

Moral Aspects of Economic Theories and Present-Day University Curriculum

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Abstract

Contemporary science of economics considers itself to be primarily based on the teachings of the 18th century moral and political philosophers. Yet, the moral aspect of their ideas seems to have been largely neglected, which is probably no longer affordable given the present-day developments in the economic and political life of the civilized world. After 2008, issues connected with growing inequality have received serious attention in the works of eminent economists in Europe and the United States, but the rationalistic approach that goes back to Newtonian “rational mechanics” and Bentham’s “hedonic calculus” still prevails. Similar situation arose in Russia, where the mainstream economics obediently follows neoclassical prescriptions while voices against the so called conventional wisdom have been assiduously ignored. Since this moral negation found its intellectual expression in the sphere of economic theory, it is important to understand what was taken from the classics, what was deliberately or unintentionally omitted, and how it may be possible to incorporate the moral aspect into the teaching of economics without provoking adolescent reactions in the students. Hence our attempt to look closely at the works of Adam Smith and his contemporaries, study their views on the moral and religious aspects of human activity and find out how the influential economists of the last century and present-day university professors and government consultants have treated the issues of good and evil, right and wrong in their books, lectures, academic papers and public pronouncements.

Key words: economic discourse, moral issues, teaching

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Introduction

History is full of surprises and economic history especially so. Although the 18th century Britain is supposed to be the birthplace of today's economic science, little attention seems to be paid to the study of the environment that proved so fertile in terms of its ability to generate very consequential theories. It might be argued that knowledge of this kind cannot be the top priority for economic education as it is not directly linked to the world of work, and the future employers of our students are hardly interested in their employees' general economic erudition. However, in the aftermath of the crisis when the memories of the Big Meltdown are still relatively fresh, it is probably good time to take a look back and remember how it all began.

Adam Smith was a professor of moral philosophy¹. The 18th century "moral philosophy" did not only mean the study of morality or ethics, but covered all aspects of knowledge about human beings. In this it differed from the natural philosophy, which is now called natural science. Students of economics are not traditionally keen on physics or chemistry, but moral issues, even understood broadly, should be of some importance to them for reasons that look obvious to a lay person but somehow tend to escape attention of many professionals. Besides, the fact that it was the area of interest of the economic science's founding father ought to matter as well.

However, students of the Economics faculty of Moscow State University, where the author of the present paper happens to be teaching, although they all have had a course in the history of economic thought, know next to nothing about Adam Smith's ideas apart from the idea of self-interest and that famous and somewhat creepy invisible hand, the latter being expected to work miracles in the process of reconciling the multiple former. When my students were asked the direct question: have your lecturers talked to you about the moral component of their various economic subjects, the reaction was rather strange: they did not seem to understand the question. The impression was that in their minds economic matters existed in isolation from everything else.

Their professors' answers were similar. I have not found out how the things are in Europe or Asia, but I know very well that some authoritative writers (S.D. King and Adair Turner among them) lamented the ignorance of university graduates in the history of economic development, including very recent history, let alone earlier epochs. This lack of knowledge about facts is suggestive although it does not necessarily mean that knowledge about theories is also absent. Still, judging by popular textbooks and university curricula, discussions about the good and evil in economic matters are not very widespread. Fair or foul play is certainly considered, but mostly in legal or ethical rather than moral terms.

Moral theme in the Current Economic Discourse

Publications are numerous. Serious books have been written aiming to convince those concerned that there is a dire need to get liberated from the economic folly of the age, i.e. the belief that the laws of economics are basically the same as laws of engineering (Orrell, 2010). If one looks up the topic "economics and morality" in the Internet, one may think that everything is fine, discussions are under way, professors of economics

¹It is interesting that N.N. Taleb calls him "the first and the last moral philosopher."

and law publish papers, write in blogs and even deliver occasional lectures on the subject. Not only the determined Keynesian Robert Skidelsky (2009) urges economists to take as their motto Keynes's words that 'economics is a moral and not a natural science', but even such practicing financiers like Adair Turner call for 'the prosecution of the discipline of economics' (Turner, 2012) and insist that the economic science ought to recognize the significance of political, philosophical and ethical issues.

And yet, these ideas do not seem to have reached university classrooms on any noticeable scale. This is true for the leading Russian universities and, judging by what Jeffrey Sachs said on 30 March this year in the first talk of a new series by the Masters Programme in Bioethics at Columbia, in the US they have similar problems. He was very straightforward saying that his University 'should fight against the moral degradation inherent in 21 century life'. Although in his speech he was not dealing with economics as a university discipline, he absolutely clearly expressed the idea that moral discourse is not currently as normal as it should be in the university environment.

The mainstream economics prefers to ignore the human dimension of economic activity. This attitude found its very effective expression in the lecture on supply and demand by Timothy Taylor (2005). He points out that the statements and propositions about prices do not have any moral implications as they deal with facts of life in a way similar to that of natural sciences. And then he lets slip a most telling phrase about the emotionally liberating character of such position. Later, in 2014, stating that "economists prefer to sidestep moral issues" he admits that "moral issues aren't willing to sidestep economics" but so far there has been no perceptible reverse of the trend in education.

One of the most highly esteemed academic institutions, Harvard Business School, had to introduce a course on moral and ethical matters in 2003, after the scandal with Enron, the company that employed "scores" of Harvard MBAs, beginning with the CEO. The course was called Leadership and Corporate Responsibility and there is evidence from a 2006 HBS graduate that, before the course had begun, his fellow-students expressed "considerable scorn" about it, (Broughton, 2008), though later were grateful for having an opportunity to think and talk about the right and wrong in business. It is an interesting fact that an ethics Chair was funded twenty years previously, after insider trading scandals of the 1980s. So great was the respect for the subject that it took almost two decades to start teaching it.

Scorn is not the only and probably not the prevailing feeling. According to interviews of Moscow University professors, it is skepticism rather than scorn. Many of them do not believe in the usefulness of talking about moral questions at schools teaching economics. And yet, the idea that something should be done is growing stronger. Besides, market values seem to have acquired a certain quality, which only moral values used to possess. This, in Eric Schoenberg's opinion (2011), explains "the religious fervor of free market fundamentalists". Paul Krugman agrees (2011), pointing out that a counter-narrative is necessary. For both purposes, that is for teaching and creating the narrative, the crucial point is probably to find an adequate way of enhancing students' moral attitudes, which may awaken their interest in the relevant issues, and it seems reasonable to try and begin from the beginning of the

economic science itself. With very few exceptions (like the disapproval of life insurance as it was considered to be morally unacceptable practice of gambling against God) the understanding of good and evil and therefore major values are still the same.

Moral values in *The Wealth of Nations*

What is really striking about the famous *Wealth of Nations*, is the kind and caring attitude of its author to people who work to earn their living and to increase the well-being of their country. It seems necessary, when acquainting students with the ideas of self-interest, invisible hand and beneficial openness of the economy as formulated by Adam Smith, to lay special emphasis on what he writes about the major principles that should form the very foundation of economic activity.

The first idea, or principle, close to what used to be the cornerstone of ideology in the Soviet Russia, is that “labour is the real measure of the exchangeable value of all commodities” (*The Wealth of Nations*, p.43). And even stronger: “The real price of every thing is the toil and trouble of acquiring it”. In many countries economic life is still based on this firm foundation, but unfortunately there are places on the globe where people tend to forget about the basics, thinking that work and hard work in particular no longer matters once there is money to buy the said commodities even if its amount has very little to do with any kind of work. Economic life has certainly changed since the 18th century and the labour theory of value is not as popular as it used to be, but, as experience of some countries has shown, prosperity is impossible without deep respect for people’s labour, and universities should deliberately cultivate this attitude in their students. We in Russia have seen what happens when children and students are not constantly reminded about the value of work itself.

It is not only the value of labour that was so important for Adam Smith. He had a very sober, unbiased look at the topic, which is exceedingly popular today: skills or, as is now fashionable to say, competences involved in a particular kind of work. Writing about ploughmen, he points out that being “generally regarded as the pattern of stupidity and ignorance” (*Ibid.*, p.175), they are “seldom defective in their judgment and discretion”, because “many inferior branches of country labour require much more skill and experience than the greater part of mechanic trades”. Such comparison with mechanic trades may be no longer relevant, but the observation itself is most valuable: in those business cultures where future CEOs do not normally begin their careers on the shop floor, this is something they must be constantly reminded about. Without due respect for labour successful production is hardly possible.

Adam Smith’s conviction that labour is the only universal and accurate measure of value determines his views about the position of people who provide it. Fully aware of the love of men to reap where they never sowed (Matthew 25:26) he reminds his readers about the seemingly obvious truth, saying that “no society can surely be flourishing and happy, of which the far greater part are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well-fed, cloathed and lodged” (*Ibid.*, p.110). It is not surprising that he shows understanding of the situation of those desperate people, “who must either starve or frighten their masters into an immediate compliance with their demands”

(p.95). His understanding is not confined to those who are desperate. In *The Wealth of Nations* we come across maybe the first expression of concern about occupational safety and health in scientific literature. Having emphasized the necessity to pay higher wages he also warns against allowing people to overwork themselves lest their health be hurt by excessive labour (p.114-115).

Maybe the most remarkable feature of his great work is the idea that, like a music theme, goes through the whole book. For Adam Smith as a consistent representative of the Scottish Enlightenment, the foundations of proper economic arrangements are the dictates of reason and humanity, natural liberty and justice. Like many other Enlightenment thinkers he was a great believer in the wisdom of nature and regarded injustice and folly as derangements of the natural order of things. Students of economics do not probably need to be overconcerned about the purely philosophical aspect of the issue, but it seems really important to draw their attention to the fact that one of the core postulates of the book is not quite what they were taught to remember. Most students of economics (and their professors, too) have it engraved in their academic memory that every man is perfectly free to pursue his own interest, as long as he does not violate the laws. But the actual statement is slightly longer: “as long as he does not violate the laws of justice” (p.873). In the context of the book ‘justice’ means ‘fairness’ and is frequently and clearly opposed to ‘injustice’.

It very often happens in the modern world that elements of economic or social organization functioning well in one country are implemented in another, which is sometimes fundamentally different, and the results of such implementation prove to be most unfortunate. Not only many of the policy-makers, but also a lot of economically educated citizens accept the existence of cruel economic laws and, consequently, unjust regulations based on such laws, because they were taught to believe that, like the forces of gravity, economic laws are indifferent to human well-being or suffering. The complex of ideas, which leads to this or similar perception, is assumed to have evolved from the writings of Adam Smith. But this is a wrong assumption.

Why does conventional economics so consistently ignore the unconventional views of Adam Smith, the famous patron saint of “capitalism’ as was aptly put by Nassim N. Taleb (2012, 399)? The explanation seems to be quite simple. This is what often happens with big serious authors whose ideas are used in a “self-serving selective manner” and can be really sad if we imagine the author’s reaction to such application of his ideas. It is easy to find in Smith’s writings passages both in favour and against government intervention in the economy, or joint-stock companies as a form of business organization (although those against seem to outweigh those in favour), or taxes, duties and the need to protect domestic producers from foreign competition. This is not surprising because Smith as a scholar did not suffer from academic dogmatism and always had in mind the ultimate objective of economic activity – the wealth of the nation as a whole and the well-being of every individual contributing to it, which in turn ought to be in accordance with the fundamental principles of truth, humanity, liberty and justice.

Smith's Friends and Supporters

Interpretations vary and sometimes conflict, but in search of the understanding of *The Wealth of Nations* that would be objectively closest to the author's ideas and feelings, it may be useful to find out which of his contemporaries were his friends and supporters. David Hume was his closest friend, despite the difference in their philosophical ideas. In economic area they seem to have been thinking along similar lines, but economic issues did not belong to Hume's core interests. Moreover, as a skeptic and atheist, he contributed substantially to the treatment of morals as a psychological, or utility phenomenon based on "pain or pleasure", which ran counter to Smith's Christian perception of universal values as "the business of God and not of man", explained in *The Theory of Moral Sentiment* (1759) .

A more telling fact is the understanding between Adam Smith and Edmund Burke. "Mr Smith...told him, after they conversed on subject of political economy, that he was the only man, who, without communication, thought on these topics exactly as he did."(Bisset, 1800). Since E. Burke, "the greatest and the most underrated political thinker" (Norman, 2013) is known for his critic of liberal individualism, we have the right to at least question the assumption that Adam Smith was its active promoter.

But even if he was, we should remember that, as the American journalist and author John Cassidy points out, the classical economists were less dogmatic than many of their twentieth century followers (Cassidy, 2009). If dictates of reason, justice and humanity required a departure from the principal of self-interest and unrestricted liberty, they did not hesitate, for instance, to call for the nationalization of the Bank of England (David Ricardo) or to advocate a national system of education for children (Nassau Senior). They seem to have been genuinely open-minded and set a good example for today's students (and their teachers) in terms of the culture of thought, academic discourse and intellectual attitudes – not to mention their style of writing.

Adam Smith, together with his friends and supporters believed in ordered liberty (Norman, p.280), that could only make it possible for the nation to live a life, in which there would be place for industry and enjoyment. Political economy was seen as part of moral philosophy and the scholars who undertook to study the organization of people's economic activities did not find it inappropriate to write about their happiness or misery (Smith, p.954) or to remind that the country should have well-fed, active, diligent and expeditious workmen, generally in good health and high spirits (Smith, p.114,116) because this is required not only for practical reasons, but also by irresistible moral causes.

John M. Keynes's Unattainable Dream

In recent years there appeared quite a number of publications whose authors are really concerned about moral issues, but they remain peripheral to the mainstream academic teaching of economics. As for the famous economists, authoritative for both students and professors despite all disagreements and reservations, a similar inner spirit with comparably serious concern about the right (not only effective or efficient) economic organization of society, can be found in the works of John Maynard Keynes.

He also thought that the ultimate goal of the government should be the well-being and happiness of the governed. Being a brilliant intellectual and an art-lover, he had a beautiful dream – about the time (somewhere in the mid-21st century in his estimate) when *the economic problem* was solved and people, after 3 hours of daily toil, could have leisure for “cultivating into a fuller perfection, the art of life itself”, and when they could “value ends above means and prefer the good to the useful...” (Keynes,1930).

There have been many papers explaining why it could only be a dream. And there have been some attempts to make this dream a reality. For a short while this had even seemed possible. Sadly, no longer. It is perfectly clear why it is impossible on the global scale, but within a prosperous country, or group of countries, where incomes are high and there are more than enough goods to go round (Dorling, 2011) – why even there, chances for Keynesian meaningful leisure are getting thinner and thinner? There is little hope that the situation will change even if incomes start rising again. My personal pessimism is determined by many factors, most of them quite obvious and there is hardly any need to dwell on them. But one piece of empirical evidence is probably worth including in this paper.

It is a well-known fact that for at least two decades the salaries of employees in the financial sector have been noticeably higher than in the other sectors of the economy. It is also widely known, thanks to several books written by ex-employees of investment banks, that people working there have to put in very long hours, effectively giving up social and sometimes family life. This may seem strange, given higher-than-average incomes in the industry: apparently there are good conditions for a healthier organization of work, which is objectively in the best interests of all those concerned, as Adam Smith had rightly pointed out long before the term “occupational safety regulations” was introduced into employment practice. However, for people in the business better work-life balance is not a priority, probably not an issue at all.

One of the consequences of such situation is rather unexpected, albeit logical: young traders (and not only young) find it necessary to maintain a 24-hour lifestyle. This being not exactly bearable, they use drugs as stimulators, raising their personal and overall productivity. There is a story about a memo sent around the trading floor of a British merchant bank: “If you are going to snort cocaine please do it in the toilets and not at your desks or on the trading floor” (Wilson, 2011).

The memo story comes from the 1980s, but things have not improved since then. According to the European Drug Report 2014, London is the cocaine capital of Europe. Medical experts say that the links between drug-taking and Wall Street or the City of London have been a truism for years and members of financial community already call for drug testing in the City (Shah, 2014).

This is really sad, because the industry seems to have all resources needed to set a good example to the rest of the business world; the resources include not only money but also a lot of graduates of best universities who could try to live up to the beautiful ideas of John Maynard Keynes. However, there is little hope that anything will change. Michael Lewis, the author of the book *Liar’s Poker*, had hoped that, having read his book, bright and talented young people would decide in favour of a career in

some good and useful area, like for example oceanography. Yet, he soon started getting letters full of thanks for helping to choose the right subject, namely finance.

‘Is it worth it?’
‘Is anything?’²

It would be utterly naïve to believe that a course on the 18th century moral philosophy could be of any noticeable impact. And yet, there are two considerations that may encourage university professors in the attempts to introduce such a course into economic studies curriculum. The first is that if we recognize the existence of the problem we may feel moral commitment to try to address it whatever the outcome, according to the principle *Fais Ce Que Dois Advienne Que Pourra* or *Do What You Must, Come What May*. Ways and means can always be found to do it in a thought-provoking and stimulating manner without raising adolescent protests.

Secondly, we should probably remember about the nonlinear quality of human affairs. The effect of a small event may be disproportionately strong and far-reaching. As it is written in an old Russian poem:

Not in thy power to foresee / The flight of word that uttered thee.
And thy compassion for the wretched / Is hidden working of the Grace.

At the present moment at least three ministers of the Russian government are graduates of the faculty where I am now teaching students of economics. They must have been good students who, as young people, seriously believed in those provisions of the economic theory that were taught to them, without paying much attention to the ideas, without which the theory, in the opinion of many authors, becomes at best useless, at worst harmful and destructive. In the 1990s, economic views prevailing among the Russian policy-makers were definitely lacking that compassion for the wretched, about which the Russian poet and philosopher Feodor Tjutchev wrote in one of his profound poems. In the new century the life in the country has been better on average, but we would like our successful graduates to be more interested in real production, in genuine economic development, not only in the provisions of Washington consensus. So it probably makes sense to put more emphasis on this side of the issue appealing, among other things, to the authority of the founder of economic science and relying on perception abilities of the young brains.

Reality and Human Consciousness: The Secret of Good Teaching

It should not be viewed as an attempt to impose ideas, it is a way to help students acquire fundamental knowledge about the subject. Adam Smith’s book became so well-known and influential not only thanks to the quality of its content, but also because the material was laid out in accordance with the structure of reality as it is reflected in human consciousness. In the Russian scholarly tradition there has always existed an aspiration to look at reality from the point of view of time and culture. Thus, Moscow University professor Michael Kryukov (2013) uses the model, in which the texture of reality is presented as a three-dimensional structure with two axes, Past–Future and Temporal–Eternal. This structure, in its turn, conjoins with the

² Adams, D. *The Restaurant at the End of the Universe*. Picador, 2002, p.223.

structure of human consciousness, the resulting figure being a tetrahedron with, obviously, four vertices (Fig.1):

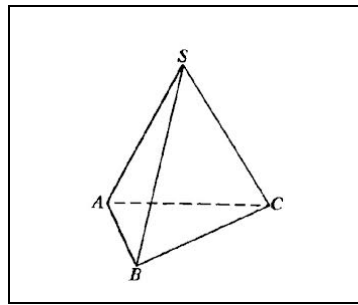


Figure 1.

A: Past; Denotation, Reason;
B: Temporal; Sensation, Feeling;
C: Future; Action, Will;
S: Eternal; Meaning, Spirit.

The model is really valuable since acquisition of knowledge is a process that occurs in human consciousness and it can be most effective when it involves all its structural elements. *The Wealth of Nations* is a great book from the teacher's point of view because it does precisely that. It gives food for thought, for feelings and for spirit at the same time providing guidelines for action. Which can remind one about the anecdote told by N.N. Taleb in his book "*Antifragile*". When asked for a rule on what to read he felt excessively irritated and blurted out: "As little as feasible from the last twenty years, except history books that are not about the last fifty years". The recommendation did not seem exactly practical, but "the student developed a culture in original texts such as Adam Smith, Karl Marx and Hayek, texts he believes he will cite at the age of eighty". (It is interesting that among other gains it had an effect, which the writer calls detoxification.)

Conclusion

Awareness of economic history has acquired particular significance in recent years and the need for better education in the area is recognized in many leading universities. Although the major focus is on the events that occur in the system of production and consumption, the history of ideas also deserves most serious attention. The forgotten parts of the great work written by Adam Smith may become a good starting point for thinking about the moral aspect of economic theories. It is essential to remember that the most important knowledge, whether in professional or private life, can hardly be useful when it is learnt from books or lectures only in order to pass exams. But it becomes effective and forceful when a student discovers it himself using information as a means of that personal and unique discovery. A *condicio sine qua non* for this discovery is the involvement in the learning process of the emotional and spiritual dimensions; in the area of economics the greater emphasis should probably be laid on the latter. Then it may be possible that the next generation of our graduates will possess better knowledge of economic matters and greater concern about their moral implications.

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