’t want to be bothered now with having to make up my mind what to spend it on. Or I may save it for a purpose.

I may save it for a variety of reasons: towards a holiday in the summer, towards a deposit for getting a house of our own, as a reserve against a rainy day, or in order to accumulate a fortune, which I may want to do for a further variety of reasons. I may want to be rich so as not to have to earn money any more, and be able to go into politics, or to do good works, or to go to art galleries and study art, or to be a scholar and read and possibly write books. Or I may want to make money in a competitive spirit; to out-do all my contemporaries, who are bread-winners, and spend their working days earning their income. Or I may be simply fixated on money, a worshipper of Mammon, a miser, a psychiatric case suffering from an anal-sadistic dysfunction.\(^\text{10}\)

The many different reasons for saving show that it is a mistake to pick on only one, and take that as the paradigm. Ricardo and the classical economists assumed that if I did not spend the money in my pocket immediately, it was in order to spend it later. Saving was simply a deferred purchase. Keynes argued that saving was a response to the uncertainty of the future. There might be a rainy day, and rather than exercise choices now, I should keep my options open, so as to be able to cope with whatever eventualities there might be.

<table>
<thead>
<tr>
<th>Reasons for Saving</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ricardo: deferred consumption,</td>
</tr>
<tr>
<td>Keynes: deferred choice.</td>
</tr>
</tbody>
</table>

Both are telling reasons for saving, but neither is the exclusive one. Rather, we should recognise that people save for a variety of reasons, often merging into one another, and often not clearly distinguished in the mind of the saver. Keynes acknowledges eight

\(^{10}\) See above, §3.5, pp.66f.
reasons in all. Besides Precaution, he itemises Foresight, Calculation, Improvement, Independence, Enterprise, Pride and Avarice. ¹¹

In many cultures thrift is seen as a virtue, and the young are urged to save for the future, without any expenditure in mind. The urge to defer is not confined to money. Many housewives feel an irresistible urge to feed the freezer during the soft-fruit season. After the gooseberries, loganberries and raspberries they find it increasingly difficult to find room for the red and black currants, and begin to eye the other occupants with a view to eating them in order to make room for the newcomers—only to find that they are last year’s still unconsumed crop.

Keynes argues that economies similarly have a tendency to over-invest and under-consume, and that we should do better to save less and consume more. In time past there was a simple, powerful argument for this.¹² If I kept my savings as cash in a sock under my bed, then I was withdrawing currency from use, and if too many people did likewise, there would not be enough money in circulation to facilitate all the cooperative activities we would like

¹¹ J.M.Keynes, The General Theory of Employment, Interest and Money (London, 1936), Bk III, ch.9, pp.107-108. He characterizes them thus:

(i) To build up a reserve against unforeseen contingencies;
(ii) To provide for an anticipated future relation between the income and the needs of the individual or his family different from that which exists in the present, as, for example, in relation to old age, family education, or the maintenance of dependants;
(iii) To enjoy interest and appreciation, i.e. because a larger real consumption at a later date is preferred to a smaller immediate consumption;
(iv) To enjoy a gradually increasing expenditure, since it gratifies a common instinct to look forward to a gradually improving standard of life rather than to the contrary, even though the capacity for enjoyment may be diminishing;
(v) To enjoy a sense of independence and the power to do things, though without a clear idea or definite intention of specific action;
(vi) To secure a masse de manoeuvre to carry out speculative or business projects;
(vii) To bequeath a fortune;
(viii) To satisfy pure miserliness i.e. unreasonable but insistent inhibitions against acts of expenditure as such.

¹² see above, §3.1, p.49.
to engage in. But once we have banks, that problem disappears. Savings deposited in a bank are not withdrawn from circulation, but can be lent to other users, until in the fullness of time being withdrawn from the bank by the depositor. In the moneyed society money is longer a definite quantity. Credit makes it extensible; not infinitely so, nor indefinitely so, but to some extent extensible none the less. If I am owed money by the Big House, the bank, or the government, I have money, even though I do not have cash in my pocket. And equally I can buy things with a credit card so long as the credit card company trusts me to pay off my debt at the appointed time.

Banks have become a dominant feature of the moneyed society, and until recently an entirely accepted one. Misbehaviour by some has called their various functions into question, and it is now necessary to distinguish their three different functions, as a facility for transferring money (like the Knights Templar in the Middle Ages and Western Union in the United States), as a safe depository, and as a matchmaker between lenders and borrowers.\textsuperscript{13}

The three functions have been bundled together by reason of the relatively low load factor. Since most depositors are happy to leave their money in the bank, being always able, but seldom wanting, to draw it all out, the bank has been able to lend it to others at a profit, which enables it to perform its first and second functions free. If we consider the functions separately, then it would be reasonable to charge for the service. We used to pay poundage on post-sal orders and for sending money by telegraph, and we pay furniture depositories for storing our furniture. The former is a one-off short-term transaction, where competition is likely to secure a reasonable standard of service. The latter is a long-term business where the essential feature is security. Just as a furniture depository needs to be safeguarded against theft and to be properly insured, a money depository needs to be safeguarded against defalcation and to be insured or regulated against all possible loss. In time past the \textit{ethos} of banking, with its strong commitment to prudence, was enough to ensure that the bank's lending was safe, and the three activities could be combined without any need for outside supervision, but now more stringent controls may be required.\textsuperscript{14}

\textsuperscript{13} See further below, §8.5, p.176, n.28.

\textsuperscript{14} What exactly is needed now is disputed, though the recommendations of the Vickers Report seem sensible.
Keynes' insight that we save, largely in order to be able then to make choices at a time of our own choosing, is profound. It leads to the conclusion that in a society where banks are available, and much economic activity is based on credit, the key concept is not money but liquidity.

It is liquidity, not money, that we need to think about most.

§4.6 Liquidity, Confidence and Credit

Liquidity is the key feature in the moneyed society. It represents deferred immediate choice. It straddles the divide between money as a store of value and money as a valued medium of exchange, but in consequence is heir to the afflictions of modal logic. Although Ricardo was right in seeing consumption as the ultimate rationale of holding—indeed of having—money, Keynes was more right in seeing our immediately wanting it as a shield against uncertainty. In the face of uncertainty, we want to keep our options open. If we do not know what the future has in store for us, we want to be able, when the time comes, to do whatever the situation demands. To mix metaphors outrageously, we go liquid in order to keep our powder dry.

In time past there was a sharp distinction between liquid and other assets. If I had a store of gold sovereigns, I could decide on the spot what I wanted to buy, and pay for it immediately: whereas if I owned many acres, I might be accounted rich, but could not quickly find money, say for a daughter's dowry. Land can be sold only when there is someone who wants to buy it, and often nobody wants to buy the particular acres on offer. But now, though land is still illiquid, there are many assets which can be readily turned into cash. We seldom keep much cash as such. We deposit our money in a bank, and shop with credit and debit cards, backed by our bank balance. If we have more money than we need, we move it from our current account to a deposit account, or buy savings certificates, and the like, gaining a little interest in return for money not being quite so immediately available. Longer term we can invest in gilt-edged securities or equities, getting more interest in return for slower availability, and some risk of loss if the market moves against us.

Usually we do not need to be all that liquid. The Irish docker may go straight to the pub to spend his earnings, but most of
us mostly have a number of later expenditures in mind when our money comes in. There may be rent to pay, certainly food to buy, and utility bills to meet, possibly a holiday planned for, or deposit on a house, or a contribution to a pension. These deferred payments are characteristic of the moneyed economy, and although some of them are deferred for only a few hours or days, in total across the whole population they amount to a great deal of money not being immediately spent. It is thus possible for banks to lend to other customers money deposited with them. The money I effectively lent to the bank when my last salary cheque came in was made available to a businessman manufacturing furniture to enable him to buy materials which later he would sell; and by the time I draw on my account to pay my gas bill, someone else will have paid in his salary; and so on. In normal circumstances when deposits and outgoings are staggered, only little cash is needed to sustain a large amount of lending. Essentially the bank is borrowing short and lending long— it holds itself ready to cash my cheques on demand, while not expecting the furniture manufacturer to pay back his loan until the furniture is made and sold. The underlying logic is that the true premise:

Each depositor will at some time withdraw his money

does not imply the conclusion that:

At some time all depositors will withdraw their money.

But, sadly for bankers, neither does it imply its negation: that is,

Each depositor will at some time withdraw his money

is compatible with:

At some time all depositors will withdraw their money.

None the less, this awkward possibility does not become actual, so long as I and other depositors trust the bank to be able to honour our cheques when at some future date we write them. But once confidence is shaken, I shall want to be sure of being able to pay

15 Enthusiasts for formal logic can express this symbolically:

\( (\exists x) (\exists t) (x \text{R} t) \not\vdash (\exists x) (\exists t) (x \text{R} t) \) but also \( (\forall x) (\exists t) (x \text{R} t) (\exists t) (\forall x) (x \text{R} t) \not\vdash \).

In view of the parallel between the existential quantifier, \( (\exists) \), and possibility, \( \Box \), in modal logic we can similarly say

\( (\exists x) \Box (x \text{withdrew his money}) \not\vdash \Box (\exists x) (x \text{withdrew his money}) \).

‘for each person it is possible to withdraw his money’ does not entail that it is possible for all to do so.

Extreme enthusiasts will note that the failure of ‘each’ to imply ‘all’ is characteristic of \( \omega \)-inconsistent systems.
when payment is due, and will seek to have ready cash in hand. And if others' confidence is similarly shaken, there will be a run on the bank. Liquidity is our precaution against uncertainty, which is itself inversely related to confidence. In normal circumstances, when things are stable enough for me to foresee the future with some degree of confidence, I can forgo a large measure of immediacy in the decisions I shall need to take. I know, roughly at least, what my mortgage repayments are going to be, and how much the gas bill will come to. But in times of crisis I am subject to radical uncertainty. If there are rumours of war, I need to be in readiness to evacuate the children to a safer place; I may be called up, and no longer able to earn a living. Again, if there is an epidemic of swine flu, there may be medical bills to meet. If a tsunami hits the West Indies, my job in sugar advertising may be at risk. The rational response to uncertainty is to be ready, and able to take suitable decisions in the circumstances, whatever they turn out to be. So I go liquid, draw in my horns, and keep my options open. Confidence and liquidity are inversely related. If I lack confidence, I need to be liquid in order to be able to take the appropriate decisions as an uncertain future unfolds. Equally in the opposite direction, if I am already committed, say by a mortgage, I need to be sure of having money to hand, when the payment falls due. Debts and other future obligations are a form of negative liquidity.

Liquidity comes at a price. Deferred choices are not actual choices. If I decide to keep my options open, I opt not to opt now. I do not buy the ice cream now, go without an Ipod, make do with the old car for another year. By not spending money, I forgo economic activity. When I spend, I actualise a choice. I no longer have the option of exercising the choice that the money spent represented. That power of choosing now rests with the person or institution I paid. He now has the option of either actualising his power of choice or postponing it to a later date. There is in general a natural tendency to spend without undue delay. If I am flush with money, there are lots of things I want. And if I exercise my choice, it enables the person from whom I buy to exercise his. Exercising monetary choices constitutes economic activity. In so far as economic activity is a non-zero-sum game, in which both parties come off better than they were, I am, if I refrain from spending, less well off than I might have been. So, too, are those who might have done business with me. The money I do not spend is money they will not have earned. Normally, the different choices
I and other people make about whether to engage in, or hold back from, economic activity are smoothed out in the aggregate, but if everyone goes liquid, there is a downturn in economic activity, and people are less well off generally. It is natural to assume that this is a bad thing, and that per contra our spending is a good thing. By and large it is, but not necessarily, and not always. Too many economists have taken it for granted that economic activity must be good, and have worshipped growth in consequence. We should not worship growth, nor seek to promote it at all costs. We need to balance economic activity against other activities it may displace, and seek to foster it only when it is on balance the best objective for a moneyed society.

Liquidity is thus linked to credit and trustworthiness on the one hand and prosperity on the other. The link is obvious in the moneyed society, where there are banks, but does not depend on there being banks, as is shown by the example of un-presented bills left owing by the Big House. If banks had not been invented, villagers might have come to use invoices addressed to the Big House as currency. Credit can liquefy assets, and create *soi-disant* currency. Trust in the Big House is due to the whole village being something like an extended family. Trust is engendered by shared values and togetherness, and in turn enhances property. If I have a family I can rely on, I can accomplish much more than if I had to do it all myself. There are more things I can do. My choice of what to do ranges more widely. I am therefore better off.\textsuperscript{16}

\begin{table}[h]
\centering
\begin{tabular}{|l|}
\hline
\textbf{Liquidity} \\
\hline
1. arises from our being able to defer pending \\
2. is a natural response to uncertainty \\
3. is inversely related to confidence \\
4. is facilitated by banks, shares and stock exchanges \\
5. is a lack of economic activity \\
6. Debts are a form of negative liquidity \\
\hline
\end{tabular}
\end{table}

\textsuperscript{16} See above, ch.3, \S3.1, pp.49-50; and below, ch.8, \S8.5
Keynes' insight, that liquidity is our precaution against uncertainty, holds good of all societies. In all societies where individuals make up their minds for themselves, there is an underlying uncertainty, which is greatly reduced if people are predictably honest and credit-worthy. The law goes some way to guarantee good behaviour, and bolster confidence, but cannot cover every eventuality. A world in which people are reliable, each one regarding his word as his bond, is likely to enjoy prosperity. In the moneyed society that ancient truth re-surfaces and makes liquidity the key concept for understanding—and improving—the economy.

§4.7 Investment

Why invest? If I sometimes save, it is natural to turn my propensity not to spend immediately to good use. By investing savings in money-generating assets I can provide additional income in the future. In olden days land was the only money-earning asset that could be bought, and benefactors who wanted to endow charities in perpetuity had to endow them with farms and manors. Speculative trading ventures became another source of profit, and later government bonds and shares in public limited companies. While it was usurious and wrong to charge interest on what had been lent to a neighbour in hard times, it is reasonable to obtain interest on a loan that enables a businessman to do business profitably. I can invest with a good conscience. As my current account grows greater, it is sensible to move some money to a deposit account, where I get paid for leaving it there (which I intend to do anyway, since my current account is large enough for all anticipated needs). Similarly the move from a deposit account to gilt-edged stocks and blue-chip equities. These investments are carried along by my wanting to save; no extra motivation is required. But often there is extra motivation. I may invest in order to be able later on to live on my investment income without having to seek paid employment. I may be a businessman, and want to expand my business as a token of success, or to give me a wider range of responsibilities. I may be concerned for my locality, and want to provide employment for the workless. I may have a sense that unless I invest and modernise, I, or we, shall be overtaken by others, and left to stagnate on the sidelines of history.

Firms have to invest. Manufacturing equipment is expensive, and has to be paid for before production can begin. Even small-scale ventures require wages to be paid and commodities to be
bought before there can be any return on them. A firm, therefore, must invest. But, as before, there is unclarity of usage. If sales falter, a motor manufacturer may go on producing cars at the same rate, rather than lay off workers and risk a strike, hoping that sales will pick up again. In the interim his cash flow looks bad, but is unduly pessimistic: it ignores the large number of cars, which may well sell at the asking price. Even if they have to be marked down, they will go for quite a considerable sum. Some economists treat unsold stock as an investment. But it is not. Unsold stock is an asset, but not a money-generating asset, that is, it does not form part of a process that produces products that can be sold, but is simply something that can be sold. It is like a family's silver. It is an asset which can be sold for money, but does not itself produce money. It should be listed among the firm's assets, and goes to show that the firm is solvent, just as a statement of pension liabilities needs to be made before a judgement is reached about the firm's overall profit. In normal circumstances stockpiling is not a profitable activity, and only happens because of unexpected fluctuations in demand (exceptionally, it *could* be an investment if it was expected that the price of the product was going to go up—e.g., as a result of a famine or a war; then it *would* be an investment).

There are many reasons to invest. But are there countervailing reasons not to invest? Certainly some people take too much thought for the morrow that they fail to make full use of today. And a starving society might need to eat everything it produced, simply in order to stay alive. Even if there were a surplus over present needs, it might be better to build cathedrals rather than power stations. There is a fundamental tension between present enjoyment and deferred opportunity. Just as money can be a store of value only if it circulates, investment can be worthwhile only if ultimately it brings forth fruits we want to consume. It is difficult to strike a balance. The arguments need to be articulated either way. Although thrift is a virtue that needs to be inculcated in the young, it is not always and for all people an overriding virtue. But arguments for thriftlessness need careful scrutiny before they are accepted, even in special cases.

Investing involves a loss of liquidity. I buy a new machine tool. Before I bought it, I had the choice of what to spend the money on; after I have bought it, I no longer have the choice. If I wanted to have that choice again, I should have to sell the machine tool.
almost certainly at a loss. But I do not buy machine tools in the expectation of having to sell them again; rather, I intend to keep and use them, thereby enabling me to produce more at a lower input of labour and materials, and thus increasing my profit. In deliberating whether to invest or not, I do my sums, and estimate how much more I shall gain in the future in comparison with the present cost. Different people in different circumstances will weigh the factors differently: an old man without children or relatives would be foolish to forgo choices he might actually be able to make in his remaining days for the sake of many more choices he would not live to be able to exercise. But although individual cases vary, the effect of markets is to liquefy and homogenize assets, establishing some standard rates of return.

Loss of liquidity is not the only consideration. Very often there is some element of risk: the machine tool is not as good as I had thought, and breaks down often; the market turns against me, and I cannot sell the extra items produced. Almost all industrial enterprises involve risk, and would not be undertaken unless the returns, if successful, were suitably enhanced. In modern times even government bonds carry some—usually small—risk of default and a larger one of inflation. In the Nineteenth Century, when there was no inflation and the British Government enjoyed the absolute confidence of investors, it was able to borrow money at 2.5%; and this may be seen as the basic charge for forgoing total and immediate liquidity, with higher rates representing the price of greater illiquidity and risk.
4.8 Macro-and Micro-Economics

The moneyed society makes it possible to carry out large-scale transactions. Banks have at their disposal millions of pounds. Stockbrokers buy and sell thousands of stocks and shares on the stock exchange. Financiers organize take-overs of companies worth hundreds of millions. Macro-economics deals with these large-scale questions: the bank rate, currency fluctuations, the trade cycle, quantitative easing. Micro-economics deals with small-scale operations, a housewife shopping, a family deciding whether to go on holiday, a businessman asking his bank manager for an overdraft. Clearly they are different, clearly they interact with each other. Unfortunately each often distorts the understanding of the other.

In the micro-economic world information is characteristically imperfect, prices and wages are “sticky”, and considerations other than economic are often paramount. In the macro-economic world, information is generally available, and economic considerations are often paramount. In the currency markets one dollar is as good as another, and one dealer is as reliable as another. Whereas the housewife may not shop around, and may go the butcher she always goes to, and trusts him to sell her good meat, the trader in currency does shop around, and feels no loyalty to one particular dealer, if another offers dollars at a cheaper price.

This much is obvious. But many economists assimilate the micro- to the macro- in claiming that the market always clears, and that a state of equilibrium will rapidly be reached. But if the lady does not like the hat the milliner in Bath has on offer, she does not buy it, and the hat may remain unsold. The lady may think she might do better in Windsor, and may resolve to stop off there next time she is going to Ascot, but she does not entertain the idea of finding an exactly similar hat but at a lower price. Hats are not like shares or dollars. Buying a hat is not like buying some stocks or bonds. Although constrained by economic factors, it is primarily an emotional experience, an exercise in self-expression or self-creation. And although some women enjoy shopping around, and are delighted to find a real bargain in a charity shop, there are occasions when cheapness is not a recommendation, but the reverse.¹⁷

Economists find such behaviour perverse. They forget that actions are not only causes of events, but manifestations of attitudes,

¹⁷ See above, §3.5, p.68.
and that in the micro world, economic considerations are often less important than extraneous ones. It is only when we move away from the petty considerations of ordinary life, that we achieve the purity of motive economists value. In the stock exchange, the clearing house, the futures' market, the hedge funds, we have operators motivated solely by profit, who are always seeking out the best bargains, and who can be relied on to buy at the cheapest, and sell at the dearest, price. Their activities are tractable to economic theory, and economists like to think they are typical—Keynes was a speculator throughout his life, but, so far as is known, never bought a lady's hat. In fact, many micro-economic transactions could not take place, under the the conditions postulated by macro-economists. It is only because information is imperfect, markets do not clear, and equilibrium is not reached, that it is worth taking risks and starting new enterprises. If I see an opportunity—say, of starting a pizza delivery service in my neighbourhood—I may risk my savings in starting it up, hoping to make a tidy profit. But I should not make a tidy profit, if the local super-store had perfect information, and could start a competing pizza delivery service as soon as my enterprise proved profitable. It is only because there is some imperfection, slowing down the progress of economic tendencies, that new enterprises can get off the ground and enjoy sole occupancy of the niches they have discovered for some time before having to face well-heeled competitors. Without this breathing space, innovation would be suffocated.\textsuperscript{18}

Macro-economic transactions are not the engines of economic activity, although they impinge, sometimes beneficiently sometimes grievously, on ordinary life. Micro-economic transactions are what make the economy tick. Long before there were banks and shares, simple economies worked reasonably well, and enabled different people to cooperate to their mutual advantage. Bankers and financiers made feasible new forms of cooperation, and facilitated sophisticated transactions, which encourage the growth of profitable enterprises. But by themselves financial activities are a zero-sum game. As stocks and shares go up and down, some people gain at the expense of others who lose. The only real gains come from firms that do well, by providing wanted goods and services at

\textsuperscript{18} I owe this point to Dr G.B.Richardson, formerly Fellow and Tutor in Economics of St John's College, Oxford.
The macro world behaves as economists think it should, but is parasitic on the micro world: the micro world is real, but does not behave as economists think it should.

an affordable price. Chemists, motor manufacturers and computer nerds have created the enterprises whose profits financiers trade.

Important consequences follow. Although the macro realm of action is easier to understand, it is not the paradigm. Economics is not an autonomous discipline based on a few intelligible axioms, but is just one aspect—although an important one—of social life. The typical economic agent is not *homo economicus*, who trades on the stock exchange, but *femina domestica*, who spends in the supermarket. She and her husband, who earns their bread, have many other concerns than buying in the cheapest and selling in the dearest market, though they are not indifferent to prices and rates of pay. Although not indifferent to prices and rates of pay, it is these other concerns that chiefly guide their behaviour, and continue to do so even when macro-economics are in bad shape. Micro-economic transactions are relatively robust. Belts may be tightened, but even in straitened times, food is sold and bought, telephone calls are made, boys buy bikes and girls blouses. Unless the currency completely collapses, as in Germany between the wars, people go on cooperating for their mutual benefit, and money changes hands to enable the benefit to accrue to both parties.
Money talks . . . . but not deafeningly:

We do not always buy in the cheapest market.

We are price-sensitive up to a point, but often go for:
1. convenience—Amazon;
2. old time’s sake—the village shop;
3. ethical reasons—fair trade;
4. individuality,
   (a) tailor-made suits,
   (b) the dress that nobody else has,
   (c) T-shirt with my name on it,
   (d) earthenware specially cast for me,
   (e) my own tobacco mixture;

the decoration in a house we have just bought is often perfectly clean and adequate. But we spend money on redécorating it, to make it ours, not theirs.

Nor do we always sell in the dearest market.
Again, we are price-sensitive up to a point, but often do not maximise our price:
1. many do not gazump—their word is their bond;
2. pre-NHS doctors charged poor patients only a token fee;
3. garages charge only the standard price, even to a motorist who has run out;
4. nurses, teachers and clergymen accept salaries far below what they could earn in other jobs;

in selling our services, job satisfaction, pleasant conditions and congenial colleagues loom large; but even with selling goods, considerations other than pecuniary may weigh—some people will sell a house to a family they like rather than to the highest bidder.
Chapter 5

Boom and Bust

§5.1 The Business Cycle

The Western world has long been familiar with the business cycle. Periods of prosperity alternate with hard times. In retrospect it is often easy to say why the good times did not last—sub-prime mortgages, bankers’ greed, investors’ irrational exuberance, the erosion of trust, political uncertainty, wars and rumours of war, all can be called in to explain why confidence suddenly failed, and everyone felt obliged to play safe. One particular factor in the recent crash was the widespread ignorance of the laws of probability. Financiers dealt in “financial products” they did not understand, and assumed that if they diversified their holdings, they were spreading the risk. They failed to observe that many apparently different products, were made up of elements that incorporated the same risks—notably in the American sub-prime market. It is no good putting eggs in different baskets, if the baskets all depend on the same rope. If financiers had been adequately intelligent, perhaps some booms and slumps might have been avoided—always provided also that they were prudent and honest;¹ Of course, there have always been those who go into the City to make money, but in recent years moneymaking has been allowed to be not only the dominant, but the overriding, motive.² And as in general, so in this particular case the transition from the moderated desire to have more money, other things being equal, to the unqualified goal of maximisation, has shown itself not only irrational but disastrous.

¹ Plato in Republic I, 333, noted honesty as the special virtue of bankers.
² For an intentionally provocative account, see below, Appendix I, “The Snob Theory of Financial Rectitude.”

102
Although we can explain, it has proved difficult to predict or prevent downturns, recessions and slumps. Human folly and human greed are factors: but they are at work everywhere, and other walks of life do not seem to be subject to similar cycles. Cycles in business activity are due in part to the in-built instability, inherent in marketable assets. Keynes noted that the value of stocks and shares, depends on what people think that other people are going to think.\footnote{Like money itself; see above, \S 3.2, p.52.} This creates positive feedback. If any one person is unreasonably optimistic, his mistake constitutes a reason for others to make the same mistake. The word goes round that dot.coms are the thing to buy, and people start buying them, and the price goes up, thus proving that the word was right.\footnote{See above, \S 4.3, for negative feedback being a characteristic feature of economic entities in the micro-economy.} Booms boom, and become bubbles that finally burst, and turn into slumps.

There are many other factors that disrupt society and blow the economy off course—wars, floods, earthquakes and epidemics. When happy expectations are disappointed, we fear for the future; we become cautious, and prepare for outcomes we know not what, but likely to be adverse: and in our finances we seek liquidity.\footnote{See above, \S 4.6.} If it is just me, there is no problem: my selling shares will be offset by others ready to buy them. But if everyone is wanting to go liquid, assets that were liquefiable cease to be so, and the whole pyramid of investment will be under strain, and may collapse. The banking system and stock market can offer to each individual investor liquefability at a low price so long as he, on average, does not avail himself of that facility. The concept of liquefability relies, as we have seen, on a complex conjugation of mood, tense and person which will not conjugate over all moods, all tenses and all persons at once. I can choose whether to spend my money now or whether to keep open the possibility of spending it at a later time, as can everyone else, provided we do not all want to have the choice available now. Normally we can suppress the proviso as an explicit condition, and have each separate decision-maker believe that he can, whenever he wants, at a small cost, liquidate his assets, and be ready to cope with uncertainties. But given the positive feedback of the stock market and the macro-economic world generally, we cannot all choose to liquidate at the same time. There are many other
Examples—the load factor in electricity supplies, the provision of fire engines or public W.C.s in a locality—where we give adequate provision because the demand will be staggered: what is peculiar to the financial word is the herd-like tendency of everyone to do as everyone else is doing. Once a disaster leads many people to go liquid in the face of perceived uncertainty, the cost of doing so will escalate, and there will large falls on the Stock Exchange, leading to yet further falls, as investors seek safety from even greater losses. Similarly banks, preparing for the possibility that depositors will want their money back, will call in overdrafts and other loans, and be unwilling to lend money, even to trustworthy borrowers, and there will be a credit crunch.

It is foolish to suppose that booms and slumps are a thing of the past. Each generation seeks emancipation from the gods of the copybook headings, and only learns from its own experience that fire still burns and water wets. It may be that business cycles are natural and inevitable, because they fulfill, as it were some biological rhythm, with booms needed to encourage new ventures, slumps needed to tighten things up, and force firms to be lean and efficient. Certainly, recessions, depressions and slumps have been with us for a long time. Painful though they are at the time, they end. Most people are not financiers, and do not invest in the stock market. Their decisions are not subject to positive feedback: if the price of tomatoes goes up, the housewife is unlikely to be tempted to buy more of them. And whereas financiers are primarily moved by financial considerations, ordinary people are not. They operate within financial constraints, as they do within legal ones, but other considerations play a large part in the decisions they actually make, and these continue, as life continues, in a fairly stable way. Unless the authorities completely debauch the currency, it goes on being used for the ordinary purposes of life, as people earn their wages and buy their groceries. Farmers can sow, in the expectation that most of their crops will sell, grocers stock their shelves in the expectation that most of their comestibles will get eaten, doctors continue doctoring, schoolmasters continue teaching, buses continue running, musicians continue performing, actors continue acting, very largely for non-financial reasons, but, in so far as financial considerations do bear on their decisions, in the belief that things will continue to be much as they were. This maintains stability and trust in the micro-economic world, and re-introduces it into the macro-economic world. Some small-time operators see
§5.2 Salute the Slump

Slumps, depressions, recessions and downturns may cure themselves in the end, but are unpleasant while they last. Nonetheless, we should not exaggerate. If economic activity falls by 2%, alarm bells sound. But should we be alarmed if economic activity is still 98% of what it was? If my income falls by 2%, it is a trend I do not want to continue, but in itself it is not a catastrophe. Families and firms deal with downturns in sensible ways: forgo a holiday, postpone an investment, practise small economies to reduce the electricity bills, take on extra work. Most firms and most families survive recessions, not completely unscathed, but well enough—enough to enable the macro-economic sector in due course to recover from its ill health, and start playing a useful part in directing resources to the most profitable areas. In thinking about the problems of the macro-world, we should keep our feet firmly on the micro-ground, and maintain a sense of proportion. But still, depressions are painful for some people, and deep depressions can inflict great damage on many. We should like to mitigate their severity and speed their recovery, if we can.

In Prague there is a wall built by the King of Bohemia one winter when times were hard, to provide employment for his suffering subjects. The wall was of no value, defensively or aesthetically, yet it served its purpose: the hungry were employed, and could buy food with their pay. Indeed, the benefits were wider still. The bakers and corn-mERCHANTS were able to sell their produce, and buy things they wanted, thus further increasing trade. It is even possible that the King was not out of pocket in the end, for the increased prosperity generated by his payment of wages may have resulted in more taxes being paid, so that the Royal Treasury ended up no worse off than it had been before the King’s outlay on public works. Keynes argued that money paid in wages for public works would
have a similar beneficial effect throughout the economy, on account of the money's being spent, and thus enabling other people to buy more. Spending extra does give employment when work is short.

One response, then, to a depression is for people to make an effort to spend.—“Salute the Slump”—in Churchill’s phrase. To spend is to de-liquify completely. The choice, once open, is open no more. If too many people are keeping their options open, and not spending in their usual way, it helps if others will reduce their liquidity, and commit themselves, thereby making the world a little more certain, and assuaging the thirst for liquidity in those to whom they transfer encapsulated choice. Many people, of course, will be impervious to the exhortation, being themselves vulnerable to the down-turn, and needing to keep their resources readily available. But some well-established authorities—universities, independent schools, large charities, and the government itself—and, perhaps, possibly some rich individuals, are in a fairly secure position, and can time their spending to counter the business cycle, saving in boom times, and undertaking large expenditures during recessions, when they will get good value for money. Essentially in such cases institutions that can afford to are foregoing liquidity. Where before they had bank balances and stocks and shares that were easily tradeable, they now are acquiring illiquid assets, such as buildings, plant and infrastructure. They can afford to do this, because they are established institutions, able to face the future with confidence. It is the same as for the individual; if I lack confidence, I need to be liquid in order to be able take the appropriate decisions as an uncertain future unfolds; and the more I can be sure that untoward events will not affect me badly, the more I can afford to tie up my assets in less liquid or liquefiable forms: so too for the established institution, it is not only possible and public-spirited to become more illiquid during a slump, but prudent too—prices are likely to be lower.

It seems a sensible policy for the government itself, but there are caveats. First, the government may not get good value for the money spent. We need to distinguish the economic policy of countering recession from the political policy of providing employment. There may be good reasons for doing the latter at the public expense, but it is an expense, not a prudent investment.

---

§5.2

See next Section, and §6.2, p.127.
Secondly, it may not work. Keynes advocated public works using unskilled labour. He argued that money paid in wages for public works would have a beneficial effect throughout the economy, on account of the money’s being spent, and thus enabling other people to buy more. In his time it was reasonable to assume that wages earned by the recently unemployed, would be spent at once, thereby generating more business for publicans, tobacconists, grocers and coal merchants. But things are different now. Many working families are in debt. Some were conned into buying houses with mortgages they could not afford. Others have credit-card problems. Instead of going straight to the pub, the recently re-employed may use much of their wages to pay off some looming debt, in order to stave off repossession or the loss of credit-worthiness. These are laudable aims, but in such cases the result of extra government spending will not be to have money circulating fast through the economy, but to reduce the level of indebtedness. Instead of tills ringing up extra business, there will be sighs of relief from bankers and credit-card companies, as the ratio of deposits to loans gets less bad, and the burden of likely bad debts diminishes.

The Paradox of Thrift

Keynes thought that thrift was bad, because thrifty people, instead of spending their money, which would enable others to earn it and then spend it again, saved it, and so put it out of circulation. That argument might work if we still had only coined money, which could be sequestered in stockings under the bed.

But money saved now is not sequestered, but is banked or invested. If banked, it can be lent out again, if invested it is spent on some new enterprise. So thrift is not bad after all.

Thirdly, public works can do more damage than good. Politicians like eye-catching projects, new airports, railways, or roads, which slice through the countryside, damaging the environment, and depreciating property prices. Cost Benefit Analyses neglect or underestimate external costs. A Norman church was valued at £2,000 when a third London Airport in Buckinghamshire was under consideration.
And finally, we need to ask where the money is coming from. It could come from extra taxation, but that would suck liquidity out of the economy, and might well make matters worse. The government could run a deficit, and raise money by borrowing. But those who lent money to the government would be forgoing their liquidity. That might not matter in the short term: some home lenders might be tying up funds, relying on the government's credit-worthiness to keep their assets still reasonably liquefiable; nor would it matter if the lenders were foreigners living in an undepressed economy. Such deficit financing is tolerable, but only if the government, like the lesser authorities, balances its extra spending during recessions with extra saving in easier times. But modern orthodoxy denies this, and maintains that deficit financing is the way to stimulate the economy and promote growth.

Salute the Slump
Spending money on public works may help,

But
1. it may not be good value for money
2. the money may not be spent the way Keynes supposed
3. the public works may do more damage than good
4. obtaining the money may depress the economy further

§5.3 Demand and Stimulus
Modern governments defend deficit financing, invoking the concepts of supply and demand from macro-economics. If there are factories closed and workers idle, it is thought that there is plenty of supply available, and what is lacking is sufficient demand. But supply and demand are not simple things that can be aggregated and equated. Demand is not simply demand, but demand for a certain goods or services at a price. Sports cars at £20,000 may be much in demand, as also honey at £1 a pot. But we cannot add them. Demand is demand by someone for something, and is usually cost-sensitive, and additional supply usually comes at a cost. Only in a few cases can available supply be mopped up by extra demand at no additional cost.\footnote{For example, issuing free bus passes to pensioners for use at non-peak times.} The factory can be opened and the
Demand

Demand for what by whom at what price rather than what?
1. for beer? mobile phones? Jaguars?
2. by teenagers? housewives? schoolmasters? oldies?
3. costing £2? £10? £10,000?
4. than hamburgers? blackberries? freezers? holidays?

workers paid, but the cars produced may cost more than people are willing to pay, when given the actual choice between cars and some other desirable outlay. Subsidising inefficient activity is not a way to make us better off. It was widely practised in Soviet Russia, resulting in a system where the people pretended to produce, and the government pretended to pay them.

In the 1930s Britain and America suffered from severe unemployment, which caused great social problems, and left deep scars in the public consciousness. It was taken for granted that slumps and unemployment were the same: Keynes uses the term 'employ' sometimes to cover the use of all resources, but usually to describe only the human resource of available labour. In order, therefore to avoid there being workers left idle, it seemed necessary to have the economy going at full stretch. That was a mistake. We need to separate the problem of providing work for willing workers from that of coping with recession. Faced with a recession, governments and economists look for macro-economic remedies, and mislead themselves, using ill-defined concepts, such as supply and demand, velocity of circulation, and growth. Although there are some measures it is sensible to take, it is even more important not to chase after illusory mirages.

Two Questions

1. How to recover from depression?
2. How to alleviate unemployment

the former is an economic problem
the latter is a social and political problem

Muddling the two leads to neither being solved.

² See below, §6.2.
§5.4 Growth

"Anyone who believes in perpetual physical growth on a physically finite planet is either mad or an economist"

Kenneth Boulding
(advisor to J F Kennedy)

“You can’t compromise growth”

David G. Blanchflower, Professor of Economics,
Dartmouth College, USA
(on BBC, August 2, 2011)

Growth is worshipped by politicians as well as economists. An increase in economic activity increases tax revenue, and provides them with more money to spend, and, they think, solve all their problems: they take credit for themselves when the economy does grow; and are chided by their opponents when it does not. Extreme environmentalists often take the opposite line, demonizing growth as the destroyer of the natural world, and looking back nostalgically to a pristine age, when men were not herded into the murky neighbourhood of dark Satanic mills, but lived peaceful lives in rural surroundings. Both are wrong. Growth is a flawed concept, not worthy of worship; but in so far as we can make sense of it, it is not always bad; indeed, in time past it has been, on balance, mostly good, though now we may be reaching the end of its being what we want.

Growth is a flawed concept. It is measured in terms of the Gross Domestic Product (GDP), which, like measures of the quantity of money,\(^9\) dissolves under scrutiny, into concepts which are inaccurate measures of economic or social well being. Once measured, the Gross Domestic Product acquires scientific status, and can be cited in arguments as an indisputable fact, much as at one time the increase in body weight was cited as incontrovertible evidence that school milk was improving children’s health. We always should be wary of figures in economics. They do measure what they measure, but whether what they measure is relevant is a different issue. A crude example shows the unreliability of the Gross Domestic Product as a measure of well being; we could achieve a great deal of growth by having a law that required husbands to pay their wives for cooking, housekeeping and sexual services, and wives to pay their husbands for rent and handyman jobs around

\(^9\) See above, §3.1, pp.50ff.
the house. Other, less fanciful examples make the same point. Mr and Mrs Jones retire to the country, where she takes up voluntary work with the WVS. A new government takes over the voluntary work she has been doing, and puts it on a paid basis. To meet the additional cost, it has to raise income tax. Mr Jones finds his pension no longer adequate, but the shortfall is matched by Mrs Jones' earnings. Financially Mr and Mrs Jones are no better or worse off, but the Gross Domestic Product is increased because her activity now counts as gainful employment. Miss Smith is an elderly patient, who used to have to take a bus to the surgery to get a repeat prescription, walk to the chemist, take another bus home, and next day go back to the chemist and collect the medicine. Now she telephones the surgery, which prints out the prescription, gets the doctor to sign it, sends it over to the chemist, where it will be waiting for her next day. The Gross Domestic Product is diminished, but the world is a better place. David Hume had a small income. He could have supplemented it by taking paid employment, but chose instead to live frugally and spend his time philosophizing. The Gross Domestic Product would have been greater, but he, and we, would have been worse off if he had. University and Colleges in Oxford and Cambridge cooperate in fostering teaching and research, and no account is taken of whether a copying machine has been used for college or university business. If in the name of transparency an exact tally was kept, and Colleges billed the University for each item and vice versa, the Gross Domestic Product would be increased, with no increase in the teaching or research done; similarly in the many universities which collaborate with teaching hospitals. Indeed, we could greatly increase the Gross Domestic Product by requiring every firm to be split up into its component individuals, who would invoice and pay one another for each bit of help given or received. The existence of families shows that the Gross Domestic Product is not to be equated with well being, and the flourishing of firms shows that it does not even register economic efficiency.\footnote{See above, §1.3.}

The Gross Domestic Product is not a reliable measure of well being, but it is an indicator of economic activity. If an economic transaction takes place, both parties are better off. It is easy to argue from this that the more economic transactions there are, the better, and often this has been the case. At the beginning of the
Economics as a Moral Science

In the twentieth century each English village contained a large number of agricultural labourers who worked long hours to till the fields and tend the flocks. Now tractors and milking machines have replaced farmhands and milkmaids, and farmers employ only a few well-paid workmen. The old village economy provided employment for all, and fostered fellow feeling as communal effort brought the harvest home, but the fruits of all their labours had to be shared among many, and gave to the agricultural labourer only a paltry wage in return for back-breaking work, which left them exhausted, if not crippled, in old age. The modern farm, of course, depends not only on its workmen, but on those who make tractors, provide diesel oil, manufacture fertilisers, and invent new strains of wheat; but even so, there are far fewer to claim a share in the proceeds of production. In spite of many ills, growth has made us better off than our ancestors. Life is less nasty and less short than it was when we were unable to exploit our own special skills, and in return obtain goods and services from distant suppliers.

Economic growth has been, over the centuries, a force for good. It can be still, but it need not be always so. Arms-length transactions are only one form of cooperation. As cooperative endeavours go, the ones where both parties have shared objectives naturally fulfilled by them are better than ones where one party is not naturally a whole-hearted collaborator, but needs an adventitious incentive to make the exercise worth his while. Economic transactions, although they do benefit both parties, take time, possibly displacing activities that are more worthwhile than the economic ones that displace them. It is not only a question of crowding out, but of social togetherness. I want family, friends, colleagues, companions, mates, as well as shops, customers, suppliers, employers, and employees. Money enables me to do business about all manner of different matters with distant parties with whom I have little in common, but I do not want to put my nearest and dearest at a distance from myself. What gives meaning to my life is not money and the anonymous relations it engenders, but face-to-face conversations with those we care about, and the shared activities we do together. We need to set economic activity in context with the other forms of social activity, and the many other values of the good life. Getting and spending money is important, but not all-important. Although it is by and large the case that if I spend

---

11 See above, §3.4, p.62.
more, I am getting more of what I want, and to that extent, am better off, it is also the case that by and large and over time, I have to earn it, which means that, by and large and over time, I have to work. And though not all work is a disutility, it is reasonable to suppose that paid employment mostly is—that is why it is paid. If there is more economic activity, we shall have more money to spend, but shall have to work harder to get it.

**Growth**

Growth is often good—
if two people do business with each other, both end up better off.

but

(i) They might have been even better off if they had cooperated voluntarily, with no money changing hands: we mostly enjoy things we do voluntarily more than those we are paid for
(ii) DIY: although the greengrocer grows better marrows than I can; and I am better at mending fuses than he is, I would rather grow my own marrows, and he be his own handyman, than each of us pay the other to do it for him.

Many people are willing to work harder in order to get more money, but it is a choice, and there have always been some individuals who at some time have decided the other way. Victorians would labour long hours to make a pile, and then retire to enjoy life as country gentlemen. Today some take early retirement, others downsize, and exchange lucrative employment in London for much less well-paid job that they can do from The Old Rectory in a pleasant country village. Their numbers seem to be increasing. Although it is still worth earning money to get certain positional goods, the attraction of being able to buy a fourth wide-screen TV set is resistible. It may be that not just some individuals, but whole populations in mature economies are becoming satiated with consumer goods, and are altering the balance between economic and other activities.¹³

¹² See further below, §6.3.
¹³ See further below, §6.4.
As with demand, it is a mistake to generalise: different parts of the economy grow and contract in the ordinary course of events. In Victorian England railways boomed and coaching inns fell into disrepair; in modern times the dot.com bubble was an exaggerated response to a real shift in business activity. Growth and contraction in different areas are features of a vibrant economy. Although it is sensible to put in place institutions and strategies for countering contractions where and when they occur, sometimes even at the cost of running a deficit, deficit financing is tolerable only provided that it is temporary, and will be balanced by a surplus in due course. Unfortunately, as we have noted, governments find it much easier to spend than to save, and having spent their way out of a recession, do not budget for a surplus to repay their borrowings. Instead, the government prints money. Inflation results.

§5.5 In- and De-flation

It is currently held that deflation is bad, but inflation, at least in moderation, is good. Severe deflation is associated with slumps and unemployment. Inflation goes with booms and full employment. That severe deflation is bad may be granted. But that deflation of any degree is bad, and inflation, at least in moderation, is acceptable, is one of the illusions of our age. Inflation and deflation are both bad, if severe or prolonged; but a small degree of either is tolerable, if in due course counterbalanced, so that over the long term the currency remains more or less stable.

The perils of deflation have been over-stated. It was not the only cause of unemployment between the wars, which witnessed not only the decline of traditional industries, but great growth in the manufacture of cars, chemicals and electrical goods. Nor are the effects of mild deflation as damaging as is currently made out. It is supposed that if the value of money goes up, real prices will go up in consequence, and sales will go down, which will put
a downward pressure on wages too. Wages are notoriously—and understandably—sticky, and it is difficult to cut them; hence employment will be cut instead. So the argument goes. But this not an inevitable chain of cause and effect. Small changes do not have great impacts either way, and can be accommodated by suitable countervailing action. If the value of money goes up, monetary prices may be cut; a marginal increase in the real price can be offset by an improvement of sales service. Firms do not compete on price alone; and better quality control, or even better-targeted advertising, can compensate for an increase in real prices. And although cutting wages causes trouble, a temporary slow-down in promotion, or recruitment for a lower grade at a slightly lower wage, is likely to pass unnoticed.

It is further argued that in a period of deflation firms will postpone investment, reckoning that they will be able to get better value for their money if they wait. But counter-examples abound. With new computers not only does the price fall but the performance improves with the passage of time; yet when new models come out, queues form to be able to buy the newest model the moment it comes onto the market. Indeed in general, although buying something next year will cost me less than getting it now because of the interest on the purchase price over the year, I nonetheless buy it this year because I want to have it now; the interest arising from postponed purchase would not make up for not having the use of it. Similarly with deflation: if the rate of deflation is relatively small, and comparable to the general rate of interest—and often deflation is accompanied by a low general rate of interest—its effect in dampening down demand will be relatively small too.

It is widely believed that inflation secures full employment. It is difficult to understand Keynes’ original argument, or to accept that inflation has generated the sort of full employment claimed for it. Paying people who would otherwise be idle, to do things which nobody had been willing to pay them to do, does create employment. But if it is at the cost of government IOUs being issued, with no immediate prospect of their being honoured, there will be too much money chasing not enough goods and services. Money will be easily come by, but not command much attention when it is spent. Manufacturers will not be under much pressure to keep up standards of workmanship and reliability, because if one consumer decides the goods offered are not worth the money, there will be another consumer who will also have money in his pocket.
and be less demanding. “Service with a snarl” was commonplace in Britain in the 1950s and 1960s, because customers could either put up with it, or not be served at all. That was acceptable according to the rhetoric of the time, because Producers were Good, and Consumers were Bad. In the aftermath of the Second World War it was plausible to think that production was essential, and the workers who produced it public benefactors, and consumption an undesirable drain on national resources. But in reality the roles are reversed. Production is valuable only if what is produced is wanted by some consumer. Producing large numbers of badly made cars was not a virtuous activity, but a wasteful one. As standards slipped under the pressure of inflation, so markets were lost, and the economy stagnated. Money needs to be hard to earn in order to keep manufacturers on their toes, and service-providers ready to practise smiles instead of snarls.

Inflation does great damage. It causes social strife. If money is losing its value, wages and salaries will go down unless people take action to push them up. Few people are content to put up with a continually declining income, and eventually will feel bound to assert themselves. Inflation requires continual wage bargaining, and strengthens Trade Unions, each of which will try to secure a better deal for its members. Relative wage rates will constantly be an issue, each successful negotiation by one union triggering fresh demands by others, not wanting their relativities to be eroded. There will be strikes and constant labour unrest and industrial indiscipline, as different trades jostle for position, readily persuading themselves that they are being treated unjustly. For there are many different sorts of justice, and there will usually be at least one sort of justice in the light of which they really are being treated unfairly: those at the bottom of the scale claiming that they need more if they are to have a reasonable standard of living; those who were at the top arguing that they deserve more because their work is difficult, and demands great skill. Dustmen demand more because their work is dirty, miners because it is dirty and dangerous, doctors because it is demanding and carries great responsibility. None of these contentions is absurd, but they cannot all be embodied in wage differentials. Disappointment and discontent are therefore inevitable. Rivalry, of course, can exist when there is no inflation. But resistance to granting an increase of a money wage is greater when this is to concede a greater real wage, with a consequent diminution of profitability or loss of markets. I may
think I need more, deserve more, am entitled to more, but I may settle for what is on offer rather than risk being without a job. Over the years the different arguments and different market forces reach some sort of equilibrium, as people entering the labour market know what to expect, and make their own choices in the light of their own individual preferences and circumstances. It will not be perfectly just, or completely stable: new industries will spring up, as did the manufacture of motor cars between the two world wars, and pay higher wages to attract labour from other, and especially declining, industries. But most wage levels will remain fairly stable, only changing slowly, if at all, over the years. The cost of inflation in instability and industrial indiscipline is great.

Inflation causes uncertainty. Long ago postal rates were engraved on scales for weighing letters: now they change every year, and often even the Post Office does not have a leaflet to say what they are— it is a great disadvantage, not only in the present but in planning for the future, not to know what the value of money will be. Long-term leases and long-term contracts cannot be drawn up in simple monetary terms, but must either be written in terms of some foreign currency not expected to lose its value, or have monetary terms adjusted with reference to the retail price index or the consumer price index or some other trans-temporal measure of monetary worth. This is not only inconvenient, but ultimately destructive of the currency itself, whose nominal value will be written out of all serious economic transactions.

The erosion of a long-term standard of value promotes intergenerational conflict. The only robust basis for pensions is for each person during his working life to save for his old age. Contributory pensions, with contributions invested in trustee securities, provide a reasonably secure basis for pensions not susceptible to politicking. But once money cannot be trusted to keep its value, it becomes more and more difficult to define benefits in any meaningful way. Final salary schemes were often adopted, but had the great disadvantage of giving high-flyers larger pensions than they had contributed to, at the expense of the average earner. Governments have largely moved to unfunded schemes, effectively writing post-dated cheques for their successors to honour. But the workers of any one generation are inherently less willing to pay for the previous generation’s pensions than they would be for their own.
With increasing longevity, pensions have become a thorny political problem. Inflation makes it almost intractable.\(^{14}\)

Inflation and deflation exert equal and opposite pressures on the economy. Inflation benefits borrowers and penalises lenders. But that makes lenders unwilling to lend, unless the interest rate is high enough to offset inflation. So although it is good for those who already have mortgages or debts, it is bad for first-time buyers, and businessmen wanting an overdraft to expand their business.\(^{15}\) It penalises those who have saved, but it does not benefit would-be borrowers, or act as a genuine stimulus to the economy.

\begin{center}
\begin{tabular}{|l|}
\hline
\textbf{Inflation} \\
1. Benefits borrowers and penalises lenders \\
2. Penalises savers and pensioners \\
3. Encourages consumption \\
4. Has the producer as king \\
5. Money easily earned, but not worth much \\
\hline
\textbf{Deflation} \\
1. Benefits lenders and penalises borrowers \\
2. Penalises debtors \\
3. Encourages thrift \\
4. Has the consumer as king \\
5. Money hard to come by, but commands much attention \\
\hline
\end{tabular}
\end{center}

Deflation benefits lenders and penalises borrowers, but naturally leads to lower interest rates. In a period of deflation the consumer is king. He can be demanding, because his money is wanted, and not easily come by except from him. He can afford to be discriminating, and potential suppliers will compete to provide the best goods and services. But there will be losers as well as winners in the competition to secure custom, and life may be tough—unreasonably and unfairly tough for the unsuccessful providers.

If we are to hold a balance between earners and spenders of money, we should seek to avoid both inflation and deflation; any

\(^{14}\) See further below, §8.5, pp.180-182.

\(^{15}\) See below, §8.4, p.174n.
large change in the value of money is to be deplored, as it creates uncertainty, and disrupts established practices. In so far as we fail to smooth out the business cycle, there may be periods of inflation alternating with periods of deflation, in which producers and consumers alternate in having the upper hand. But it is bad if either is large or prolonged. The natural symmetry between earner and spender suggests that zero is the best figure to aim at, which also alone can confer the immense benefit of long-term stability and predictability of prices and wages. The current idol of continuous two percent inflation has feet of clay, since it runs counter to the deep conceptual requirements of the concept,\textsuperscript{16} and is in the long term disastrous. It is not only stupid, but in having governments issue IOUs which they do not intend to repay, dishonest.

\textbf{§5.6 Liquidity, Credit and Trust}

Liquidity is linked with confidence and confidence with trust.\textsuperscript{17} A major factor in the current recession is the widespread loss of confidence in the powers that be. People do not trust bankers, MPs, the Home Office, the judiciary, the police, or the government. The bankers gambled with their money; MPs trousered thousands of pounds in phoney expense claims; the Home Office let dangerous criminals out of prison and ne'er-do-well immigrants into Britain; the magistrates are no longer independent citizens of repute, able and willing to do justice on the merits of the case; the police determinedly do not pursue muggers and law-breakers, while prosecuting householders for defending their property; the previous government stole pensions in the private sector, and the present government is about to steal those promised to people employed in the public sector, and desecrates the countryside in order to reward donors to party funds.

It is an exaggeration. Some bankers were notably generous; most were at least honest; so were most MPs—many were squeaky clean, and many of those who claimed expenses did not abuse the system; Home Office softness was the result of popular pressure, Directives from Europe, and Human Rights Legislation; magistrates were appointed in order to make the bench more representative of the population as a whole, and so needed to be instructed on

\textsuperscript{16} See above, §3.1.

\textsuperscript{17} For a full discussion of the importance of trust in public life, see Onora O’Néll, \textit{A Question of Trust}, Cambridge, 2002.
what they had to do; many policemen wanted to serve the public and maintain law and order, but had to obey the instructions that were handed down to them; the stealth tax hit charities and widows as well as pension funds; and the present government needs to re-negotiate the time and terms on which its employees retire and draw pensions because they are going to live longer, and is encouraging development so as to kick-start the economy.

All this is true. The trouble is that it takes only a few cases of bad behaviour to undermine trust. Honest MPs slogging away night in, night out trying to make sense of detailed legislation after having written innumerable letters dealing with constituents’ problems are taken for granted and forgotten, while ridiculous claims for expenses get the headlines; so too the sensible decisions by the magistrates, and the patient protection provided by police constables against violent demonstrators trying to provoke them. To focus on the bad and ignore the good is a recipe or losing confidence.

But there is a pervasive culture of public relations and spin, which engenders habitual disbelief of what people say. Public relations deal with appearances rather than realities: images are brushed up, awkward facts brushed under the carpet. Public authorities and private firms issue self-congratulatory hand-outs, reporting all the good things they have done, while failures are covered up or dismissed as exceptions. The fund-raiser, as he issues his next mail-shot, takes no account of donor fatigue he generates. “No-reply” emails are sent to a large number of people at a click on a button, ensuring that no unwelcome feedback is received. The cumulative effect of there being no dialogue is to induce a mood of cynicism, in which what is said is routinely disbelieved, and people feel that they are being manipulated by those with power, and not treated as responsible citizens with their own concerns, and capable of making their own contributions.

18 Evolution has bred in us a much more rapid response to threats than to opportunities (if I miss a meal, I may eat later, but if I become one, I shall never eat again); and so bad news is news, while good news is not.

19 There is a lesson here more modern trade unions. Although they are right to give each individual member the support he needs if he is being unfairly treated, they damage the long-term interests of their members generally, if they encourage bad practice. The medieval guilds served their members better, defending both their interests and their good name.
Never believe anything until it has been officially denied.

One factor in boosting spin at the expense of substance is “short-termism”. Truth will out, but often in financial matters, only in the fullness of time. Dealers in dodgy derivatives could reckon to move on, having pocketed their bonuses, before it came out that they had been running unreasonable risks in their quest for quick profits. They did not feel responsible for the long-term welfare of their clients or for the public generally.

The Public Relations Culture

1. Self-congratulatory Handouts
2. No Dialogue
3. Shielded from Bad Tidings
4. No Negative Feedback
5. Short-termism

Some attribute the lack of public spirit to the passing away of the generation that lived through the war years. Then the immediate threat of defeat and subjugation to Nazi tyranny evoked a togetherness that shaped men’s minds for the rest of their lives. Subsequent generations, brought up under the aegis of the welfare state, are more conscious of their rights than the need to do their bit to save the country from defeat. Others discern a lack of moral compass, due perhaps to the decline of religious belief; or to the teaching of certain philosophers who espoused extreme moral subjectivism—which is shared by members of the political elite, who seem to be hollow men that make up for their lack of any real centre, by a general softness in the face of difficult decisions combined with deep antagonism to all things traditionally British.

It is easy to blame the moral turpitude of the present generation, and conclude that things will go on being bad until there is a general return to morality, and meanwhile stand to one side with our hands turned upwards, as the world goes progressively downwards. But it was always thus. Every generation has bewailed the prevailing lack of moral principle. It is part of the human condition to live among people who are not as good as they ought to be. The reasonable response is not to bewail, but to beware. Rather than lament the inadequacies of others, we should aim to think more clearly
about what has gone amiss, and what we can do to remedy it. We should focus our attention on liquidity, confidence and trust, and ask ourselves what can we do to regenerate liquidity by restoring confidence and re-establishing trust. We need to beware macro-economic measures that alleviate the symptoms, but exacerbate the disease, yet need to recognise that trust is as much a matter of social psychology as of economic technique. Scholars may argue whether Roosevelt’s New Deal really worked, but even if ineffective in hard economic fact, his fireside chats undoubtedly did have a good effect on morale. If people can be shown that they have nothing to fear except fear itself, they are well on the road to recovery.
Chapter 6

Work and Employment

§6.1 Employment
§6.2 Full Employment?
§6.3 Work
§6.4 Work or Play?

§6.1 Employment

Although full employment has been the declared goal of government in many countries since the Second World War, it is unclear what constitutes full employment, or indeed, employment. Large numbers of people drift in and out of paid employment as their personal circumstances change. Mothers of school children take up part-time jobs while their children are out of the house; retired tax inspectors do a little bit of tax advising for favoured clients; the widow occasionally takes in paying guests. Such cases, though numerous, are mostly ignored. So, too, is the fact that many people who work are not employed. The barrister, the clergyman, the author, the Member of Parliament, all work extremely hard, but are not employed. The emphasis is on full-time paid work, usually some sort of manual labour not demanding a high level of technical skill. Unskilled labour has been with us for a long time: in the bible we read of men who had stood idle in the market place until being hired at the very last hour.\(^1\) Their lot is a pitiable one, and we do well to concern ourselves with it. But we cloud our understanding if we take it as typical, and assimilate all employment to the employment of standard-issue employees by employers. Employment is highly heterogeneous. “Wage-units” make little sense in a society where BBC presenters get wages a hundred times that of barmaids. In thinking about employment, we should not think of a single paradigm, but a wide variety of different people prepared to do many different things in return for money, though not always only in return for money. We range from the highly skilled technician to the unskilled labourer, and from the devoted professional who would be willing to do what he does even if not paid to do it to the deeply reluctant labourer whose

\(^1\) St Matthew 20:1-15.
ideal is, in lines attributed by John Buchan to the Scottish crofter,
Oh that the turfs would cut themselves,
The fish clump up on the shore,
that I upon my bed might lie
Henceforth for ever more.

Employment must, therefore, be considered in particularity: in particular trades and arising from different opportunities and motivations.

Contrary to what many economists seem to think, labour is not a commodity; rather, a labourer is a cooperator in a cooperative enterprise from which the other party gains most of the natural benefit, and pays money to compensate. Employees get paid to do things the employer wants done. They are paid to do what they are told, but have to be able to understand what they are being told to do, and have to exercise at least some minimal discretion in doing it. Some, hewers of wood and drawers of water, do not need much skill, but even lowly jobs need some nous—there is some need to know which wood to hew, and where to take the water. For cooperation to be possible, both parties must internalise the values held in common that constitute the basis of their cooperative activity. If someone employs me to do something, I have to internalise his goals to the extent of understanding what he tells me to do, and trying to do it. Even if it is only hewing wood or drawing water, I need to set myself the goal of sawing up the relevant logs, not the furniture in the house, and drawing water from the well, not from a stagnant pool or the cesspit. Usually the common understanding and commitment is greater, and requires the employee to identify, at least for the time being, with his employer, and make some of the values of his employer ones that he himself espouses. The valet wants his master to strike a fine figure; the chief executive wants his firm to prosper.

With greater identification come delegation and trust. The good workman knows how to do his job, and exercises his own judgement in doing it to the best of his ability. The business executive understands the business, and seeks to carry out the business in hand within the general guidelines laid down by his superior. In each case he may be motivated by the pay-packet, but in each case the packet involves not just his pay but the well performing of the job he is being paid for. Some degree of sharing is essential to

\[2\] See above, §4.2.
collaboration, which means that neither party can be exclusively
governed by unmodified individual self-interest alone. Self-interest
may motivate me to collaborate, but effective collaboration requires
me not to play truant while fetching the water, not to trouser the
cash instead of giving it to those who have earned it, and not to
betray trade secrets to rival firms.

Once we recognise that employment is not just a commodity,
and that we cannot understand it in economic terms alone, we
are in a better position to understand it properly. Although pay
is important, it is not all-important. Independently of identification
with the employer's values, many workers take pride in their
workmanship, and work, far from being a disutility, is a source of
satisfaction. Employment often has social value: many older work-
ers dread retirement, because it will cut them off from their mates.
Even if the actual tasks they perform are humdrum or boring, the
company they keep sustains their morale, and may constitute a
social identification that gives sense to their life. Even when there
is no companionship, the mere fact that they are being paid for
what they do indicates that it is of some value to someone, and
hence that they are contributors, not mere passengers or parasites.

Labour is not a commodity—

different workers
have different skills,
different contacts and
different motivations
6.2 Full Employment?

Classical economists believed that economies naturally reached an equilibrium position in which every worker who wanted work would be able to find it—though at a wage well below what he had expected. Keynes criticized their arguments and claimed that there was not just one equilibrium position into which the economy would settle in due course, but many, some of them having much higher levels of unemployment than economists had assumed. Macroeconomic measures could, he believed, determine the level at which the economy would settle. Writing in the 1930s, when Britain was suffering from severe and prolonged unemployment, which was having a devastating effect on the unemployed and their families, he attributed it to bad macro-economic policies, in particular the return to the gold standard, and consequent deflation.

Keynes was right to argue against there being one natural equilibrium position, but wrong to think that any one of them was linked with full employment. Once we reject the acceptability of starvation wages, the strong link between full employment and macro-economic policy is broken. It is a mistake to try and run the economy with demand artificially enhanced, in order to have everyone employed as a matter of course. Demand, as we have seen, cannot simply be summed up into a total. At any one time there are different demands for different services at different prices. Fluctuating conditions may result in skilled workmen finding that there is no longer a demand for their services. In the exceptionally sunny summer of 1976 the sale of umbrellas collapsed, and a skilled umbrella-maker would have found himself out of a job, if he had not been able to turn his umbrella-making skills to making other useful accessories. Unemployment in Britain between the two world wars, although it may have been exacerbated by the return to the gold standard, was due to the exhaustion of coal seams and foreign competition. The former has always been the fate of extractive industries—in the mid Nineteenth Century there were rich seams of iron ore on the Brendon hills in West Somerset and North Devon and large towns, which were completely abandoned when the iron ore was worked out. Competition from abroad arose because foreigners had learned how to spin cotton, weave fabrics and build ships, and could do so at a lower cost, having more up-to-date methods and lower labour costs. It was felt to be unfair.
competition, but was the result of our having rested on our oars, and not having modernised our machinery and work practices, and not having moved on to invent new technology. Management and the unions, and indeed the whole temper of society were alike to blame. Macro-economic measures could not be targeted on the pit villages of County Durham and South Wales, the shipyards of Jarrow, or the mill towns of Lancashire; and the only way to get work was to move to towns like Luton and Oxford, where the new motor manufacturers were located. Many young men did, but it was difficult for older miners with families and houses to uproot themselves. Macro-economic policies, though they bear on employment, need to take many other considerations into account. Full employment is not an economic issue, but a political and social one, though with economic consequences.

Unemployment in the 1930s left deep scars, because it was concentrated in certain areas and occupations, devastating whole communities. The remedies needed to be similarly particular. Retraining programmes can enable those whose skills are no longer needed owing to technical change, to acquire new skills that are marketable. After the Second World War the government encouraged new industries to locate themselves in formerly distressed areas, and spent public money on removing the pit-heaps that disfigured the landscape in coalfields. The problem in the Twenty-First Century, however, is different. Unemployment is not localised to particular areas or particular trades, but is general and widespread. In part it is still due to foreign competition, and part of the remedy is to train workers better, and equip them with marketable skills. But that takes time, and though it is obvious that literacy and numeracy are required for many jobs, it is not clear what other skills are marketable, or indeed, whether there is market for them. We need policies to provide markets for skills that are realistically available.

Some have already been outlined. If there are stable institutions in good standing, which are not afflicted by liquidity problems, and have good credit, they can profitably pursue counter-cyclical
policies, spending capital on improvements during recessions, and saving during booms. If a government had been fiscally prudent in the past, it would be able to the same. Up to a limited point public-spirited individuals and institutions can lower their standard of financial prudence, and employ people to do work that will not yield a profit. Many householders in the 1930s would find a job in their houses or gardens for an unemployed man. Sir John Jarvis bought the liner Berengaria to be broken up at Jarrow. In many villages the farmers acknowledged some obligation, as in the biblical parable, to employ every labourer wanting work; and similarly firms would try to hang on to loyal employees in the hope of better times ahead. But farmers and firms cannot afford to expand their wage bill indefinitely if there is no corresponding increase in their sales.

The market for low-productivity skills is greater, if there are people with money in their pockets, who can spend it on goods and services beyond the reach of poorer spenders. To keep a gravelled drive free of weeds is labour-intensive; only the well-off can afford such a display of affluence. A footman has to be tall and have fine legs, but does not need skills difficult to acquire. If there are rich aspiring grandees, he may find employment, even though businessmen are shedding staff. Although it is unfashionable to speak well of inequality, inequality does provide some defence against unemployment.

But there may be more low-productivity labourers than can be carried by social and charitable practices, or the conspicuous consumption by the rich. Economics, unalloyed with humanity, would have wages fall to a sufficiently low level that people would be able and willing to afford such services that could be supplied. Shoeshine boys get a pittance, but do get customers. At one time in the late twentieth century immigrant Indian women were employed to develop films, but were paid a paltry wage. They were sweated labour. When digital images ousted silver halide photography, they ceased to be exploited. But, as one said, “Better to be an exploited immigrant worker than an unexploited one”. Hard-nosed economists are quite happy with that conclusion. The economy does not owe anyone a living. All that should be provided to a labourer is the fruit of his productivity. But what if the worker is disabled, or a child? Traditional morality has urged compassion for widows and orphans, and many Christian charities have been founded to succour the aged and sick. We think that the sick, the
old and the widowed should have enough to live on; and if there are others whose productivity would win them only a low wage, humanity, unalloyed with economics or politics, would give them a living wage however little they contributed to the public good.

But the welfarist has problems. The underlying assumption is that unemployment is a misfortune, like ill health or disablement, which comes from outside, and has nothing to do with the unemployed’s attitudes or choices. For many it is, but not necessarily for all, and we have, therefore to ask the question: What is disablement? Should a life-long aversion to work count? It may be that very few are thus afflicted: It was said of East Germany that not even communism had been able to separate a German from his work; and in other countries, too, there are people who value having a job. But not everyone.4 If the work-shy are few in number, the national budget will stretch to it with no questions needing to be asked, but if they are many, hard-working citizens will resent the shirkers getting away with it, and will begin to feel that they are being mugs to pay taxes which enable the lazy to live a life of indolence; and their resentment may well spill over into contempt for the genuinely ill and disabled, and all those who through misfortune are compelled to live on benefits. What underlies that resentment is a sense that employment does have something to do with attitudes and choices, and that work is for many a distasteful, only compensated for by the money it earns. For them if that money is forthcoming some other how, there is no point in working. If I am averse to the kind of work that is available, and can get just as much by drawing unemployment benefit, I could rationally decide not to work: I am not a workaholic, and can do better things with my time, such as watching television, than spend it sweeping streets. Such calculations have economic consequences too. Jobs which are productive, but not sufficiently productive to earn a wage significantly higher than unemployment benefit will

---

4 Buchan’s work-shy Scotsman, described in the previous section, is neither a new nor a localised phenomenon. His Fourteenth-Century English equivalent was to be found on the road from London to Canterbury. What? Should he study as a madman would upon a book in cloister cell? Or yet go labour with his hands and sweynk and sweat, As Austyn bte? Augustine commanded? How shal the world be served? Let Austyn have his sweynk to hym reserved! Geoffrey Chaucer, The Canterbury Tales, The Prologue ll.187-188.
not be taken, (except perhaps by immigrants willing to work hard for an exiguous wage). Useful work will not be done. The economy will suffer.

Quite apart from its political and economic side effects, unconditional long-term unemployment benefit is bad for the beneficiaries. They need to know the realities of their situation, so that they can make realistic choices about what to do in order to get back into economically effective work. Shielding them from the truth is no kindness, and can induce welfare dependency, which saps the individual’s will and sense of identity. Employment gives them dignity, enabling them to feel that they are not being parasites, but are contributing to the common good. Soft-hearted welfarism is unkind. Tough love is needed, but all too easily the adjective predominates over the noun. Love is not the sort of thing that can be provided by the State. Voluntary organizations can enable individuals out of the goodness of their hearts to address individuals as individuals, but employees of the State inevitably are seen to do what they do, because they are paid to do it. In some societies churches and youth clubs and Rotarian groups can do much to help the unemployed to return into employment, but it may well not be enough to meet the need.

The government can help by employing people. In recent years the government has mopped up unemployment by expanding the public sector, and taking on administrators, inspectors and quangocrats. This has provoked much resentment. Critics contrast the public sector with the “wealth-creating” private sector. But that is to make the same mistake as the physiocrats, who in the Eighteenth Century contrasted the farmers and farm labourers, who alone produced food, with the rest of society, who consumed it and were mere parasites. The manufacturer makes things, whereas the teacher and doctor do not. It is quite true that the teacher and doctor would be in a bad way if there were no manufacturers, but equally the manufacturer would be in a bad way if there were no teachers or doctors. People in many different walks of life produce goods or render services that are essential to society, and while those in each one can claim truthfully that without them we should all be worse off, they need to remember that they too would be worse off without the efforts of other essential workers. We depend on those in the public sector to guard our shores, maintain peace and order, to administer justice, to provide health and education. Those who do it create wealth just as much as those who work in factories or supermarkets.
That criticism of the public sector is mistaken: others are more telling. It is often complained that those employed in the public sector regard themselves as having “positions” which entitle them to an income without any strong obligation to work. Certainly in some countries public officials give the impression of having been appointed as a reward for services rendered to a politician or power broker, and of being fairly relaxed about serving the public. No doubt there are non-functioning functionaries in Great Britain too, but the main trouble in idleness or a propensity to go on strike, but excessive zeal, as they spend their time wasting other people’s time with questionnaires and forms to fill in. Bureaucracies breed regulations and red tape. If there are many separate economic entities, competition will cut through red tape, because customers will go to where they are least bothered. If we want not to be strangled by officialdom, we need to insist on slimming the public sector down.

An even more telling reason is the avoidance of corruption. In the private sector, although some subordinates take bribes to abuse their trust, the system is largely self-correcting. If I run a garage and you want me to service your car, it is impossible to bribe me, because the money you offer is not a bribe but a straightforward payment. In the public sector it is quite different. Throughout history bribery of public officials has been endemic. The Victorians managed to curb it, even to cure it, by having a small cadre of high-minded Civil Servants imbued with a strong ethos of public service, but it is not clear that there are enough high-minded people imbued with a strong sense of public service to man all the positions in the public sector today. And, most tellingly of all, it is not just crude bribery that corrodes public life, but the more insidious forms of lobbying and influence. A large modern firm, manufacturing motor cars say, finds it more profitable spending money of getting the government to alter tariffs that are levied on foreigners producing better cars more cheaply. Both in London and in Washington, as well as in Brussels, there are a large number of agencies trying to steer the government into paths profitable for their clients. This is not good news for the public. It makes it much more difficult for Members of Parliament and Civil Servants to reach their own independent judgements of what ought to be done, if they are constantly being got at by lobbyists with a hidden agenda. Inevitably there have always been some interests seeking to influence those in public life who steer the nation through the seas of chance and
change. But it is desirable to keep their number down, and to have
most of them motivated by disinterested ideas of the public good
rather than private pecuniary interest. Even though most Members
of Parliament and most government officials are honest, the
fact that the opportunity is there breeds suspicion that they have
yielded to temptation, and are being improperly influenced by hid-
den lobbying from rich friends and powerful financial interests. If we
want to avoid erosion of trust and corruption in public life, small
is beautiful.

Nevertheless, as a short-term measure it is reasonable for the
government to ease unemployment by by employing people, who
would otherwise be unemployed, to do things that are of public ben-
efit. Instead of paying people, as Keynes suggested, to dig holes
and fill them up again, which is obviously useless and hence demor-
alising, it can spend money—not borrowed, to be paid back later
(as would be appropriate for a genuine investment), but as part of
current expenditure, charged to the welfare account—on improving
amenities: getting rid of pit-heaps, clearing away snow or litter
more promptly, frequently, or zealously than hitherto, instituting
and maintaining municipal gardens. Much can be done by creat-
ing useful employment. But it can easily go wrong. Make-work
schemes are often poorly administered and ineffective. Railway
"by-passes" built in the 1930s often proved to be poor value for
the tax-payers' money. Hospitals used to employ as extra order-
lies former patients who needed "light work", but sometimes they
hindered more than they helped, and finally went on strike. It is
a general problem with State-financed projects: the direct costs
are monitored, the benefits estimated, often optimistically, but the
externalities ignored. If it can be afforded, it may be an effec-
tive way to boost employment to build new airports, new railways
or new roads. But before deciding to do so, we need to assess
besides the possible benefits, the likely costs to the environment
and to those living nearby. We need to be wary of make-work
schemes. Nevertheless, a humane society can seek to provide, at
public expense if necessary, meaningful employment for those who
want it—a "high gardening economy" so to speak—while ensuring
that everyone able to work has a strong incentive to seek gainful
employment.

The question how tough or how tender we should be to the
work-shy, the idle and the incompetent is a real one, to which
economics by itself gives no answer. We find it difficult to strike
the right balance. If we are tender, we may sap the will to work
and to live responsible lives: if we are tough, we may penalise the
unfortunate, and grind down the weak and the poor.

Full employment is a political,
not an economic, issue.
§6.3 Work

Work has a bad reputation. Theologians see it as Adam's punishment, and economists as a disutility we have to undergo in order to get pay. But that does not fit the facts. Although it is undoubtedly a disutility for many, the unpaid brows of many gardeners trickle with sweat as the village prepares for its open gardens day, and hopes to be adjudged the best kept village in the county. A story, possibly apocryphal, relates how there was war in Buckingham Palace because on occasion footmen had made up a bed, which was the proper job of chamber-maids, who demanded that the bed be unmade, so that they could make it up themselves. A compromise peace was negotiated, whereby the bed was allowed to remain un-made on this occasion, but footmen were to be forbidden in future from trespassing into the chamber-maids' province. Critics thought it absurd. The chamber-maids and footmen were going to go on getting their pay regardless, so why should they be upset? But the dispute makes sense. Jobs confer status. Ego, ergo ago means also that I am what I do, and what I do constitutes my identity, both in my own eyes and in those of other people. I want what I do to be important. Although sometimes I am content just to play, I often want to do more than just amuse myself. I want to achieve something, and to count as an achievement, it has to be difficult: καλὰ τὰ χαλέπια (kala ta chalepa), it's the difficult things that are fine. Even in the golf club, I want to beat my opponent, win the tournament, bring my handicap down. It does not have to be competitive. Mountaineers climb mountains on their own. And instead of being difficult, actions can be significant because they are useful or serve a good cause. Women do voluntary service, not in order to outdo other women, but in order to help—taking patients to hospital, doing meals on wheels, cleaning the village hall, doing the flowers in church. Many men similarly are public spirited, and man lifeboats, coach young cricketers, serve on local councils and the magistrates' bench. Such unpaid activities are often seen not as hobbies but as work, because they are undertaken not for amusement, but for some serious purpose. Paid activities, too, can serve serious purposes. Being paid need not detract from the value of what is done. The pilot of a rescue helicopter draws his pay as an officer in the Royal Air Force, but can equally take pride in having saved a life. Even if the actual tasks they perform are humdrum or boring, the company they keep sustains their morale, and may constitute a social identification that gives sense to their life. Many
older workers dread retirement, because it will cut them off from their mates. Even when there is no companionship, the mere fact that they are being paid for what they do indicates that it is of some value to someone, and hence that they are contributors, not mere passengers or parasites. Work is not for everyone a disutility, to be undertaken only for an adequate pecuniary reward.

When work is not a disutility undertaken only for an adequate pecuniary reward, there are reasons for making it, as much as possible, rewarding in itself. At a crude economic level, it means that the pecuniary reward does not have to be so great: clergymen and teachers are often paid a pittance, because they will still go on working without the incentive of a larger pay-packet. More importantly, the work will be better done, and the worker happier, if the conditions foster his commitment to the job. If the job is evidently worthwhile, it gives a boost to those who do it, and they can each take pride in having done it well. Soldiers see themselves as serving their country, and saving their families and friends from the enemy. Hospital workers may be doing lowly jobs themselves, but are contributing to the health of their fellow citizens. Many other jobs, not naturally regarded as obviously valuable by the public at large, can still inspire pride and respect. The employer thinks them valuable—else he would not pay for them to be done. The partial identification of the employee with the employer means that the employee’s achievement of the employer’s values is valuable, too, in the employee’s scheme of things. But the identification needs to be reciprocal. Just as the employee needs to put some trust in the employer’s aims, so the employer needs to trust the employee to do his bit. He needs to trust the employee’s ability to make up his mind for himself how best to fulfil his commission. And the employee needs to be able to think that the employer sees him as a valued contributor to the enterprise. If the employer does so regard him, he will respect his judgement, and reckon that he is exercising his judgement to further its success. The more autonomy the employer allows to the employee, the more the employee will feel that what he does is a significant contribution to the success of the whole enterprise, and the harder he will try to do it well. If I am a child, I may well be told which side of the road I am to walk as I go to the shop, what I am to ask for, how much to pay, and where to cross the road on my way back. But later I want to put away childish things, and be asked simply to buy some golden syrup. And more generally, the greater responsibility we delegate
to subordinates, the better they will regard their job, doing it better and taking more pride in having done it well. The policeman will be a better policeman if he is trusted to maintain law and order in his patch, and not told to make a certain number of arrests, or achieve other specified targets. Of course, not all detailed instruction is unwelcome. Cooperative activities need coordination: the sergeant-major’s commands are necessary to the perfect execution of drill; the prima donna’s solo is not spoilt by waiting on the conductor’s baton. And equally the minutiae of aseptic practice are not seen by nurses as derogating from their autonomy. But needless micro-managing is. We do not like being told, when we are perfectly capable of doing it without being told. It is a great demerit of modern society that in the name of accountability and transparency, people are not left to get on with the job, but are hemmed in by all sorts of instructions and restrictions. It betokens a lack of trust in them, and demotes them from being respected operators into being merely hired operatives. Down-graded jobs are performed by de-moralised workers.

Part of the trouble is that we have lost the distinction between error of judgement and negligence. If we trust employees to exercise their own judgement, they will sometimes make mistakes. The doctor decides to spare the poorly patient an invasive procedure that would make quite sure that her symptoms, easily explained otherwise, were not due to a malignant growth; it was a reasonable judgement, taken in good faith as best for the patient in her frail condition. If it proves wrong, it does not show that he was negligent, as he would be if he operated with un-sterile instruments. The consequence of obliterating the distinction, and attributing every bad outcome to negligence is to engender a culture of defensive practice, in which decisions are not taken in the best interest of the patient, but in order to ensure that whatever happens, the practitioner is not to blame. The patient may suffer trauma and great pain if the investigation is carried out—may even die—but it will not be the doctor’s fault: all the correct procedures were carried out. Similarly in other walks of life. If we will not respect the judgement of those who are aiming to do their best, the best will not be aimed at. It will always be better to be safe than run the risk of having to say “sorry”, and employees will regard themselves as box-tickers rather than as fellow-workers doing a good job.

Autonomy is under attack from many other quarters. The dominant social schema is hierarchical, with subordinates reporting to
superiors. The dependence of the subordinate on the the superior is obvious, and taken for granted, without the correlative dependence of the superior on the subordinate being recognised at all. In the present age our familiarity with computers leads us to think of programs being meticulously constructed, and needing to be bug-free. But biology offers a much better analogy. Biological organisms are largely autonomous. Not only do individual specimens live largely on their own, but cells and biochemical systems are largely self-subsistent, needing only occasional regulation from outside.

Autonomy as an ideal is important, even though it may be taken too far.\(^5\) It is a useful exercise for a young man wondering what career he should choose, to engage in a thought experiment, and imagine himself at the age of thirty six, say, or forty eight, and receiving a letter from a solicitor informing him that a distant relative has left him a fortune. Would he immediately hand in his notice? If he would, it would be a sign that his work, though possibly well-remunerated, was not something he really wanted to do: if he would not, then it was clearly something that was inherently satisfying and worthwhile. Rather few people, however, have private means, and most members of the professions need to have stipends in order to be able to devote their time and talents to their professional work. The word `stipend' indicates a significant economic difference. It suggests that the recipient is not being paid a wage, to get him to undertake an unwelcome chore, but is being given a sufficiency of the wherewithal to enable him to devote himself to his vocation, unhampered by financial necessities. It suggests that his work is intrinsically worthwhile, at least to himself, and generally in the estimation of others. The professions have a high social status, which bolsters their morale, and helps them do their jobs well, and which makes other trades and occupations aspire to professional status, with entry qualifications and standards of behaviour to keep everyone up to the mark. Much of this is admirable, and makes for a happy and well-functioning society. But it is well to be wary, and keep a watchful eye over what is happening and what may happen.

Money talks. Even to high-minded people it whispers. It is what we could with more of. Even the clergy are aware of the pecuniary value of different benefices, and may be ready to accept preferment to a better living. After all, if better resourced, they will

\(^5\) See below, §8.3, pp.171ff.
be empowered to do more. Other temptations are equally insidious. Barriers to entry may keep out rogue operators, but they also keep down competition, and make higher salaries sustainable. And although the professional ethos requires that the professional man should make his services generally available, it is easy to become judge in one’s own cause when the choice is between inconveniencing oneself and serving the public. Civil servants are sometimes dilatory. In other countries it is generally necessary to bribe officials to get them to do their duty. It is easy to have an inflated idea of the importance of one’s own job, and one’s own deserts in doing it. There were indolent clergymen in the Eighteenth Century, idle dons in the Nineteenth and Twentieth Centuries, and ineffective administrators in the present age. Competition shows up and penalises the indolent, the idle and the ineffective. The consumer who pays the piper can call for prompt attention, and is likely to get courteous treatment and effective service. The difference shows how the demand for autonomy can be overblown, and can lead to abuse and malfunction.

Autonomy is good. Some degree of autonomy is necessary in any economic transaction, and often it is good that there should be more. But it is not the only good, nor an all-encompassing one. There is an essential heteronomy in collaboration and more so in the institution of money. The moneyed society is in danger of being exclusively heteronomous in its understanding of employment, and we need to give due emphasis to the importance of trusting the employee to do his best, making his own judgements about how to do it, but we need to remember also that if we live together, we often have to do as others will, and not just as we happen to feel inclined. It is important to consider and cherish autonomy, collegiality and other social conditions which enable and encourage workers to do their best. But at the same time we should take steps to prevent the shop being closed in a manner inimical to the public interest. It is good for the Church that some clergymen are appointed by lay patrons. It is good for universities that some professors are appointed by outside authorities. It is good for the National Health Service that private practice is permitted, and can coexist with and within the NHS. The suitable element of lay control depends on the circumstances, and varies very much from case to case. But it is an important safeguard

\[6\] See below §8.3, p.173.
People are not as high-minded as they like to think, nor as low-minded as economists suppose. Even if they do not seek for any other reward than the knowledge that they are doing what ought to be done, they would not mind receiving some tangible tokens of recognition, and some times actually seek them. Hard-nosed economists scoff at the knighthoods and medals that are awarded to members of the armed forces and civil service, and say that they should be simply paid more, But that is to misunderstand what motivates men to serve their country, perhaps dying for it, and certainly devoting the best parts of their lives to it. They are not in it for the money—if they were, they would go into business or high finance. They may not be completely high-minded—they hear it when money talks, and sometimes heed it, and are moved by an infirmity of the noblest minds; but in the moneyed society they need to have money, and it is natural to want to be thanked for what one does, and public recognition is an appropriate token of public gratitude.

§6.4 Work or Play?

If Keynes is right, and there is no single equilibrium level in an economy securing full employment for everyone, but many different ones, we have to ask which level would best suit our needs. Traditionally, economists, thinking that economics is about scarcity, have thought we should aim to maximise economic activity, and have devised a concept of Gross Domestic Product, and monitored its growth. We should be wary of following suit. Scarcity in economics is a conceptual necessity, if money is to be usable, not an fact of life; under examination the GDP has flaws; and maximising policies are always suspect. From our standpoint, economic activity is a special case of cooperative activity, namely that where the cooperator’s surplus is so unevenly distributed that there is need for compensatory payments to equalise the benefits of cooperation. It is reasonable to assume that in general the more such activity there is, the more people are getting what they want. But time is short, and time spent on economic activity is time not spent in other ways.\(^7\) It is not a hard, irrefragable truth that I am better off working overtime and buying a new car than I am if I spend the week-ends fell walking with my family, and we make do with our

\(^7\) See above, §5.4.
old family banger. With considerable unfairness to both sides, we can contrast an American style of life, in which people work very hard and have few holidays, with a French style of life in which people have a short working week, retire in their fifties, and spend a lot of time conversing in bistros or fishing in solitude. The American is always doing, and can feel that what he does is of objective value since the market values it, and can reckon that since he is a financial success, he is a success, period. The Frenchman enjoys the sweetness of life, and can reckon that though he has not amassed a fortune, he has had enough money to be able to do the things that really matter. In actual fact of course each may be reluctant to forgo the benefits the other enjoys: the Frenchman wants not only early retirement but a superfluous of material goods as well; the American prizes his possessions, but gripes at the stress he undergoes at work, and its unreasonable demands on family life. Nevertheless they are making choices, choices not determined by economics alone. Economics is not an autonomous discipline, but a moral science resting on values wider than just those of economics.

It does not follow that economics has nothing to say about desirable levels of economic activity. Economic policy can influence how people behave, and bad economic policies have done so with disastrous effects. Policies that avoid disastrous consequences are to be preferred, even more so if their consequences are actually benign. One benign consequence of the moneyed society is to widen choice. The market decentralizes decision-making, enabling different people to decide for themselves what they want to do. Inevitably, therefore, it makes much economic activity anonymous and impersonal, and less of a meaningful social activity. Work comes to be thought of as something we would rather not do and have to be paid to do. If we set economics in its place as a moral science, we can come to see that this is not the case, and that work is not simply the unpleasant task we all have to undertake, but a whole range of activities, not all of them unpleasant, not all of them necessary. Although we may, as a matter of political morality, have to compel the work-shy to work, we should be careful not to over-generalise, and think we ought all of us to be working all the time. It is a mistake easily made, provided we do not think about it. If we do think about it, we may still regretfully insist that some work is done, though reluctantly, by some unwilling workers, but we should be ready to recognise that much good work is done by people not paid to do it, and to see the world of money as a valuable adjunct, rather than the central feature of the good life.
Chapter 7
Law, Legitimacy and Taxation

§7.1 The Big Stick
§7.2 Legitimising Leviathan I: Contract
§7.3 Legitimising Leviathan II: Democracy
§7.4 Too Big
§7.5 The Little Stick
§7.6 The Logic of Law
§7.7 Law, Legislation and Liberty
§7.8 Bearing on Economics
§7.9 Taxation and Contributive Justice

§7.1 The Big Stick
Economists like to take an external view of law. Law is just a given, an opaque constraining factor, somewhat similar to geographical factors like climate and fertility, which have a bearing on economic activity, but are not themselves part of economics. The laws enacted by a sovereign State have a great bearing, usually malign, on its economic activity. It is best to have a minimal legal regime, which contents itself simply with the maintenance of law and order and the enforcement of contracts. All else should be subject to the market in which each seeks to obtain the best deal available. Economics is simply the study of voluntary transactions, each individual being free to do whatever he likes, provided it is not forbidden by law.

It is an attractive view. It looks neat to balance the maximising view of the individual with a minimalist understanding of the law. But it fails on two counts: it expects too little of the law, while allowing too much latitude to the law-maker. The businessman does not look to the law only to maintain law and order and to enforce contracts, but to secure a stable currency, to establish and enforce, a system of weights and measures, to maintain roads and to provide sanitation, to enforce standards of hygiene, and much else: most notably to regulate markets and secure openness and fairness by means of Trade Description Acts and take-over rules.\(^1\)

\(^1\) §4.2, p.79,
The businessman also, like everybody else, wants the law not to be arbitrary, corrupt, dilatory, expensive, ineffective or malign.

The law, too, is not an autonomous discipline to be studied in isolation, but is, like economics, a moral science, that can be understood only in human terms and in its social setting. But, again, this is widely denied. Law should be kept separate from morals, and other extraneous ways of thinking, and understood simply as the edicts of a sovereign who has a monopoly of coercive power and will enforce obedience. We have to have law, it is argued, to get us out of the State of Nature, where we were all in a Prisoners’ Dilemma. We each would be better off if we all refrained from violence, but each would be better off still if others refrained from violence while he helped himself to his neighbours’ goods and chattels. He must be prevented, if need be by force, if we are all to benefit from communal self-restraint. We can escape from the Prisoners’ Dilemma only if some sovereign has a monopoly of coercive power, and can punish any law-breaker, and will keep him from breaking the law for fear of the consequences. From this it is easy to extrapolate to a Big Stick theory of law. Hobbes likened the State to Leviathan, in which an all-powerful sovereign could enact whatever laws he liked, and compel his subjects to obey them. We all are tempted, so compulsion is needed to deter us from breaking the law, and punishing us, if we do. More than that, Leviathan must be strong enough to defeat the Mafia, and stronger still, to defend the realm against foreign foes. We may not like Leviathan, but There Is No Alternative.

Similarly, John Austin in the Eighteenth Century defined law in terms of commands backed up by force. It was the sovereign that controlled the force who issued the commands, and it was only what he commanded that was genuine law. Herbert Hart understands law as a system of rules, bound together by a fundamental rule of recognition, which provides for courts and legislatures, the latter being free to pass whatever laws they think fit; provided it is effectively in force over some area, whatever the legislature enacts is valid law. This is a correct characterization of law from an external point of view. A regime that can exercise effective control over an area is recognised, de facto if not de jure, as being its government; and this is a necessary, as well as a sufficient, condition: no matter how good is claims, a legal system that is not able to secure obedience to its decisions, by coercion if all else fails, may be an interesting object of study, but is not a system of law properly so called.

A system of law that is not enforced, is not in force.

See above, §2.3.
Legitimising Leviathan I: Contract

Hobbes' Leviathan terrified people. He might secure law and order for most of his subjects, but could persecute minorities and tyrannize them all. The reign of Charles II may well have been preferable to the disorder of the Civil War, but Hitler and Stalin, Mugabe and Gadaffi have shown how terrible life under an authoritarian dictatorship can be.

Locke and Rawls seek to shackle, at the same time as legitimising, Leviathan by a contract. We strike a bargain with the State, whereby we each agree to obey the law in return for the State protecting us, maintaining law and order, and generally acting for our benefit. My obeying the law is a quid pro quo for the protection the law affords me. The Contract Theory articulates the sense of reciprocity—there is quo, so some quid can reasonably be demanded—but suffers from the fatal defect of there not being an actual contract. Contracts arise from a bargaining process, in which the two parties define the precise outcome that each finds acceptable. Once we abandon actual bargains, and muse about implied bargains, all rigour of thought disappears, and the wildest hypotheses can be canvassed about what terms might have been offered and might have been accepted. Fleeing from a hostile power, I might be ready to accept servitude for life as the price of sanctuary; confident in the possession of my ancestral acres, I might refuse to allow the State to tax me without my explicit consent. Even if the bargainer is supposed to be ignorant of his actual and future position in society (as in Rawls' account), he cannot be ignorant of his own aptitudes and ambitions without ceasing to be a real person; one able and ambitious bargainer would opt for laws that give him opportunities to excel, whereas another, stupid and lazy, would want to be given an equal share of the fruits of other men's labours. Contract Theorists meet this objection by abandoning actuality altogether. The bargainer who bargains with a regime to obey its laws is not a real person at all, with particular aptitudes and ambitions, but a hypothetical entity who can be presumed to have certain interests simply by virtue of being a bargainer: whatever his actual interests, he can be presumed to have an interest in staying alive, healthy and safe. That much should be conceded, but with the observation that it opens the door to wide-ranging paternalism. The interests we can ascribe to an imaginary person justify gross restrictions on his freedom in the name of health and safety, and it has often been accepted by the courts that welfare includes moral welfare. Although many thinkers have appealed to Contract Theory to limit State power and secure individual freedom, their arguments do not work. Implied contracts are too elastic. Without an actual contract, Contract Theories are vague vacuities.
§7.3 Legitimising Leviathan II: Democracy

Most modern thinkers seek to legitimise Leviathan by democratic mandate, which, they hope, will also shackle it. If a regime can make out that it is democratic, its right to rule, they believe, is unchallengeable: *quod placuit plebi, legis habet vigorum*. After all, where else can legitimacy come from if not from the people? And there is a built-in safety-valve: in the current understanding, a democracy is one where there are elections every four or five years. In the intervening period, a government may be able, as Abraham Lincoln said, to fool all the people some of the time, and some of the people all of the time, but it cannot fool all of the people all the time, so that if the government misbehaves, it can be voted out.

The important thing in politics is not who you are, but who you are not

That is, indeed, a merit, but only a limited merit, and only in a context of many conventions, understandings and principles, which have evolved over centuries, and are at least as important as a parliamentary vote. To vote a government out is to vote another government in. But would that be an improvement? The choice is limited, usually to just two political parties. The choice between the Ins and the Outs is a choice within a duopoly, with the two parties having a lot in common. A ballot paper does not have an box “For none of the above” for a voter to put his cross in. In an election one cannot simply vote *against*; one must vote *for*. It is difficult for candidates to emerge with a serious chance of success, and the voter is left with a Hobson’s choice between two members of the political class often pursuing their class interests rather than those of the people who elect them. A French observer once noted

---

³ It was noticeable that in 2011 both the Conservative and the Labour parties campaigned vigorously against the Alternative Vote, which would have made it easier for new parties to gain a foothold, and challenge the two incumbents.
that a Socialist Deputy had more in common with a non-Socialist Deputy than either had with their constituents.¹

Having a vote is a good thing. It is a mark of being a citizen, who has a say in the law, and not just a subject, to be bossed about, and simply told what he must do. But it is a stylized say. At the end of a discussion, if no consensus has emerged, we may take a vote, Which gives each person a voice, but only to answer the question put to him. As the number of voters increases, the opportunity of framing the question decreases. Hence the very limited choice available in a general election.² The inverse relation between size and say is of general application. In most families, one has considerable say, and each individual member of a jury has considerable clout. A governing body or cabinet of twenty has less power than one of only twelve, and when the number reaches sixty, most of the power has leaked away into the hands of the chairman and administrative staff. If citizens are to have an effective say on anything, it must be through membership of relatively small bodies—juries, parish councils, Women's Institutes, and the like, where each person's voice can be heard and heeded. Small is participatory, as well as beautiful.

Having a vote is a good thing, but not all that good. The trouble is that other people have them too, and may outvote me. They may think that Jane would be a good wife for me, and that I should marry her. But I don't want to. Although I can live with being outvoted on some public issues—whether to come out of the Common Market or not—I cannot live with a wife not of my own choosing. Of course, I cannot have a complete say—Jean may be wooed, but not won; she must be as much entitled to say "No" as I myself. It is not a sole effective voice I crave, but a one-way veto. I, and Jean—and Jane for that matter—must be allowed to say "No" on things that peculiarly concern us.

¹ In recent years the political elite has resisted public pressure to re-introduce the death penalty, to curb immigration and to leave the European Union. It is arguable that these decisions were right, but difficult to make out that they represent the will of the people.

² It is noteworthy that in the United States, which claims to be the most democratic and equal society in the world, Presidential candidates tend to be very rich, and seek large donations from wealthy supporters.
Vetoes are more important than votes,⁶ and although having a vote is a good thing, it does not by itself confer legitimacy. Tyrants regularly describe their regimes as “Democratic”, and often stage-manage elections. When in the past half century Imperial powers have invaded foreign countries, they have tried to make them into Western-style democracies with real elections; but the results have been disappointing, and dubiously justify the initial incursion. Democracies thus characterized, have no more divine right than kings. A more careful examination is needed of the nature of Civil Power, the conditions of its legitimacy, and feasible safeguards against abuse.

§7.4 Too Big
The Big Stick account fails, because the stick is too big. It is too heavy to wield without a lot of extra help. The task of coercion is greater than any sovereign, unaided by un-coerced supporters, can manage. If the sovereign is a single autocrat, even though as strong as Sampson, he cannot single-handed overcome all his enemies—and has to sleep sometimes. If the sovereign is a sovereign body, such as a Parliament, a cabinet, or a junta, its members must agree un-coercedly on how to do business; in Hart’s analysis, although the law is enforced, if necessary, by force, it has to be administered by officials, who are not motivated solely by fear of coercion. The legal functionaries need not all be enthusiastic supporters of the regime, and may, in many cases, be moved by self-interest with regard to salaries and hopes of promotion. But self-interest alone cannot always suffice. Communism collapsed in Eastern Europe in 1989, because the communist regimes had increasingly lacked legitimacy in the eyes of the party, as well as the populace. For a time they were able to maintain themselves with the aid of a minority of party members who either for ideological reasons or for self-interest still supported the regime. Until 1989 enough Hungarian border guards were prepared to shoot dissidents trying to escape into Austria for most Hungarians to feel they had no alternative but to do as they were told. But eventually even border guards found their aversion to shooting fellow citizens too strong to be overcome, and the Iron Curtain became porous, and the flood of people voting with their feet became unstoppable. Although the totalitarian regimes of the Twentieth Century were able to go a

⁶ See above, §3.3.
very long way in cowing their peoples into obedience, naked force was in the end not by itself enough. Laws are not just commands backed by force, but need to have some legitimacy in the eyes of at least some of the people needed to enforce it.\footnote{For fuller argument, see J.R. Lucas, \textit{The Principles of Politics}, Oxford, 1964, \textsection18, pp. 75-78.}

Not only must a regime secure the loyalty of its \textit{apparatchiks}, but it must have at least a grudging acceptance from its subjects. Unless the subjects minimally acquiesce, they will withhold not only their allegiance, but information, which in the nature of the case is Nearly every regime seeks some form of popular approbation: the coronation ceremonies of mediaeval monarchs included some form of public acclamation that would help to confer legitimacy, as did similarly the salutation of Roman Emperors. From this it follows that some, perhaps only a minimal, measure, of acceptance is a necessary condition of a government’s legitimacy. There are, as Plato argued,\footnote{\textit{Republic} I, 341-347.} criteria of good government, as there are of good husbandry. A government needs to recognize that those it is governing are human beings with minds and interests of their own, which it needs to take into account. Its power and very existence depends in part on its being regarded, at least by some, as legitimate, and its legitimacy is conditional.

The conditions for our acknowledging the authority of the Civil Power as legitimate arise from our fear of how unshackled power might be exercised. We have a healthy fear of the State. Quite apart from the terrible examples of the Twentieth Century, we can work out for ourselves the danger inherent in giving any one body a monopoly of coercive power. I can imagine myself the victim of a tyrannical authority, and can empathize with your similar fears, and am hence ready to form an alliance, \textit{vindicia contra tyrannos}, to vindicate the victims of injustice against unjust rulers. It is a defensive league against possible misgovernment; not a carefully drawn-up contract with the government, but a general constitutional principle, resulting in definite institutions and procedures. We need to establish institutions and promulgate procedures to make abuse of power difficult and well-publicised. An independent judiciary, \textit{habeas corpus}, and the requirement of Due Process give me good reason to think that I cannot be picked up by the
powers-that-be, if I happen to get into their bad books, and that if they try to oppress me, all the world will know of it.

In making that demand, I see myself as a subject more than as a citizen, more anxious to have an effective veto on bad behaviour by the government towards me, than on having some small voice in determining public policy. I value freedom from the powers-that-be more than freedom to join them in exercising power. It is a recurrent theme down the ages. Always there have been many people with better things to do than go to meetings and committees, master agenda and argue for or against proposals. And always there have been some—usually a few—who are steamed up on some issue, or have a general urge to run things, and are prepared to give time to, and take responsibility for, public affairs. The political elite, whether Lancastrian nobles in the fifteenth century, parliamentarians in the seventeenth century, Whigs in the eighteenth century, or the Westminster villagers of our own time, want to be in on decision-making with their own projects to push, while the rest are only lukewarm on politics, and are content to let the King, or the gentlemen in Whitehall, get on with the job of running the country so long as it is done reasonably well. Provided the realm is defended against our enemies, law and order is maintained, justice administered impartially, public services are efficient and prompt, the currency kept stable, and sensible laws enacted, I shall support the regime gently, or at least acquiesce in its continuance. It is when it fails to deliver good government that I shall want a say, in order to get things changed. The present alienation of the people from the politicians is due to their perceived incompetence and wastefulness, ill thought-out legislation, collapsing currency, failure to maintain law and order, and symptoms of sleaze. And correspondingly, one of our most urgent tasks is the reduction of the democratic deficit, so that we have a minimal coercive State, in which power stems almost entirely not from the means of coercion, but from the support of the people.

Politicians and Maths Teachers

Good maths teachers are hard to come by because they have to be clever enough to understand mathematics, and stupid enough to find it difficult.

Good politicians need to be clever enough to understand the issues they have to decide—and stupid enough to empathize with the less highly gifted who also have votes.
§7.5 The Little Stick

The Big Stick is not only unwieldy and ineffective, but unnecessary. Hobbes' argument assumes too little as well as proving too much. It assumes that we are moved only by an individual maximising strategy, and are all the time tempted to break the law. But that is not our only motive. As Protagoras argued, we can see, in the face of the Prisoners’ Dilemma, that it is rational to move from a first-person singular to a first-person plural view-point, and go for the collective, rather than the individual, best outcome. Or we may anyhow take a communal point of view for some of the reasons adduced in §2.4. We are not in a State of Nature, brought up under the law of the jungle, and needing to be clobbered into obedience, but already used to Civil Society, accustomed to using a common language, driving on the correct side of the road, and conforming, often without thinking, to innumerable rules and customs. We are, most of us, quite ready to keep the law without having to be coerced to so.

Since coercion is an inadequate basis for Civil Authority, it might seem that our aim should be to have the State a minimally coercive one. But that is unrealistic. The Civil Power is exercised by States, which are unselective communities. If I no longer cherish the values of the train-spotters association, or of the British Society for the Philosophy of Science, I just stop belonging; but if I no longer feel loyalty to the values of Great Britain, I do not thereby cease to be British or to reside in Great Britain; everyone who is in the country can interact with others in his vicinity, whether or not he acknowledges his duty to obey the law. In the Middle Ages deviants could be outlawed or exiled, but these options are no longer available. If someone flouts the law of the land, he cannot be removed. If nothing is done, he gets away with it, and the law becomes for him a dead letter. We cannot afford to do nothing. If there is a victim, we owe it to him to vindicate his rights, and make the law-breaker discover that breaking the law did not pay. And in any case we need to reassure the public in general that in keeping the law they are not being mugs. They are prepared to refrain, even to their own seeming disadvantage, from breaking the law, if it is evidently a way of extricating themselves from the Prisoners’ Dilemma, but not to have their forbearance abused: if the law is a dead letter for him, why should it not be a dead letter for me?

9 RefReq
And even if I have some compunction in thus readily liberating myself from the law, I can empathize with you, and many other yous, and see that you, or at least some of you, will follow the same line of reasoning, and follow his lead, and no longer feel yourselves bound by the law. The reliable enforcement of the law against law-breakers not only deters potential law-breakers, but re-assures would-be law-keepers that their obedience to the law will not be in vain. So in an unselective community, such as the State, we cannot be sure that there will be nobody who is so little imbued with the common values of the State, that he will be minded to break the law. If he is not deterred by the visible coercive machinery of the State, he will have a go; and then either he gets away with it, and the law becomes a dead letter for him, and thus for others too, or he is brought to book in spite of everything he can do—if all else fails, he is coerced by physical force. Some stick, even if only a little one, is needed.

Sometimes, indeed, it needs to be not too little, and on occasion wielded vigorously. If the first atrocities committed by Serbs and Croats as Yugoslavia broke up had been promptly punished, communal tensions would not have escalated into civil war. Strong force is required to crush a Mafia or repel an aggressive neighbour. The needs of national defence often call for a standing army, which greatly increases the State’s power to coerce. We need to season our idealist aims with robust realism. The world would be a nicer place if there were no war and no crime, but wanting that to be the case does not mean that it is, and shutting one’s eyes to unpleasant facts does not make them go away. On the contrary, it exacerbates the problem. The peaceniks in the 1930s nearly gave Hitler victory, and softness on crime in recent years has encouraged, not discouraged, criminal behaviour. We need to be hard-headed, and deal with the world as it is, not as we would like it to be.

All the same, it is important to realise that the coercive power needed for the maintenance of Civil Society may not need to be all that great. Indeed, it may not have to be exercised at all, if would-be law-breakers are sure that they would be apprehended.

---

10 It is argued that we ought not to be hard on petty crime and vandalism, because those who do it are poor: but the burden of theft and robbery falls more heavily on the poor than the rich; the widow who loses her two mitres, loses her all, whereas the modern Islingtonian whose mobile phone is stolen, will get another one, probably paid for by his insurance.
and punished. But we cannot count on it. Some will probably not
be deterred, and will have to be forcibly arrested and punished.
If they are, others will be deterred: but if they are not, others
will be encouraged to have a go, as happened in London in 2011
after prolonged failure on the part of the authorities to punish
certain types of wrong-doing. If the authorities are vigilant in
putting down crime, and protecting the law-abiding citizen, he will
identify with them, and help them in upholding the law. “They
protect me,” he will say to himself, “so I help them protecting other
people.” A more self-centred argument would run: “I should be a
mug, keeping the law while the criminal got away with it; I don’t
want to be a mug, so I shall help the authorities to make sure the
criminal does not escape unpunished.” Law-abiding citizens thus
cease to be subjects, and become fellow functionaries of the Civil
Power, and supplement the threat of coercion with the pressure of
social disapproval.

The more this happens, the smaller the stick need be, which is
per se a good thing. Force is expensive, not only in financial costs,
but in the un-cooperativeness it tends to engender. It is wise to
regard it as an expedient of last resort. Although it is true that
an unselective community may contain a Bad Man, who is deaf to
all reasoning, and is determined to get his own way if he can get
away with it, we are mostly only half-bad: we may be tempted
to try it on, if the enforcement seems only half-hearted, but we
are also sometimes open to reason and to psychological sentiments
of togetherness which urge obedience. Other means than crude
coercion are often available, and it is not only wise for the rulers to
avail ourselves of them as much as possible, but reassuring to the
ruled.

We need law. Law to be in force must be enforced, by coercion
if need be. Although a totally non-coercive State is unrealistic,
only a little stick is necessary, since for those not persuaded by
rational argument, the mere threat is often enough, there being
a high ratio of deterrence to actual prevention in any system of
punishment. Although the ideal of the minimally coercive State is,

---

11 In 2017 one young man of my acquaintance was mugged in a bus. The bus
had CCTV, and the bus-driver gave details of the record, which clearly
showed the faces of the two assailants. But when the victim rang the
police, he was told that they would not follow up the crime.
like the ideal of a minimally heteronomous economy, an exercise in the optative mood, it is none the less important. The arguments involved illuminate the nature of the State and the logic of the law.

Threats alone cannot do more than cow the populace into obedience, and cannot win their willing cooperation. Other reasons are needed if people are to obey the law willingly. Many different reasons can be given why one ought to obey the law. None of the reasons is completely conclusive, but together they present a compelling case. Many presuppose a theory of man or a theory of the State at odds with what many other people take as obvious, yielding divergent views on the conditions required for laws to be legitimate. The strengths and weaknesses of the different arguments for political obedience reveal an untidy but robust view of the State, which bears on the concept of law and the logic of its procedures.

§7.6 The Logic of Law

Law is a moral science. The alternative view, that it is an autonomous discipline, to be studied on its own from outside, fails to accord legitimacy to legal regimes, provides inadequate safeguards against abuse, and fails to fit the fact that subjects are also, to lesser or greater extent, fellow functionaries in supporting and helping to enforce the law. If we are to understand the law aright, we must enter into the minds of those involved, regarding them as individuals, capable of making up their minds for themselves, and responsive to reason in deciding what to do.

Law is action-guiding, like morality, custom and etiquette. It differs most obviously in the sanctions at its disposal. If I am immoral, I may suffer pangs of conscience, and be condemned by other people. If I breach the customs of my society, I may be ostracized. If I fail to observe the niceties of etiquette, I may be regarded as not being quite quite. But that is all, whereas if I break the law, I may be hauled off and put in prison. But that is only a may be, to be used reluctantly as a last resort. We do not, for the most part, keep the law just because we are afraid that we shall go to prison if we do not. I refrain from murdering people because I think it is wrong; I give way to on-coming traffic at a roundabout, because that is what the highway code says I should do, and I don’t want to have an accident by not observing it. There

12 See below, §8.4.
is a large overlap between law and morality, and between law and custom. And it is not just an overlap, but deep interpenetration. The law depends on witnesses telling the truth, jurors seeking to return a true verdict, and judges being incorruptible, impartial and honest; and we believe that we have a moral duty to obey the law.

A less obvious but more far-reaching difference is that judges adjudicate disputes, and are the adjudicators of last resort. Many disputes are settled by negotiation and compromise, but sometimes these fail, and rather than coming to blows, we go for arbitration. Arising and more far-reaching is that judges adjudicate disputes, and are the adjudicators of last resort. Many disputes are settled by negotiation and compromise, but sometimes these fail, and rather than coming to blows, we go for arbitration.\textsuperscript{13} Arbitrators need to listen to both sides, if their decision is to be respected, and legal argument therefore acquires in the course of litigation the two-sided nature of claim and counter claim, objection and rebuttal.\textsuperscript{14} Moreover, since States are unselective communities, judges are the adjudicators of last resort, and cannot rule out in advance any consideration as irrelevant. All sorts of disputes may arise, and while for many there are standard decision-procedures, which limit the sort of consideration that may be adduced, the law may be invoked in cases where some new factor cannot be excluded from consideration. Justice requires that all the relevant factors be considered, and the decision taken on the merits of the case. Adjudication is thus a balancing act, taking into account many considerations, some supporting a decision one way, others the other way. General principles may articulated and accepted as guide-lines: greater weight is given to liberty than to justice in the burden of proof that requires it to be proved beyond reasonable doubt before a man can be convicted of a crime. Many criminals go free, which is a bad thing, but not so bad, we think, as for anyone to be convicted of a crime he did not commit. The logic of these principles is not well understood. They are guide-lines not

\textsuperscript{13} The possession of means of coercion is not a necessary condition of effective adjudication. Often in the Middle ages, and recently in a dispute between Chile and Argentina over the division of Tierra del Fuego, the Pope has been the adjudicator, even though, as Stalin remarked, he has no divisions.

hard-and-fast rules. We do not say that the freedom of the individual should always over-ride other considerations, and that to put a convicted criminal in prison is a violation of his human rights; but in balancing freedom against other considerations, we tend to come down in favour of his being free to speak his mind, or choose his associates, even though we are affronted by what he says, and disapprove of the companions he goes out with.\(^{15}\)

Legal argument is dialectical in procedure and holistic in aspiration. It proceeds by claim and counter-claim, objection and rebuttal, but aims to take everything into account, without being able to be absolutely sure that there will not be some novel fact or argument which would change the whole aspect of the case. There is thus an awkward tentativeness at the heart of the law: awkward because the law needs reach firm and final conclusions and to be reasonably predictable in its decisions, if it is to be effective in resolving and avoiding disputes, while being felt to be just, if its decisions are to be respected by those disappointed by them. We are driven on the one hand to say that like cases should be treated alike, and on the other to recognise that circumstances alter cases. Aristotle discusses the discrepancy between what the law allows and justice requires. He thinks in terms of laws having been laid down by a law-giver, and says that the equitable judgement is the one the law-giver would have pronounced, if he had been aware of the particular circumstances of that case.\(^{16}\) Lawyers tend to favour laws being explicitly formulated in words and laid down by a legislature, acknowledging that there will be cases of which it will be said *durum, sed ita scriptum est*—it is hard, but that is what has been laid down", justifying it with the adage, “hard cases make bad law”, but leaving it to the legislature to put things right. But always there has been some unease at not doing *justicæ* according to law, and in days long gone by the Court of Equity attempted to do just that. But the need for predictability won out. Lawyers wanted to be able to advise their clients what the law was, and felt

---

\(^{15}\) Some of the difficulties with the Convention on Human Rights is due to the different views of law taken by their original drafters and their present interpreters. The principles laid down are very much those of the Common Law, which need to be balanced against one another in deciding particular cases, but they have been interpreted as statutes, with cases either falling under some provision or not doing so.

\(^{16}\) *Nicomachean Ethics*, V, x, 1137b-1138a3.
that cases decided by a judge “on their merits” would depend on what the judge had had for breakfast. Precedents were collected and categorized, and Equity became a branch of law like any other. But judges still feel the promptings of justice, and the need to take into account relevant changes in the customs and expectations of society. Precedents are important, but both the House of Lords and the Supreme Court of the United States have ruled that they are not all-important.\footnote{For fuller discussion of the underlying issues, see below, §8.2.}

That makes sense if we take the Little Stick view of the law. If law is a social phenomenon, along with morality and custom, guiding the actions of reasonable men, who are not merely subjects, but fellow functionaries in upholding and administering the law, then then they will have a rough and ready idea of the law, which is sufficient to guide them in most of their day-to-day activities. The need for predictability will be in large measure already satisfied. The more exact delimitation that those learned in the law can provide will not be available to laymen anyhow, unless they go to the expense of consulting a lawyer. It is not predictability as such that is abridged, if courts are permitted to depart from following precedents in order to reach equitable judgements, but the extra predictability that would be available to lawyers, if courts were obliged to follow precedents more rigidly. It is tempting to schematize, though with great imprecision on both sides, the two ways of looking at the law.

The contrast is too extreme. Although there are occasions when legality yields conclusions which are clearly unjust, justice is not a simple concept that can be contrasted with legality to the latter’s uniform disadvantage, but is a multifaceted concept, whose different faces are often at odds with one another. If justice according to desert is in issue, the labourers who had borne the heat of the day were being unjustly treated in being given no more than the late-comers who had worked for only one hour.\footnote{St Matthew 20, 11,12.} But they had agreed their pay, and were not being unjustly treated in being paid exactly that. And if people are allowed to be free, the master may decide to give late-comers what he will, without any injustice to the others, because justice does, according to another understanding, which was adopted by Justinian, assign to each that which is his own. We cannot simply appeal from legality to justice, but must
## Two Views of Law

<table>
<thead>
<tr>
<th></th>
<th>Roman (Big Stick)</th>
<th>Common (Little Stick)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Symbol</td>
<td>Baton</td>
<td>Scales</td>
</tr>
<tr>
<td>Exponents</td>
<td>Austin</td>
<td>Coke</td>
</tr>
<tr>
<td>View Point</td>
<td>External</td>
<td>Internal</td>
</tr>
<tr>
<td>Structure</td>
<td>Hierarchical</td>
<td>Shared Understanding</td>
</tr>
<tr>
<td>Purpose</td>
<td>Coercion</td>
<td>Adjudication</td>
</tr>
<tr>
<td>Source</td>
<td>Legislature</td>
<td>Morality, <em>quad placuit</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Custom and <em>principi</em></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Consensus</td>
</tr>
<tr>
<td>Judicial Activity</td>
<td>Subsume</td>
<td>Balance</td>
</tr>
</tbody>
</table>

say which aspect of justice we are appealing to, and may then be told that it is not the one appropriate to the case. Often, indeed, it will emerge that legality is the relevant aspect of justice. Rule-of-the-Road arguments show that often if we are dealing with other people, who have minds of their own, we must rely on conventions to coordinate our actions. So important is it that we conform to what other people expect, that established usage regularly overrides obvious sense. English spelling abounds in absurdities: it is obviously sensible that the letters *wo* should be pronounced in one uniform way, and that they should not be pronounced differently in *women*, *won*, *woo* and *wood*, or that *wor* should be pronounced differently in *Worcester*, *word* and *sword*, but we do. Similarly in the law, clear conventions enable both parties to decide what to do in the knowledge of what the other will and will not do, and are thus of great utility, and being well known, constitute legitimate expectations, which it would be unjust to disappoint. The presumption in favour of legality is strong.
In practice the two paradigms come together and merge. It pleases legislators to lay down laws that are regarded as just; and those who insist that the legislature should not be legibus solatus, come to realise that Natural Law is not opposed to Positive Law, but positively needs it, to flesh out guidelines that citizens can actually know and use. Never the less, tension remains. Cases do arise where a decision according to the relevant statutes and precedents would be manifestly unjust, and resort to some equitable remedy needed. It has been met, up to a point, in modern times by the distinction between law and fact. Questions of law are subject to the rule of precedents, and when decided become precedents themselves: questions of fact are neither. Justice can sometimes be done by a suitable finding of fact, which cannot be challenged as being out of line with leading cases, and cannot be quoted afterwards as an authority. But it is an awkward subterfuge, which obscures clarity of thinking. Often justice can be done through judicial interpretation. Applying the law is not always a mechanical exercise, a simple matter of subsumption, but much more a balancing of one possible characterization against another, and a sense of justice can tilt the scales one way or another. The boundary between judicial interpretation and judicial innovation is indeterminate, and some judges have been more innovative in their interpretations than their brethren. The Common Law should be chary about innovating. Its concern is with particular cases, not general issues, which can be debated more widely in Parliament. It should adjust to social changes in society, but only slowly, so as not to disappoint established expectations unfairly. Where there is a major change, it should be well advertised in advance, as will happen if promulgated by a legislature after proper debate, in which further consequences and wider considerations can be brought to bear.

This has not happened. In the 1870s a private bill was passed by Parliament extending the London and South Western Railway in Devonshire. Some of its provisions were manifestly unjust, and a law suit ensued. But the courts disclaimed all jurisdiction. Although it was obvious that there had been a mistake in formulating the Act, it was not for the courts to presume to question the actual words of the High Court of Parliament. In the middle of the Twentieth Century a landlady was convicted of permitting drug-taking in a house she had let to students. The landlady had been at the time on holiday in Spain, but the Act had imposed “strict liability”
which allowed of no excuse. She appealed, and the House of Lords allowed her appeal, on the grounds that the words of the Act were so unconscionable that Parliament could not have meant them. In effect the House of Lords was taking to itself the same power that the Supreme Court of the United States had exercised, of declaring measures enacted by Congress to be unconstitutional and therefore invalid. In Sir Edward Coke's words: "It appears in our books that in many cases the common law will control acts of Parliament, and sometimes adjudge them to be utterly void: for when an act of Parliament is against common right or reason, or repugnant, or impossible to be performed, the common law will control it, and adjudge such act to be void."¹⁹ What has been happening is that popularly elected legislatures are subject to other pressures than the disinterested desire to enact good laws, with the consequence that people have looked to judicial law-making, instead. The Supreme Court has become a third House of Congress, fulfilling functions the Senate was originally intended to perform.

Although the two paradigms come together and merge in practice, and neither can offer a neat resolution of the perpetual possibility of a conflict between legality and justice,²⁰ important differences remain. The democratic mandate is ceasing to confer on legislatures a right to enact any legislation it pleases—an issue likely to become increasingly contentious in time to come—and the correlative claim that only enactment by the legislature can create valid law, seems less plausible, if law is less centred on coercion than on adjudication. For if coercion is not the central feature of law, but only a regrettable sanction occasionally resorted to, most people must be obeying the law for other reasons than the prospect of being compelled to do so. The law needs to be substantially in line with public morality and custom, and hence it makes sense that, conversely, public morality and custom should be sources of law, as traditionally they have been.²¹

¹⁹ Taken from Dr. Bonham's case (1610).
²⁰ See further below, §8. *Freedom and Reason*
§7.7 Law, Legislation and Liberty

Such a view of the law has been challenged. It may secure security from an overweening legislature. But what about liberty? If the law is closely attuned to the customs and public morality of an unselective community, it may bear heavily on those unselected members, who happen to disagree with their fellow countrymen. Mill complained bitterly about the pressure of public opinion on the individual.22 Britain makes considerable provision for conscientious objection, even for conscientious objection to military service in time of war, but clearly could not extend that latitude indefinitely. Just as law, enforced by coercion, is a limitation on individual freedom inevitable in any unselective community, so custom, etiquette, public opinion, social and moral norms, are also limitations on individual freedom inevitable in any community whatsoever. But legal pressure is different from social pressure. Social pressure, however irksome, is resistible: Mill managed to survive un-prosecuted and un-imprisoned. If the law enshrines custom and public morality, the conscientious objector has no protection.

Although in practice judges have recognised custom and morality as sources of the law of England, it has been argued that this ought not to be the case, because the freedom of the individual is too much circumscribed thereby. There is force in this argument. Law should not enshrine custom and public morality as a matter of course. It is a blunt instrument, lumping together significantly different cases; it contaminates motives, encourages hypocrisy, may give opportunities for blackmail, and is costly to enforce. The response “There ought to be a law against it” to some bad behaviour recognises the difference, but also expresses the prima facie argument for the law to enshrine custom and public morality in the absence of countervailing considerations. That, according to one influential authority,23 should be done only through explicit legislation by the legislature, in order that it should be definite and publicly ascertainable, and not, like custom and public morality, vague, idiosyncratic, and unpredictable. But often it is easier to know what custom and public morality require than to predict

22 J.S. Mill, Liberty, London, 1859; reprinted in many editions. (The fundamental weakness in Mill’s argument is its reliance on the concept of harm, which is an indeterminate concept, not limited to physical hurt, but extending to moral welfare.)

what the courts will decide. All that the argument from certainty requires is that the citizen can know his legal position well enough to keep on the right side of the law, not that he should be able to work out exactly how close to the wind he can sail without getting into trouble. So too with respect to other guidelines, they do not have to be so precise that the malcontent can calculate to a nicety what he can get away with, but only indicate how he can be safely in the clear. This was the situation in Shaw v. Director of Public Prosecutions (1961) 2 A.E.R. Shaw had published a directory of prostitutes. In his defence it could be argued that there is in England no law against publishing a directory of prostitutes, although there are many laws against procuring and the like. The court found him guilty none the less, citing precedents establishing that public morality could be a source of law. Shaw’s own moral principles might differ, but he was in a position to know that what he was doing was contrary to public morality. He was sailing close to the wind, and could not claim to have been steering clear of trouble.

Still, the liberty of the individual is important, and needs protection both against the State and against other citizens. As regards the law, he is presumed innocent until he has been proved guilty beyond reasonable doubt. We often let the guilty go free for fear of convicting the innocent unjustly. Freedom of worship, freedom of expression, even freedom to marry, are protected by law. What cannot be conferred is an absolute freedom to do what one likes, or what one’s conscience dictates. Liberty is inherently limited in any community. Communities are based on shared values, and if I find myself in an unselective community whose shared values I do not share, I may try to persuade my fellow citizens to change their minds, but if they persist in their wrong opinions, I must respect their right to be wrong, and conform my behaviour to their prescriptions.

§7.8 Bearing on Economics

By understanding law as a moral science, we come to understand economics better. Law is not just a fact of life, which the economist must simply recognise and obey. It is not an autonomous discipline to be studied in isolation from all others, but, like economics, is a moral science, with an inner logic of its own, to be understood in accordance with the canons of humane understanding.
Since law belongs with custom and public morality, recognising them as sources of law, it is natural that there should be a succession of laws enforcing contracts, providing standard weights and measures, establishing rights under Sales of Goods Acts, allowing cooling-off periods, regulating company take-overs. What had already been recognised as fair, and had crystallized out as good practice, was made mandatory. And just as the law develops by having regard to prevailing good practice, so economic decision-making should not be confined to financial considerations alone, but should also have regard to wider social and moral concerns.

The little stick account of law gives the basis of economic activity. Certain vetoes, it shows, are more important than votes, but other people's vetoes may restrict my freedom of action so much that I am left with few alternatives, none of them at all what I really want. If all the other girls turn me down, I may have to marry Jane or be a bachelor for the rest of my life. Similarly with the exchange of goods and the provision of services, I may have no alternative to taking an unattractive job, if I am to be able to buy my daily bread. Vetoes, like votes, have the disadvantage that other people have them too, and may exercise them to pressure me to do what they want, not what I would like. It is against this legal background of limited choice and the pressure of other people's choices, that money comes into existence, and economic activity takes place. Although law and economics occupy opposite ends of the social spectrum, law providing authoritative adjudication of disputes, backed by coercion if need be, and economic transactions being arranged by negotiation and essentially voluntary, both are social activities, and subject to the constraints arising from their social setting.

§7.9 Taxation and Contributive Justice

The Big Stick theory of law leads governments to suppose that they have an unfettered right to tax their subjects, in line with their unfettered right to tell them what to do and make them do it. But, as we have seen, it is not an unfettered right, either in principle or in practice. The same holds good for taxation. Fiscal justice is a requirement of constitutional government in the same way as the requirement that subjects should not be liable to arbitrary arrest, that they should be able to have a reasonable idea of what the law is, and that if they keep it they should not be punished.
Historically, it was over taxes that resistance to absolute power arose. The Sovereign needed to engage with his subjects, and persuade them of the need to contribute to the national exchequer. Taxing bills are still enacted with a different formula: *La Reyne remercie ses bons sujets, accepte leur beneficence, et ainsi le veult*, (The Queen thanks her good subjects, accepts their bounty, and wills it so) instead of *La Reyne le veult* (the Queen wills it) which is used for other public or private bills. It suggests—falsely—that taxes are voluntary gifts, and thus gives support to the doctrine that there is no equity in taxation. But taxes are not voluntary. What has happened is sovereignty has leaked away from the Monarch to Parliament, and more recently to a government supported by a majority of MPs. The Prime Minister is becoming increasingly presidential, and the House of Commons an Electoral College (though with powers of recall). Instead of a constitutional requirement to engage in a dialogue with taxpayers about the contribution they should make to the costs of running the country, the government reckons that because it is elected, it has a mandate to tax and spend as it thinks fit.

A dangerous rift is opening up in the United States between the taxpayers and the sovereign. Those who feel themselves to be contributing more to the Federal government than they are getting out of it, vote Republican and hold that taxes should be cut. Those who get more, in benefits or salaries, than they put in, vote Democrat, and hold that government expenditure should not be cut. A similar polarization is occurring in real Britain. The result is a ballooning budget deficit, which cannot be long sustained. The underlying cause, it will soon emerge, lies in the different applications of the Prisonneers' Dilemma to the maintenance of law and order and abiding securing collaboration in achieving less mandatory good. The former requires the government to have a big stick; the latter requires the exercise of only a little stick. But those in possession of a big stick are tempted to wield it without restraint.

Once we realise that not even a democratic majority can give a government an unfettered right to do what it likes, we need to examine the logic of contributions, and the guidelines it gives for fiscal justice. There is considerable opposition to this, for fear that it might result in the rich getting away with having to pay lower taxes. But that may not be the case: in August 2011 Mr Warren Buffet, an American billionaire, said he ought to be taxed more, and in France Mme Liliane Bettencourt, together with 15 other
French billionaires, signed a petition calling for higher taxes on the most wealthy. What has happened is that governments, appeasing the politics of envy, have enacted very heavy taxes on the wealthy, and then, facing economic realities, have made numerous exemptions, which have become loopholes whereby those rich enough to employ clever accountants, can, quite legally, avoid paying the taxes enacted. And because there is no public discussion of contributive justice, this is felt to be perfectly acceptable. Long ago it was regarded as reprehensible to avoid paying one’s taxes: now national newspapers carry advertisements for tax-avoidance schemes, labelling them as “tax-efficient”. If there is no fairness in taxation, and the Inland Revenue sets out to extract from you every penny they can, it is natural to try in return to use every trick available to thwart them.

Fiscal justice is a special case of contributive justice. The logic of contributive justice is a dialogue between me and us, arising from the Prisoners’ Dilemma, following the logic of Protagoras rather than that of Hobbes, like the logic of Civil Obedience, though differing in two important respects. In our rational moments we understand that some public benefit is available if everyone contributes. But I can figure out that I would be better off still, if everyone else made a contribution, and I did not. Yet if everybody adopts this reasoning, the public good will not be available, and everybody will be worse off. I can work this out for myself, and see that really I would be better off, if I went along with our rational arrangement. But I do not entirely trust us, or at least I do not entirely trust you, because I know in myself the promptings to be selfish, and so do not trust thee, and generalising, do not trust you, and it is then irrational for me to contribute, and the enterprise fails. Joint enterprises only work if we all do our bit. It is rational for me to play my part, if but only if, I can be reasonably sure that others will play their part too. Else I am a mug. In Civil Society external pressure needs to be available to make sure I contribute to our enterprise by refraining from violence and law-breaking, since the damage done by law-breakers is great but with other joint enterprises the damage done by any single individual’s not contributing is small and generalised; if I manage to get into the concert without paying, there is no victim whose rights need to be vindicated, and the financial loss will be relatively small. We can be less extreme to mark what is done amiss, so long as we can prevent avoidance becoming general.
A second difference is in the selection of contributors and the number of contributions required. For Civil Society it has to be everyone refraining from violence, but many public goods can be financed by only a few benefactors. We may buy up an open space to save it from being developed and spoiling our view. Our neighbours benefit too, but we do not grudge them their good fortune. Indeed, many benefactors benefit others with no advantage to themselves. In Ancient Greece, rich citizens would undertake a λειτουργία (lei tourgia), rendering to the public a service at their own expense, simply as a gesture of good will. Somewhat similarly the city fathers in some English town would club together to provide an amenity, primarily for their own benefit, but happy for others to benefit too. A municipal park greatly benefits us and our families, but we have no objection to free riders coming in too, even though they were not subscribers. Likewise on a transport system, we can carry some free riders—pensioners, war wounded, school children, and even the poor and unemployed—and may make this an explicit policy. But at some stage free riding becomes fare dodging, which we cannot condone for fear that the revenue needed to run the system will dry up completely.

Many issues are involved: the possible motivations of different individuals, the need for revenue, the characterization of different groups. Many individuals are moderately altruistic or public spirited, and will pay their way uncomplainingly, even if others do not. National Trust car parks often have an "honesty box" for parkers to put their money in when there is no attendant. Money is put in through not by all who use the facility. Where public spirit fails, shame may motivate. Left to my own devices, I would not subscribe to the appeal, but I do not want people to know that I had not done so, and so I cough up to ensure my name is on the list of subscribers. There is a fairly strong and widespread desire to be, and to be known to be, a fully participating member of society in good standing. But which society? There is much ambiguity and dispute. Many of the arguments about who should bear the burden of paying for a facility enjoyed by many, turns on which society is the relevant one, and who its members are. Often we can pick out a core group whose members benefit, and where any argument for exempting any particular member from contributing would apply to everyone else. If I am an old age pensioner, an old soldier wounded in the war, or a pregnant mother, I may be able to make a case for my not having to buy a ticket when I ride on
the bus; but if I am just an ordinary member of the public, I am open to the argument that if I did not have to buy a ticket, nobody should have to, and the bus service would cease. Other arguments come into play, notably considerations of feasibility and size. If pregnant mothers are to be allowed to travel free, how would we tell? Any moderately youthful girl could claim to be in the early stages of pregnancy. Again, there are so many old age pensioners that if they were exempt, tickets for non-oldies would have to be disproportionately expensive. There are endless opportunities for questioning the fairness of any system for raising contributions, and therefore there has to be some bias in contributive justice against nice distinctions, and in favour of simple, and possibly crude, classifications, that cannot take into account the special circumstances of each individual case. The principle that there is no equity in taxation expresses this insight, although it has often been misconstrued as saying that there is no justice in taxation. Equity—Aristotle's ἐμείοσεα (εὔπικειεια) expresses justice's concern with the individual case in all its individuality. But contributive justice is about the sharing of burdens, which must be done collectively. So, although there may be exemptions for special classes—the only sons of widowed mothers were sometime exempted from conscription—individuals cannot plead a special case for them as individuals. Not only in order to be practicable, but as an inherent principle of justice, contributive justice has to be rough.

Rough justice is better than no justice, and when it comes to taxation, where Hobbesian considerations again become relevant, we can discern some general principles of contributive justice that ought to apply. Although the Treasury is deeply hostile to hypothecated taxes, hypothecated arguments apply. With some public goods, the group of beneficiaries is co-extensive with the group of subjects: we all benefit by being defended from enemies abroad—in times of war, people are much more willing to pay taxes and to do war work; and similarly it is reasonable to ask everyone to pay his share of the cost of maintaining law and order. In Britain the National Insurance contributions reflect the same principle: we all benefit from the National Health Service and from having pensions, so we should (more or less) all contribute (to some extent) towards the cost. For other benefits the group of beneficiaries is smaller. Very poor people do not go abroad, and do not benefit from consular services. Rich people go more to museums and picture galleries, and so should pay more for amenities. They have a
larger stake in the country, and thus benefit more from the maintenance of law and the protection of property, and so should pay more for it.

The argument from benefits is weightier than the argument from burdens. All contributions are burdensome, and it will always possible to plead inability to bear the burden of contributing as a reason for exemption. But to be exempted is to be not a fully participating member of society. Although Mrs Thatcher's poll tax was overwhelmingly unpopular, a poll tax set at a rather low level does meet the requirement of enabling everyone to feel a full member of the social enterprise, and if there is income tax, a low initial rate is better than a higher cut-off point below which no tax is levied.

Taxes should be simple, non-punitive, and hard to avoid. The tax systems in Britain and America fail on all three counts. They are extremely complicated, often driven by envy and social disapproval, and largely avoided. The weaknesses are interconnected. They are set at too high rates in order to manifest the social aspirations of legislators, and then have to have numerous exceptions in order to remain practicable, which results in great complexity, thereby providing those able to employ accountants with legal ways to avoid them. At the time of writing (2012) a carbon tax would be as unpopular as the poll tax was. But it would be simple and hard to evade or avoid, and if it came in slowly with predictable increases and corresponding tax cuts elsewhere, it would bring many fiscal benefits.24 If VAT were reduced, fewer people would evade it, and more would disapprove and create a climate of opinion against evasion. If rates of income tax were reduced, it could be much simpler, with many fewer allowable expenses. In the golden age of yesteryear income tax was low, and people met their expenses out of their own pockets, which meant that they exercised prudent economy in running up expenses. If expenses escape taxation altogether, the temptation to spend more than is necessary is great; hence the many people travelling business class on airlines, who would make do with economy class if they had to pay out of their own pockets. Hence also the modern practice of remunerating people by means of expenses, instead of a taxable income. In recent years legislators have levied high income tax on the populace generally, but have exempted themselves by

24 See more fully, §8.4.
supplementing their relatively modest incomes with generous expenses. Not only transparency, but integrity would be served, if they awarded themselves the income they thought they needed or deserved, and met all their expenses, as the Victorians did, out of their own pockets. The history of how this came about is illuminating. Some years ago there was a movement among Members of Parliament to increase their salaries. A good case was made, but the government did not want to be seen to be condoning a pay rise, and through the Whips offered instead a more generous set of allowances. Many MPs were scrupulous in not claiming more than was strictly justified, but others, encouraged by the Whips, regarded their expenses as remuneration in lieu of a boost to their income, and some were simply dishonest. A general distrust of the political elite has resulted, and great damage to the standing of Parliament.

Many will disagree with the previous paragraph. That will be good, if they articulate their objections. By viewing the different arguments, pro and con we can discern the considerations relevant to contributive justice. They will not by themselves yield one definitive conclusion. Just as Natural Law arguments did not produce a single correct system of law, but only guidelines which could be fleshed out in different ways to produce different systems of positive law, so canons of contributive justice give only guidelines, and particular systems of taxation will embody the political and economic pressures of their particular societies. But taxes that conform to the canons of contributive justice secure legitimacy and public support, in the same way as governments do that respect the rights and interests of the governed.
Chapter 8
Themes and Conclusions

§8.1 Freedom and Reason
§8.2 Reason and Reasonableness
§8.3 The Value of Money
§8.4 Optative Economics
§8.5 What Should We Do?
§8.6 Balancing the Budget
§8.7 What can I Do?

§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-
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 in balanced by the consideration that it is irrational to ignore completely other persons, other tenses, 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. It follows that

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

2 Compare interests discussed in §2.7 above.
Themes and Conclusions

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 Freedom. 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 a 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. 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.”

4 See and J.R.Lucas http://users.ox.ac.uk/~jrlucas/Godel/implf.html §VIII, or http://users.ox.ac.uk/~jrlucas/Godel/implgood.html ad fin.

8.2 Themes and Conclusions

reasonableness of value-judgements and attributions of causality, 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. 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. 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 ἐπιεικεία (epieikeia) catches the sense of something general being applied to a particular case.

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


8 Logicians will see this as a switch in the order of the universal and existential quantifiers, (∀) and (∃); 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 δοθέναι (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 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

---

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.  

The dialectical structure of reasoning in the Moral Sciences 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 guidelines 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. It is so useful, that a currency may go on being used, like the Somali shilling, without any backing, so long as it is not obviously worthless. 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 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 get their budget balanced, 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, worth having?" is beginning to be 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 politically 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

---

15 See above, §3.1, p.51.
16 See above, §5.5, p.117.
the 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.\footnote{See above, §7.9, p.158.}

We may hope that the pressure of rationality will nudge governments into fiscal responsibility, although we have long been warned not to put our trust in princes, but other ground 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 likely to remain so for the foreseeable future, the idea of a minimally coercive State prompts us to query the need for coercive enforcement.\footnote{See above, §7.3; see also §7.4 for enforcement not being an absolutely necessary condition for effective adjudication.} 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.\footnote{See next Section, p.177.}

Such speculations are not practical politics in the foreseeable future, 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.
§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,\(^{20}\) 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.

\(^{20}\) 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.’ ”

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, 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


23 See above, §8.4.
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.\(^\text{24}\)

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

\(^{24}\) See above, §3.5.
Themes and Conclusions

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. If Eliza 25 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

25 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.\footnote{26} 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.\footnote{26} 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.

\footnote{26} 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 overmuch 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 liquify 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,\(^27\) or to those enterprises that are most willing to pay for loans.\(^28\)

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.

<table>
<thead>
<tr>
<th>What Not To Do</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Announce New Initiatives</td>
</tr>
<tr>
<td>2. Hold down Interest Rates</td>
</tr>
<tr>
<td>3. Inflate the Currency</td>
</tr>
<tr>
<td>4. Continue Deficit Financing</td>
</tr>
</tbody>
</table>

\(^{27}\) See above, §5.2.

\(^{28}\) 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. 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 on substance, and rein in expenses, and reduce the democratic deficit.

---

**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.

---

29 See next Section.

30 See above, §§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 much protest 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, 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

\[31\] 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, 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—an 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

---

32 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 op-
erators, 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 exam-
ple 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 done down
anybody, merely made many children happy. Many others have be-
come 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 sim-
ply by being rich, because they can afford to be independent of the
powers-that-be, and on occasion to lead opposition to an overween-
ing government. We may find their extravagance distasteful, but
exaggerated consumerism tends to drive up standards, and gradu-
ally 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. 33

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 question-
able whether such a policy pays off even in the short term, but it

33 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 gilts-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 sanitoria 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 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 grounds 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 lifestyles 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 re-
cession worse, since then taxpayers will have less money to spend,
which will reduce sales, and cause a double-dip recession: rather
Themes and Conclusions

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 Garklov 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, are inclined are inclined to deny that economic agents should do more than keep the letter of the

---

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, 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.

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, 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 website 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.

36 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, benfetis 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.
Appendix I: The Snob Theory of Financial Rectitude

The City of London used to be socially select. It was peopled by Old Etonians and Old Harrovians, who were not very bright, but were quite quite OK. Then the Big Bang came, and social barriers were removed, and barrow boys from the East End proved to be expert traders. But there were problems. Barings was bankrupted, and in the first decade of the twenty first century later there was a general collapse, with the government having to buy up beleaguered banks, and spend a lot of money it had not got to save the financial world from insolvency. What had gone wrong? Bankers and other financiers had forgotten that they were stewards of other people’s money, with a duty above all things to be prudent, and had started going for short-term profits without regard to the risks involved. One started a hedge fund to invest in hedge funds. When questioned about the long-term viability of such an enterprise, he parried the question, and said “You have forgotten the IBG factor”. “The IBG factor? What is that?” “I’ll be gone”. A respected Member of Parliament recalled how when he was a young stockbroker he once went to the senior partner and said “I haven’t anything definite to go on, but I don’t like the smell of this proposal” to which the senior partner replied “Have nothing to do with it then; we can manage without that business”. Now, he said, the response would more likely be “Go and get our legal department to find a way of staying clear of the law”.

No doubt many of the old buffers who used to be in the City were by nature honest and honourable men—certainly some were. However, it should not be assumed that absolutely all were. But for those who were tempted to cut corners or make a quick buck there were other incentives to keep them none the less on the straight and narrow path of rectitude. The social cost of being even suspected of crooked dealing was high. Wives and daughters would not be invited out to coffee mornings and dances in Surbiton. The old-boy network meant that not only were you under review by your peers, many of whom had known you since boyhood, but that public opinion, formed by considered judgement and close acquaintance, was effective both in the City and in the home life of each individual in the suburbs.

Regulations are no substitute for informed judgement about what is sensible and right. It may be that the spirit of the ages is against an exclusively Etonian Exchange, but we need once again to create somehow the ethos of honesty and prudence with some support from social institutions and social sanctions.
Appendix II: History as a Moral Science

For many academics, history is the paradigm moral science, the humanity par excellence, the great study of man, and all that he has done. Many academics are historians, and their studies are models of modern scholarship, in which the academic virtues of precision and impartiality have been developed and honed. But historians, like politicians, have tended not to formulate the principles of their thinking. They have perfected their know-how, and suspect that any attempt to articulate their methodology would distort it. *Do- luus latet in generalibus*. Better to get on with the job, resolving difficulties as and when they arise.

There is much force in this contention. Inadequate philosophies of history have resulted in much bad history. But even good historians sometimes think about what they are doing, and are in danger of being misled by the bad philosophies of history their colleagues profess. If bad philosophies of history are in the air, better philosophies of history are needed as prophylactics against them. We can never produce a single, correct philosophy of history, since there are many different sorts of history, but we can guard against some common mistakes.

History is almost always written history, written in prose, by an author who wants to be read. These features impose important constraints: written language is markedly different from spoken language; it has one author, who hopes to be read by many readers. We need to consider who the intended readers are, and why they might take time to read what the author has written. Many thinkers overlook these points, and consider only the author, and what he says about the things he writes about. They fear he might be biased, and seek to tie him down to reporting just the facts. History should be a record of what actually happened, no more and no less.

But that is impossible. For one thing, the word ‘fact’ is systematically ambiguous, meaning different things in different contexts. It is helpful, whenever encountering the word ‘fact’, to ask what it is being contrasted with: fact as opposed to fiction, or as opposed to interpretation, or as opposed to theory, or as opposed to law. In a law court, the advocates will set out the facts of the case, and then argue for different conclusions. If it is a criminal case, the judge decides questions of law, and it is the task of the jury to make a finding of fact. What had been a possible conclusion, becomes an established fact, and judges’ decisions on matters of law
are taken as facts when a solicitor is advising a client. The common thread through all these confusing usages is that facts are relative to disputes: in a dispute the facts are what are undisputed in that dispute; and when the dispute changes, so do the facts. It follows that there is no class of simple, unvarnished facts for the historian to record. There are many true statements he might make, and among them many undisputedly true ones. But the boundaries are not sharp: even hitherto undisputed ones, that William won the battle of Hastings in 1066, for example, might come to be disputed by some one.

The fact that there is no class of indisputable facts does not mean that history is a purely subjective exercise, with the historian free to tell whatever tales he likes. On the contrary, there is an objective course of events, which constrains what a historian may legitimately say. We can give substance to this by imagining that there were a host of closed television surveillance cameras at every point and pointing in every direction. If we could have access to any subset of these, we could determine whether a particular person was at a particular place at a particular time, and what his bodily movements were. We could focus on King Harold the Second, and see whether he really was killed by an arrow through his eye. But it is evident that history is not just the sum of these pictures, no more and no less. We could not make any sense at all of the plethora of information without stringent principles of selection and interpretation. Even to go from pictures of bodily movements to reports of actions involves an ascription of motive that may be disputed. We may select a sequence of pictures featuring one particular person, or we may focus on the whole group of people—Harold II or the English fyrd—neither is wrong, but they are different. And, whatever our focus, we have to compress in a few words a vast multiplicity of pictures. The English fled: three words, but innumerable pictures of different Englishmen turning and running pursued by victorious Normans, and of that vast array of information, an immense amount passed over in silence—no mention of some stout-hearted Egfrith fighting on until abandoned by all his comrades, or a lowly Swithun casting away his shield in order to run faster.

We can gain some idea of the compression and editing required if we consider the task of turning a transcript of a lecture or debate into readable English. In this case there is hardly any problem of
construing the sounds as particular words (in contrast to the problem of interpreting bodily movements as actions). It becomes clear then how different written English is from spoken English. The unfinished sentences, fresh starts, interjections, of spoken English have to be pruned, re-ordered, compressed, occasionally amplified, to be made intelligible to the reader. Without informed editing, a transcript is in danger if being merely a meaningless babble. We need guidance so as to focus on key words and sentences, and to filter out waffle and noise.

Guidance is given by the intended readership. The author wants to be read. Although many people like retailing statements about the past without regard to their hearers’ interests, we soon learn to avoid bores. If he is going to be read, the historian must deal with things that some people will want to read about. He must have a theme. There are many possible themes. A mother may edit the letters from her son at the front. They will be of interest to his family and friends, and may also be of value to the military historian. A churchwarden may write a brief history of the church for the benefit of visitors. More often it is people rather than buildings that have histories written about them, and biographies abound both in the best-seller lists and on the shelves of second-hand bookshops. More often still a history is written not about a single individual, but an institution—a school, a regiment, a town, or most most importantly, a nation. The history is written to explore and establish a corporate identity, and is read largely by those seeking to understand and reinforce their sense of who they are. But narratives are not the only themes. I may seek to explain the causes of the First World War, or to solve a particular problem about Trajan’s Persian War. I may think I have discovered who Barabbas really was, or who moved the stone. Or I may be trying to pin responsibility onto a particular person for a particular deed; or to exculpate him. There are many, many topics which may interest a historian, and may, he hopes, interest some readers.\(^1\)

\(^1\) This is the reason why there is room for new histories in each generation. Although Gibbon has not changed, and the historical events have not changed, those who now are interested in the later Roman Empire live now and not in the eighteenth century, and have different knowledge and different background assumptions from Gibbon’s original readers. Different sub-themes interest them; different problems puzzle them; different explanations are reckoned explanatory. So a different history is called for.
Besides interest in the theme, the historian and his intended readers have much in common. They necessarily share a common language, and hence to some extent a common culture, a common background of knowledge, assumptions and expectations. But they also differ—else there would be no point in his writing for them. The historian knows what they do not, and may need not only to tell them about his subject, but to make explicit various background assumptions which explain what happened and why the subject is worth their attention. He empathizes with historical figures as we do with contemporaries, and his understanding of them is a function of him as much as it is of them. (Again, this is not to say that it is purely subjective—it is a function of them too, and will be in error if it fails to accord with what they actually are.) Sometimes he can bring to bear understanding not available at the time he is writing about. A modern logician can recognise the problem that was bothering Plato, and see what he was trying to say in the dark sayings of his that have long puzzled classical scholars. Marxist historians claim to understand past events in ways quite unconvincing to the agents at the time. In writing and reading about the past, we necessarily have insights and hindsights which illuminate, but may also distort, our understanding of our subject. It is fairly easy to be on our guard against distorting insights, because we all have experience of misunderstanding our contemporaries. Distortion due to hindsight is more difficult to detect, because it often lurks in the choice of the theme. We need to distinguish the standpoint which makes the subject interesting from the standpoint of the subject itself. After the Second World War three young officers were discussing their prospects while waiting to be demobbed, and wondering what the future held for them. One ended up as Home Secretary (William Whitelaw), one as Foreign Secretary (Lord Carrington), and one as Archbishop of Canterbury (Robert Runcie). It is that that makes their discussion interesting; but the discussion was in the future simple, not in the future-already-present-in-its-causes. We can say that they subsequently became Home Secretary, Lord Chancellor and Archbishop of Canterbury, and can look out for gifts of leadership, strength of character, force of personality and power of intellect that enabled them to rise to the top, but we should not say that at the time they were to be Home Secretary, Lord Chancellor and Archbishop of Canterbury. There is a difference between the heir to the throne, who is already a future monarch, and ordinary young men,
who may do well in life but in their youth are not marked out for future preferment. I may happen to be a neighbour of Mrs Johnson who wins the jack-pot, and I may tell people what she is like. I tell them because she is now a multi-millionaire, but I should describe her as she was, not as an about-to-be-multi-millionaire.

Usually it is not just happenstance that makes a subject worth writing about and reading about. Often what is common between a historian and his readers is membership of a community. I relate the family history to my children, because it is part of our identity. Similarly the history of the regiment, the school, the college, and above all, the nation. I read English and British history to understand better who we are and how we came to be what we are now. It naturally seems a progress, because the end-point is what we are now. And there is a natural tendency to emphasize the successes and play down the failures and shameful episodes, because in being our history it makes us, and me in particular, responsible for what was done by us on our way to being who we are now.

As the historian looks back on his subject, he and his readers take for granted knowledge, which was not available at the time, but which explains its significance to them. Much that we now think important might not have been, were it not for the efforts of some outstanding person, or for the consequences of some unremarked concatenation of events. The event turned out to be a turning point. But it was not clear at the time that it was a turning point, and indeed might well not have been. If William had fallen from his horse and been killed after the battle of Hastings, the leaderless Normans would have returned home after looting a few towns. If Sherman had been unsuccessful in the West, Lee might have captured Washington at a second attempt, and Lincoln’s Gettysburg address a forgotten footnote in the Confederate War of Independence. Most contentious is the influence of hindsight on our understanding of the origin of Christianity. All the books of the New Testament were written for the recently founded Christian churches after the Resurrection, and portrayed Jesus as the Messiah, the Son of God, or even as God. But that does not mean, as New Testament critics often assume, that they made them up, nor that, as the evangelists seem to say, what actually happened had to happen. Judas Iscariot, who afterwards betrayed him was just that, not Judas Iscariot who was going to betray him. He could have not betrayed him. In the Middle Ages, the Schoolmen were worried at the apparent injustice of Judas’ being blamed for
what he was fore-ordained to do. But he was not fore-ordained to
do it: he could have done differently; he could have realised that
if it came to a showdown, Jesus would not summon legions of an-
gels from on high, and by military might re-establish the kingdom
of David. And then? And then the High Priests and Elders, un-
able to arrest Jesus quietly, would have deployed a posse of Temple
Guards to arrest him in the Temple, to question him themselves,
and to hand him over to Pilate to be crucified. But what if Pilate
had heeded the promptings of his conscience and warnings of his
wife? Jesus would still have been killed, not by crucifixion but, like
Stephen a few weeks later, by stoning. Pontius Pilate would not
have his name repeated every time a Christian recited the creed.
He would be known to Jewish scholars who read Philo and Jose-
phus, and to Christians would be on a par with Zacchaeus or Simon
of Cyrene. So, too, if Sherman had got bogged down in the Mis-
sissippi valley, we should never be singing about his dashing Yan-
kee boys marching through Georgia. If William, Duke of Normandy,
had died falling off his horse, he would have been William the Bas-
tard, not William the Conqueror. The outcome seems necessitated
by the designation, and when we try to empathize with the agents
in the ambiguity of the actual situation in which they had to act,
we struggle with the consequence that if the outcome had been
different, we should not be wanting to think about that situation
at all. We are interested in William, Sherman and Jesus, because
Sherman reached the coast, William conquered England, and Je-
sus was raised from the dead. In pursuit of absolute objectivity,
we feel it wrong to write history distorted by hindsight. Better to
try to adopt a contemporary stand point: The dictum “All history
is contemporary history”, though untrue, represents an ideal that
historians aspire to: to understand agents’ actions from the agents’
point of view at the time they were decided upon. But it is dan-
gerously easy then, in not taking for granted the actual outcome,
to assume that it did not take place. In the “The Quest for the
Historical Jesus” many New Testament critics distance themselves
from the evangelists who wrote about a man they believed to have
risen from the dead, by assuming that Jesus did not rise from the
dead. This was, indeed, the common opinion of both the critics
and their intended readers but it prejudged the result of the quest.
The Jesus who emerged was the Jesus of nineteenth and twentieth
century secular historians, not the Jesus as he would have appeared
to his pre-resurrection contemporaries. The search for that Jesus

Economics as a Moral Science
is conceptually possible, though actually difficult. Gleanings from the gospels, especially hostile comments, remembered afterwards as having been voiced in his lifetime, give us some clues.

A properly unbiased account needs to keep open the possible outcomes. It is a difficult exercise in knowing and not knowing. We cannot help knowing why we are interested in William, Sherman and Jesus, and that most of our sources are coloured by the same knowledge of what followed, but as we seek to empathize with them, and view their actions from a contemporary stand-point, we need to not know what actually followed. Although it is with benefit of hindsight that historians choose their themes and write their histories, the understanding they need to offer their readers requires a hindsight-less empathy with the agents facing an uncertain future and knowing that it was up to them to decide what to do.

Such understanding, if achieved, can still mislead. There is a tension between actual deliberation and overall explanation. Historical agents were decision-makers. Decision-makers have to decide between alternatives where there are arguments for and arguments against. They weigh the considerations, but in the end it is up to them which course of action they adopt, and they are responsible for their decision. Often the reasons they adopt justify their decision; sometimes they do not, and the agents are blamed. Occasionally it emerges that they had no alternative, and then they are exculpated. The picture is of many decision-makers, each one an initiator of action—ἀρχὴ τοῦ κινεῖν (arche tou kinein)—who could have decided differently, but did not. For the agent and anyone concerned to see things from the agent's point of view, that is the end of questioning. He did it. The buck stops there. But the historian is not deliberating. His theme does not have to be, and usually is not, just one single decision. Although he needs to be able to enter into the minds of agents, he is usually concerned to give an overall picture covering many decisions, taken for reasons the historian regards as significant. And then it is easy to suppose that the reasons that led agents to act as they did made them do it. If you know that I did something for reasons which seemed good to me, you conclude that really I had no alternative; me being me, it was necessary that I should do it; I was compelled to do it. And so, once again, determinism takes over, and freedom goes out of the door, expelled this time not by the fixity of the past, but the necessity of reason.
As with the New Testament, the problems historians grapple with have been intensively debated by theologians. St Augustine was conscious of the contemporary humanity of his fellow men, and their sharing a common human nature and a common culture. He was grateful for his human abilities and aspirations, and for his Christian upbringing. He took issue with Pelagius, because the Pelagians, he sensed were not only taking responsibility for their actions, but claiming all the credit for them. Rather than pride themselves on having chosen aright, they should be grateful for having been called from darkness into light. His point is well expressed by Peter Abelard:

\[
Et juges gr atias de donis gr atiae \\
Beata referet plebs tibi, Domine
\]

We can take the point and yet protest that St Augustine over-reached himself. Responsibility and credit are not the same. He had earlier written on Free Will, and needed it, not only to give an adequate account of man, but to acquit God of responsibility for men’s evil deeds. St Augustine may have felt it impossible to resist God’s call, but he could have done so. He was not compelled. He was not necessitated. It is our responsibility how we live our lives, though we do well to be grateful for the influences and circumstances that have enabled us to live them well.

The Existentialists were right in seeing it as an essential part of my being an autonomous human being that I make up my mind for myself, and can make it up differently. But though it is necessarily the case that I can perform an acte gratuit, it is not the case that I have to. I can act responsibly for good reasons, reasons that, in Leibniz’ words incline, not necessitate.\(^2\) Although I did decide for reasons that seemed good to me, I could have decided differently. I could have given way to temptation, I could have accepted the bribe, I could have funk’d the fight. “Ah,” you say, “but it is not in your character to”. Perhaps: but what is my character? My character is only a disposition to do the things I do. If I had acted out of character, people would not have had to revise the laws of nature, but would have had occasion to remark ruefully on the fickleness of flesh. There is, indeed, a necessary connection between character and actions, but it is a logical necessity, and the necessary inference goes from the actions to the character and not

Economics as a Moral Science

vice versa: if I continually act out of character it ceases to be my character.

The explanatory argument for determinism is broken-backed. A historian may see my actions as being in character, and my character as stemming from my upbringing, my ideals, my experience and my culture, and conclude that, granted my character, which was formed by my upbringing, my ideals, my experience and my culture, I had to act as I did. But it is a different modality, a different sense of could and must. I could have acted differently. Instead of coming to the meeting as promised, or giving the lecture at the stated time, I could have taken the bus to Heathrow, flown to Paris and staged an art exhibition in a public lavatory. If I had, people would have revised their opinion of me and my character. I would have become a different person, no longer the me that people had felt they could rely on. But that is all. My character is not something fixed, determining my actions with causal necessity, but is formed and constituted by my actions. I can cultivate good habits, and habitually act well, but can—sometimes all too easily—fail. If I manage not to fail, the historian can view me as a reliable character, acting for intelligible reasons which may form part of a larger picture. But it was my choice that I did what I did, not some natural necessity that forced me to do so, willy-nilly.

History is literature, but a special sort of literature. Some histories are great literature, and can be read and appreciated for their literary merits alone. But the criteria of historical assessment are not simply literary ones. History has to be true. And the hard reality of historical truth imposes constraints that sit ill with purely literary canons of excellence. The cast of dramatis personae is both too large and too narrow. Too many figures clutter up the canvas, obtruding themselves irrelevantly and obstructing the smooth flow of narrative. The playwright and the novelist can do better without them. But the playwright and the novelist can also avail themselves of a wider range of characters, who bring out the possibilities of human nature and the tragedies of human existence far more strikingly than the often banal record of historical events can achieve. Shakespeare’s Macbeth is much larger character than the historical Macbeth. Mrs Proudie rules our imagination in a way that no Victorian wife ever did. Literature can explore possibilities and reveal profundities that history, circumscribed by the happenstance of what actually happened and who actually did it, can never aspire to. But the obduracy of historical truth brings a different reward. In place of the range and profundity of great literature, history has the hard gritiness of being about what actually happened. History is for real.
Economics as a Moral Science

Conclusions

1. Economic agents are not atoms, but people in various social settings.
2. Maximisation is not in general a rational policy.
3. It is rational to conjugate, and consider not only the first person singular, but the first person plural, the second and third persons, the future and past tenses as well as the present, and other moods as well as the indicative.
4. Although money is what we could do with more of, other things being equal, in real life other things are often not equal, and seeking to maximise wealth is irrational as a general strategy.
5. In a moneyed society, where there are banks, and a high degree of credit-worthiness, money is indefinitely, though not infinitely extensible.
6. The concept of quantity of money ceases to be useful.
7. Money needs to be liquid or liquefiable in order to circulate, but can be a store of value even if it is fairly illiquid, and only slowly liquefiable.
8. The iron laws of economics are not iron, are not laws, and do not apply to economic activity.
9. Not everyone can be free to do everything. Some actions must be ruled out, by force if necessary.
10. Enforcement by force, if need be, is a, though not the defining, characteristic of law, distinguishing it from custom, public morality, and other forms of social guidance.
11. The law cannot be based on force alone, but requires, on occasion, the unforced cooperation of officials and citizens.
12. The law merges with other forms of social guidance, being the extreme case where force can be called upon if other sanctions fail.
13. The use of force is regrettable, being expensive, often counterproductive, and liable to abuse. Although force is often invoked needlessly by some authorities, it is the mark of civilised societies to resort to force as little as possible, that is, to be minimally coercive.
14. Although we gladly go along with many communal decisions, there is always the possibility of my wanting it to be different, unless I am the sole decider. It is not possible for me, and everybody else, to be the sole decider of every question that comes up for decision. But it is possible to partition the questions, and assign to each decision-maker some questions that are for him
Economics as a Moral Science

alone to decide. Each has a sphere within which he can think, say, or do what he likes so long as it does not infringe any other person’s sphere. Of course, there are many, sometimes difficult, questions of demarcation, and of course many questions cannot be handed over to any one person to decide. Nonetheless, by giving each person a veto over some questions that concern him deeply and more than they concern any other person, we greatly enhance freedom, facilitate self-fulfilment, and create a powerful barrier against the State’s over-reaching itself.

15. A community in which each member has an effective say over most of his actions is one where there is great emphasis on joint activities based on the voluntary cooperation of each party. Since the benefit of joint activities falls unevenly, there is great utility in having some means of equalising the uneven benefits of cooperative action. In a small community favours can be remembered and returned, but in large communities it is the institution of money that makes it possible to trade goods and services between many people and over a wide range.

16. A community in which each member has an effective say over most of his actions is one where decision-making is decentralised. Decisions are taken by many different decision-makers. It is wrongly assumed that each such decision-maker will try to maximise. This, we have shown, is a mistake. His view, if he is rational, will not be exclusively egocentric, but will encompass not only a first-person singular point of view, but first-person plural ones, appropriate to the communities of which he is a member. Although the decision-maker will primarily view the situation from where he sits, he will recognise that the other party has a different viewpoint, and will consider how his own actions will appear from that viewpoint. Ultimately the decision is his, but in arriving at that decision it is reasonable to take into account many further factors besides his immediate pay-off. The blinkered, exclusively egocentric, view is a partial view which may prove irrational just because it ignores the wider picture.