M. R. GRIFFITHS & J. R. LUCAS

VALUE ECONOMICS

THE ETHICAL IMPLICATIONS OF VALUE FOR NEW ECONOMIC THINKING

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palgrave
macmillan

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ISBN 978-1-137-54186-4 ISBN 978-1-137-54187-1 (eBook)
DOI 10.1057/978-1-137-54187-1

Library of Congress Control Number: 2016956422

Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature
The registered company is Macmillan Publishers Ltd.
The registered company address is: The Campus, 4 Crinan Street, London, N1 9XW, United Kingdom

Preface

The last financial crisis revealed a gap between business practice and ethics. *Value Economics* examines some of the reasons for this "ethical" gap, the resulting loss of confidence and trust in the financial system, and the ability or otherwise of the regulatory authorities and economic planners to forecast and control the economic factors which led to the crisis. One of the reasons has been hazy or inadequate thinking about how we "value" the outcomes of economics and business practice, and relate the compensation of business and financial executives to the creation of economic value, as opposed to monetary wealth. We believe that the creation of economic value and business ethics are closely linked, and propose that economic value should become the basic criterion and metric for evaluating economic performance, and that businessmen as economic operators should be accountable for answering the question: "What is the economic value you are creating not only for the shareholders but for all stakeholders in your business enterprise?"

The book examines the rationality of a number of philosophical principles for business practice, all of which relate to the objective and task of creating economic value. This leads us to reconsider how all stakeholders participate in the economic value of companies, and how we distinguish between total shareholder return (TSR) and value (TSV). We also look at the possibility of greater employee participation in decision making and ownership, not through nationalization, but through the allocation of shares in the companies for whom they work. We also propose that the concept of economic value be applied to public enterprises in evaluating both their social and capital efficiency in providing public services. The result of this kind of economic thinking is to see business, both private and public, as primarily a non-privative, participative and sharing activity, with an important component of philanthropic giving—a concept of business which will lead to a redefinition of "Economic Man" as both a social contributor and profit maximizer.

With this emphasis on business as a participative "shared value" activity, the principle of profit maximization is conditioned and modified in light of the different "self-interests" of all parties involved, and of how economic value is to be shared between all of the stakeholders. If this kind of economic thinking is accepted, it has implications for seeing economics as a moral as well as an econometric science, the arguments for which the book opens, and also for revisiting or revising the philosophy of economics and business ethics with which the book ends in calling for a closer working relationship between the "practical" businessman and the "theoretical" expert—whether economist, financial advisor or regulator. The book, written by a businessman and a political philosopher, hopes to make a contribution to new economic thinking on the part of the "experts" in a way which will engage and convince the businessman in looking at ways for making business a more participative and sharing activity in terms of its organization, management and remuneration.

In the end the book's success has to be judged by whether or not it makes a contribution to recreating that confidence and trust on the part of business in the financial system within which it operates, and also of the general public, epitomized by the man on the Clapham Omnibus, of which he is an inseparable part. In looking at the implications of value for business ethics, the book seeks ways in which codes of business ethics can enter into the DNA of a business organization, and avoid the risk of such codes becoming a list of "motherhood" statements to which only "lip service" is paid. The challenge is how the ethical principles of honesty, fairness, transparency and accountability are to be incorporated into business practice. For this reason we look at the "greed is good" mentality, and the tendency that we are not always honest, if given the opportunity not to be so. In this context we look at what we mean by business “excellence”, which can be seen as the “virtue” of a businessman in creating economic value, which in the end determines how successful business is going to be in achieving economic justice—which remains the “end” of all economic activity.

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Introduction

Abstract This book is a sequel to *Ethical Economics*, published by Macmillan Press and St Martin's Press in 1996, which investigated rational philosophical principles for economic activities and business behaviour. As a sequel it looks at the validity of these principles following the last financial crisis, but with the additional objective of taking a new look at how we define and measure economic value, and how the creation of value relates to business ethics. In this Introduction we set the scene for *Value Economics* by summarizing those principles for business we examined in *Ethical Economics*, and how they relate to some of the unanswered questions facing modern capitalism today. Finally, we describe the structure and contents of the book, and suggest how it can be read as a Compendium for new economic thinking. We have tried to write the book in a way which will engage the interest of businessmen, as well as economists, regulators, financial advisors and students of business in general.

One key theme of *Value Economics* is to take a new look at how we value the results of economic activity. The complexity of doing this is well expressed in a remark attributed to Einstein when he said: "Everything which can be counted does not necessarily count; everything that counts

M.R. Griffiths, J.R. Lucas, *Value Economics*,
DOI 10.1057/978-1-137-54187-1_1

cannot necessarily be counted." The relation between price and value remains a key issue for economics. In the words of Warren Buffett, "Price is what you pay: Value is what you get" a phrase which echoes Oscar Wilde's famous definition of the cynic as "a man who knows the price of everything and the value of nothing".

1.1 Rational Principles

It was the aim of *Ethical Economics* to think out the nature of business and economic activity from first principles, and to see how these relate to other forms of social interaction, and to draw fine distinctions about selfishness and self-interest, morality and values, cooperation and conflict, and rights and responsibilities, as they relate to business decision making. Our purpose was to gain a clearer appreciation of the nature of business, and to avoid the danger of identifying profit with selfishness, and prudence with immorality, so that those who are engaged in taking business decisions can work out for themselves the ethical considerations they should take into account when defining the policies which determine those decisions. The key conclusions to emerge from this investigation challenged those false images which see "Economic Man" solely as a self-interested profit maximizer with scant regard for the requisites of corporate social responsibility.

A key conclusion of Ethical Economics was that it is rational to see business as a "non-privative", as opposed to a "privative", activity, where the rational principles of business management are cooperation, not conflict, and service, not exploitation. It is rational to see business in terms of the Prisoner's Dilemma as a "non-zero-sum game" activity, where we have to take into account the needs and interests of the other parties involved in a business transaction. The cardinal principle is one of "alteritas" (consideration of the "Other"), which supports the rationality of regarding business as a non-privative activity, where, by its very nature, we need to "empathize" with the interests and values of all those involved in that activity—shareholders as well as all the other stakeholders. Another important conclusion was to see money not as an inert amoral substance but rather as "encapsulated" freedom of choice, which allows "consumer preferences" to be realized in the multivarious world of market economics. Encapsulated choice is a prerequisite for economic freedom, but the exercise of that freedom has to take account of the moral imperative of "alteritas", where the individual freedom of choice of the "other person" is the criterion for the organization of markets, but within the context of a "level playing field", which assists, regulates and controls the freedom of market choice. The "alteritas" principle involves letting people "do as they like" but within the constraints of "what other people also want to do", and the broader dictates of society where human welfare and well-being are the purpose and end (telos) of economic activity. The individual member of society is, as Aristotle put it, a social as well as a political animal, which means that the dictares of self-interest have to adjust to the self-interest of the other. How do we reconcile conflicts between two different "self-interests"?

The ends of economic activity have to be judged in terms of the economic justice they are achieving or impeding, and how successful they are in satisfying the needs of human welfare in removing the inequalities of wealth, poverty, health, discrimination and conflict. If business is to gain the respect of the general public for the legitimacy of what it is doing then the businessman, as "Economic Man", has to demonstrate that he is a rational moral being, with a clearly defined and understood social role, and not just an economic manipulator of resources. Profit maximization is not irrational or immoral when it encompasses not only "shareholder return" but also the return for all stakeholders, which leads to the concept of "shared value" in economic affairs. The interest in looking at the rationality of economic activity in this way, and the moral issues involved, was widespread in the reactions to *Ethical Economics*, but, as a result of the last economic crisis, people were asking what we need to do to improve the institutional and self-regulatory controls of economic activity, and the procedures for conducting business in terms of the creation of economic value and the ethics of business in general. These procedures need to address the increasingly complex nature of risk management, and systems for the prediction and control of free markets, which take into account the normative (ought) aspects of economics, and the ethics of business behaviour in a global environment. As one graduate economics researcher from the European University Institute in Florence put it: "As economists we are mainly concerned with economic predictive modeling systems paying little or no attention to the ethical issues regarding economic activity."

This kind of reaction, and our belief that in *Ethical Economics* we may have underplayed the importance of practical codes of business ethics in setting business objectives, has led us to reaffirm Keynes's belief that economics is a moral, as well as a mathematical, science. Moral considerations inevitably play a part in business decision making, and a businessman should take responsibility for the ethical implications of what he is doing. Ethical codes are important, but of themselves they will not change behaviour unless they become part of the DNA of a business organization in terms of "this is how we do business", which is clear to all those both within and outside a firm. We hoped that by discussing the rationality of business in terms of its ethical as well as its "profit" responsibilities, *Ethical Economics* may have contributed to strengthening the legitimacy of business in the eyes of the general public and society at large. The "healthy" sales of *Ethical Economics* indicate that we may indeed have succeeded to some extent in doing this. However, following the recent financial and economic crisis, and patent examples of malpractice in business, pace Enron, there has been a crisis of confidence and trust in business leadership, and indeed in the ability of the modern capitalist system to protect the interests of the "poorer" members of society in terms of employment and economic well-being. People have asked why the "experts" were unable to regulate and control the economic activities and debt levels of individual nation states within a global environment, which has been manifested in the boom and bust experiences that have occurred over the past twenty years. Why were the lending policies of individual national banking systems not controlled in allowing the risks involved in such things as subprime mortgages, which led to the solvency crisis of major financial institutions when, as Alan Greenspan said, "an infectious greed seemed to grip much of our business community"? And why was it possible for banking compensation systems to become so misaligned between the creation of short-term and long-term value?

As a result of these and similar questions, *Value Economics* seeks to take a new look at the way we measure and control the "economic value" which business is creating, and how the creation of wealth should be rewarded. What are the implications for "value" accounting and control, and for relating value to business ethics? Another of the purposes of *Value*

Economics is to look at how we relate the creation of monetary wealth to economic value, and to propose that "economic value" become the basic metric for measuring business performance, and for evaluating the over- or undervaluing of market share prices in relation to economic value. As Alan Greenspan put it, "how do we know when irrational exuberance has unduly escalated asset values?" We propose that one way could be to have mechanisms which compare market share prices with the economic (or intrinsic) value of those shares. As there are many ways of defining value in economic terms, which *Value Economics* considers in detail, we propose that "economic value", defined as operating profit after tax (NOPAT) less the cost of capital (COC), should become the first measure for establishing whether or not an economic enterprise is creating value. This has implications for economics as a moral, as well as a mathematical predictive science, since the concept of "value" has moral implications, which manifest themselves today in such things as the increasing inequalities now emerging in the distribution of incomes. New concepts of economic value are now emerging in the form of welfare and environmental economics, and "Triple Bottom Line Accounting," which measures not only the profitability "value" of the traditional statutory accounts, but also the social and environmental "values" of economic activity.

Value Economics also proposes a number of philosophical principles for economics, which can be linked to "value creation" and codes of business ethics related to the specific functional job descriptions of any business organization. Every job has an impact on the creation of "economic value", in terms of productivity, cost efficiency and departmental effectiveness and profitability. In this way the "value" of what each person is doing becomes the criterion for setting objectives and measuring performance, so that "value orientation" becomes part of a company's business philosophy, and the creation of "economic value" the motivating force for economic and business decision making.

1.2 Modern Capitalism

Since 1996 the debate between two principal undercurrents of economic theory, Keynesian "aggregate demand" and Friedmanite "monetarism", has continued leading in the aftermath of the last financial crisis to a dispute between the supporters of austerity or not, as the key for resolving the problems of the most recent economic crisis, and for achieving acceptable levels of public debt. But, as we said in 1996, the debate is between those who are primarily egalitarian in their desire to achieve a fairer distribution of wealth in reducing the economic inequality of incomes, and those who insist that the maximization of profits has to be the prime purpose of business in creating the economic wealth to be distributed, and that income differentials will and must always exist. But an unresolved problem for modern capitalism is how to reduce the increasing difference in compensation between the top and bottom levels of company remuneration, where the difference has now been estimated to be about 300 times—compared with 20 times in 1965. This economic discussion is further complicated by the different opinions of those who see public debt as a suffocating load on the private economy and those who see debt as an investment in the future. In the UK this became an argument between Gordon Brown, as Labour Chancellor of the Exchequer and then Prime Minister, whose plans for public investment, and rash claim that the days of boom and bust were over, were rudely shaken by the last global crisis (the reasons for which are set out in his book *Beyond the Crash*), and the Conservative Chancellor of the Exchequer, George Osborne, who accused Brown of being an irresponsible public debt creator, and who championed the cause of rigorous public debt reduction and a balanced budget. And in the USA economists like Paul Krugman are looking at public debt in another light where they believe that austerity is not the answer, since it penalizes above all the lower paid members of society in terms of unemployment.

The debate, however, suffers from a lack of analysis and definition of the economic values at stake, and particularly the economic value being created by public investment in social services such as the NHS, and what the expenditure on these services should be in relation to other commitments such as defence and overseas aid. This raises the need for the introduction of new economic thinking about the whole question of the appropriate relationship between the private and the public sectors, and the issue of how to reassess the "private good, public bad" mentality, which still remains a largely unresolved question for modern western capitalism. In most economic debates the word "value" is curiously absent, and even the Labour Shadow Chancellor in the UK, John McDonnell, in calling for an expansion of the Bank of England's mandate from "inflation targeting" to include "growth, employment and earnings", made no reference to the "economic value" of what all these factors should be creating and protecting. Modern capitalism is thus often being conducted without a thorough economic analysis of the costs and benefits of the private and public sectors where one side is singing the song of "private good and State bad", and the other that of "State good and private selfish bad". So, the debate risks becoming a populist ballgame, with each side trying to outplay the other, which makes a serious debate about issues like these difficult, if not impossible. For example, way back in 1968, the London *Times* (28 September 1968) had a leading article entitled "Spreading the Wealth" in which it proposed that "more of the nationalized industries should be denationalized by a general distribution of shares", which raised indignation that "the State is a separate entity from its citizens and has no right to distribute its assets to its citizens, even if it is not argued that the State has no right to tax the citizens' assets". "Spreading the wealth" is just as lively an issue today as it was then, and is a subject which *Value Economics* considers in terms of discussing how remuneration could be related to the creation of economic value.

In July 1975, *TIME* magazine published an article called "Can Capitalism Survive?", which still remains a good vade mecum on the subject, and which also considered the issue of wealth inequality. The article proposed that the argument between capitalism and authoritarian economic systems boils down to two questions: Which system can make the most efficient use of manpower, materials and money to create the greatest opportunities for free choice, personal development and material well-being for the greatest number of people? And which system is more just and satisfying in human terms? This was written twenty years before the fall of the Berlin Wall, leading to the development of Russia's form of communist capitalism, which today is trying to combine state capitalism and free markets in an attempt to reduce the disparity of wealth between the rich and poor. The outlook is not encouraging, however, given the arrival of the new Russian plutocrats. The article was also published before China surprised the world with its new form of state capitalism underpinned by the Tao Yin Yang philosophy of duality forming a whole. Across the water we find the Japanese form of capitalism with its interlocking share ownerships, and network of cross-shareholdings, which is today struggling with the effects of stagflation (high inflation, low interest rates and low levels of economic growth) after the golden years of its economic growth and outstanding product and managerial (JIT) innovation. So, today western capitalism, with its emphasis on production privately owned, private property and deregulated markets, is competing with a number of variations on the private/public theme. The debate continues. More recently, we have had Anatole Kaletsky's article "How to Save Capitalism" in Prospect magazine (August 2010), proposing that the boundaries between State and market will be redrawn, and warning that the "NHS has become an incubus, sucking the life out of all other public services, which have to be starved of funds to meet its insatiable demands", which has undertones of the "State not good" mentality referred to above. How are we to evaluate its insatiable demands if we have no idea about the NHS's economic value, and, like any business, its investment needs as an "ongoing" business in the future? Is it unreasonable to ask the question, "What is the economic value of the NHS?", which puts on the table the fundamental economic philosophical question of what is the "value" relationship between the private and public in economics.

New economic thinking about capitalism is taking place in a number of different ways. For example, in a recent article "The Rise of Anticapitalism" (*INYT*, 3 March 2015), Anthony Rifkin looks at the new infrastructure of technology—the so-called Internet of Things—in possibly pushing much of economic life to near zero marginal cost over the next two decades, and the increasing importance of non-profit organizations. Thomas Piketty's bestselling book *Capital in the 21st Century* discusses what might be done to tackle the rising inequality problems evident in modern capitalism, and how to "spread the wealth". The debate also encompasses the future of work, which Charles Handy was looking at more than twenty years ago in books such as *The Empty Raincoat* (1994), well before the full impact of the Internet revolution, discussed by Anthony Rifkin, reached us. In the 1990s many thinkers became excited about the concept of the Third Way with books such as those by Tony Blair *The Third Way: New Politics for the New Century* (1998) and Anthony Giddens, *The Third Way: the Renewal of Social Democracy* (1998), but interest in it for economics and business never really took off. Anthony Giddens's theory of structuration, and reference to the endemic conflict between capital and labour, lacked detailed analysis and proposals for what the Third Way means for economic philosophy and business management. The concept was not taken up and fully worked out in terms of management theory either by the CBI or unions in the UK, although its potential for greater participation had already been considered in the Cadbury Report which led to new standards for corporate governance in the UK, and it was further developed by organizations like the International Organisation for Standardisation (ISO) with its ISO 26000 proposals for the development of corporate social responsibility (CSR). It is not the purpose of *Value Economics* to enter into a long discussion on the future of capitalism, but to flag some of the "economic value" issues for new economic thinking and for the way in which business is organized, managed and controlled, now that "Triple Bottom Line Accounting" has arrived looking at the social and environmental, as well as the economic, results of business enterprises. And within this context Samuel Brittan's *Capitalism with a Human Face* (1995) remains as relevant today as it did then in looking at the connection between economics and ethics, and in particular at the concept of wider ownership in "spreading the wealth" among those who create the "cooperators' surplus", or, in other words, "economic value", which remains a key challenge for modern capitalism and its legitimacy as a creator not only of monetary wealth, but also of economic justice. Debate and books about the causes of the last financial crisis abound, and many books, including *Masters of Nothing* by Hancock and Zahawi, *Going off the Rails* by John Plender, *The Financial Crisis: Who is to Blame?* by Howard Davies, *Boomerang* by Michael Lewis, *The Price of Civilisation: Economics and Ethics after the Fall* by Jeffrey Sachs, and *The Entrepreneurial State* by M. Mazzucato have all contributed to the writing of *Value Economics* in giving a new emphasis to the creation of economic value, and how it could be distributed between all contributors to the "cooperators' surplus" of a business.

1.3 Structure of the Book

Chapter 2 presents a case for seeing economics as a moral science, which, in combination with the statistical disciplines of econometric modelling, analyses consumer preferences, rational decision theory and the indeterminate nature of the outcomes of economic activity. **Chapter 3** considers cooperation and facilitation as rational principles for economic activity as a "non-zero sum" game, based on the recognition of the self-interests of the "Other" (the "alteritas" principle), which requires procedures for cooperation with all the stakeholders in a business enterprise. **Chapter 4** emphasizes the need to recognize the "slippery" and "sticky" nature of money as an instrument for conferring freedom of choice in satisfying consumer preferences and considers its potential for greed and self-aggrandizement, or for altruism and philanthropy, in the way it is used. **Chapter 5** considers the characteristics of a moneyed society in its social setting when meeting the demands of money for consumption, savings and investments in the private and public sectors of the economy. It looks at measures for calculating the economic and social value of a moneyed society, such as GDP, and quality of life measures such as the Human Development Index (HDI). It suggests ways in which businessmen as economic operators could be more involved in the setting of assumptions for economic modelling, in order to strengthen the relationship between the economist and the businessman in the management of a moneyed society. **Chapter 6** examines the "bubble" conditions which occur during business cycles, with examples from over the past twenty-five years, and calls for an analysis of how individual companies have been affected by these "economic bubbles" and responded to them. **Chapter 7** looks at the problems of unemployment and increasing inequalities of incomes, and the demand of employees for greater participation in decision making and profitability arising from improved productivity. We also look at how the "future of work" may change the nature of traditional employment.

All of these chapters discuss the economic factors which contribute to the creation of monetary wealth and the economic value of business enterprises. **Chapter 8** is a central theme of the book, proposing that we need to clarify and agree how to measure the economic value of business enterprises. We discuss the many concepts of value which exist today, and the concept of shareholder value expressed both in terms of Total Shareholder Return (TSR) and Total Shareholder Value (TSV), which has to be modified in light of "value" for the other stakeholders. Today value accounting in terms of the traditional statutory accounts is moving into the area of "Triple Bottom Line Accounting" covering economic, social and environmental results. As a start, we propose that economic value (defined as NOPAT less the cost of capital), become the basic metric for measuring the value being created by an economic enterprise, which can also be combined with the analysis of free cash flows. Such a metric could also be used for comparing economic value with market share prices to see whether "market exuberance", to use Alan Greenspan's phrase, is over- or undervaluing the economic value of a company, which, we argue, is a valid and comprehensible measure of a company's worth at any one moment in time. Economic Value in this sense can also become the measure for setting the objectives of value based management. The last financial crisis revealed a mismatch between performance compensation and the creation of short- as opposed to long-term value. **Chapter** 9 looks at the current state of the art for performance-related compensation, including stock options and other instruments for participation in the performance and ownership of a business enterprise, and makes suggestions for using economic value as the basic measure for relating compensation to the creation of value.

Chapter 10 looks at the needs of regulation and control from a "businessman's" point of view, and calls for the use of "economic value" in regulatory reporting and control to get the balance right between economic value and solvency. **Chapter** 11 considers the concept of "Triple Bottom Line Accounting" for social Accounting in terms of social and environmental results, and the use of the Social Balance Sheet, or Sustainability Report, for providing economic and social information for all stakeholders and how it can be used for their economic education. It also looks at how these reports can be structured, including Codes for Business Ethics and Rules of Conduct. **Chapter** 12 presents some principles for a definition of economic philosophy, and how they can be incorporated into practical codes of business ethics. It proposes that the creation of economic value is an essential component of economic philosophy, and how this can be related to what we mean by "management excellence" in setting objectives and measuring performance. In discussing economic philosophy and theory we make a call to avoid the danger of "econospeak" in communicating with the businessman, and to involve him or her more in the setting of assumptions for econometric modelling which take account of the experience and needs of the different sectors in any economy. The final chapter, **Chap.** 13, summarizes the key conclusions of the book in looking at the principles of economic justice on which codes of business ethics could be based. It also proposes a number of questions for further study to analyse the financial crises of the past twenty years and the effects which they had on the economic value of specific economic sectors and individual companies within those sectors, which could possibly be conducted by the Bank of England, in conjunction with the London School of Economics and the newly founded Institute for New Economic Thinking in Oxford. The purpose of this would be to answer a set of five strategic questions for new economic thinking with the aim of deciding how economic value and economic justice can be combined to strengthen the basic concept of *Value Economics* which sees business as a participative, non-privative, and "shared value" activity within the wider social framework of "Triple Bottom Line Accounting".

How to use the book To ease the reading of the book each chapter is preceded by a short abstract, and an overview of each chapter, before the chapter itself. The purpose of this is to provide a quick read through the abstracts, or a slightly longer first read through the chapter overviews, which are about 15 percent of the main text. The chapters are also written on a "stand-alone" basis, so that the book can be used as a "Compendium" for looking at the ethical implications of value for new economic thinking.

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2

Economics as a Moral Science

Abstract The purpose of this chapter is to reaffirm economics as a moral science, which, in combination with the mathematical disciplines of statistical analysis and econometric modelling, analyses economic activity in a way which takes account of consumer preferences, rational decision theory, and the inherent variability and indeterminacy of human behaviour. It considers the moral dimension of economics in the Kantian sense that we should act in a way that treats people never merely as a means, but always also as ends in themselves, and looks at the relationship between the moral and the natural sciences, believing that the two can "bed down" together in the quest for verifiable truth and justice in human affairs. It also looks at the human dimension of economics in terms of Adam Smith's concepts of sympathy and virtue discussed in *The Theory of Moral Sentiments*, but always in the light of the principles of uncertainty and unpredictability contained in Heisenberg's uncertainty principle and Gödel's "Incompleteness Theorem".

M.R. Griffiths, J.R. Lucas, *Value Economics*,
DOI 10.1057/978-1-137-54187-1_2

2.1 Chapter Overview

If economics is concerned with human affairs, it cannot just be limited to the statistical analysis of macro- and microeconomic events, but needs to understand the human motives which influence economic behaviour and determine consumer preferences. The axiom of classical economics that "Economic Man" is concerned solely with the maximization of profit needs to be reviewed with regard to the responsibility he has towards other people and society in general, which introduces a moral dimension into the study of economics in the Kantian sense that "we should act in a way that treats humanity never as a means but as an end". Economics cannot ignore the normative question of "what ought to be" which results from the statistical analysis of "what is", and the moral implications of economic conclusions. This gap between economics and ethics has been summed up by Amartya Sen when he says, "Economics has been substantially impoverished by the distance which has grown up between economics and ethics".

The natural sciences have great prestige and the moral sciences are sometimes considered to be inferior because they do not conform to the strict principles of the "scientific method". But a comparison of the two disciplines can be useful in highlighting the differences between the scientific rationality of strict uniformity and causality, and the rationality of the moral sciences which has to be adaptable to the non-uniformity and random causality of human beings. This requires an empathy, or "verstehen," of human insight when investigating the rationality or irrationality of human behaviour. Some thinkers believe the two disciplines to be incompatible, others feel that they can be compatible if there is a "synthesis" between the fixed knowable laws of Newtonian physics, and the less fixed moral laws of cause and effect. Kant's theory of the "categorical imperative" asserts that moral law is a principle of reason itself whose motive is the "worthiness of being happy". Even if neuroscience may hope one day to demonstrate scientifically the nature of happiness, it is a subject which hitherto has remained outside the province of natural science, and been left to the study of philosophy, although the concept of "happiness" is inherent in the study of welfare economics and utility maximization.

So, the natural and moral sciences have an opportunity to bed down together, with the natural sciences examining the reality of the universe and its structure, and the moral sciences the reality of being a human being in terms of psychology and "Free Will" in decision making. Both the natural and moral sciences look for a "certainty" that their axioms and conclusions are right. Moral certainty is characterized by that high degree of uncertainty and randomness we find in Chaos Theory, which studies the behaviour of dynamic systems highly sensitive to the "initial conditions" which determine their nature in the first place, and where one small change or error (the so-called "butterfly effect") can lead to a totally unexpected future event. Moral science has to accept that people make mistakes, and the same principle applies to econometrics where small changes or errors in the initial assumptions can invalidate the certainty economists seek in predicting the future nature of economic events and outcomes.

The last financial crisis has also called for new economic thinking, which led to the creation of the Institute for Economic Thinking (INET), financed by the billionaire investor George Soros. We need to widen the study of economics to include the other human sciences which look at the motivations of human behaviour. The Classical Economics axiom that profit maximization is paramount in economic decision making is "skewed", if it ignores the human dimension of that decision-making process. There are indications that we are moving away from the idea that economics is a "hard value-free science" as neuroeconomics and welfare economics tackle the questions of how human beings take decisions and how economics contributes to the "well-being" of society. Economic Sociology attempts to investigate ways in which Weber's "disenchantment" can be resolved in bridging the gap between economics as a mathematical science and a human science.

It is useful to look again at the implications of Adam Smith's *The Theory of Moral Sentiments*, which discusses the importance of sympathy and virtue as we engage in the task of creating the "wealth of nations". The neglect of such human motivations has led, in the words of Amartya Sen, among other things to a neglect of the "connection between ethics and economics". But defining a new paradigm for economics in terms of cooperation and facilitation between all the stakeholders in an