

Introduction to Ethics and Economics

John Nevile

The first essay in this volume is a very generous and gracious article on the part my Christian faith plays in my work as an economist. It is not my place to comment on this essay except to provide a little historical background. From the first year in which I studied economics, in 1950 at the University of Western Australia, I had no doubt that a person's faith, or ideology, or world view should provide an underpinning for one's work as an economist. This was both appropriate and inevitable. Equally appropriate and inevitable was that it affected the conclusions to which one came as an economist. In those days of a brave new world of Keynesian economics it was easy to see a relationship between a faith that firmly believed in God's concern for all human beings and an economics which would save Australian society from the horrors of the depression of the 1930s, of which I had some personal memories. Incidentally, the parochialism revealed in the last sentence was clearly there in practice, but would have been denied on principle if anyone had challenged me about it.

The growth from that first-year student understanding of the relationships between values and economics is of little interest to anyone but myself. Suffice to say that a graduate course on welfare economics given by William Baumol at the University of California at Berkeley brought me more or less up to date with the controversies in economic journals of the time, which ranged from Lionel Robbin's position on the essential nature of economics to D. H. Robertson's arguments with Paul Samuelson over the measurement of utility, which in my view Robertson won easily.

Be that as it may, my understanding that the Pareto concept was devoid of any moral content was now matched by the realization that it was equally useless in the context of measuring economic efficiency. It is true that Hicks's synthesis of earlier work by Hotelling and Kaldor produced a criterion which was for a short time influential. This criterion stated that if the winners could compensate the losers this indicated that national income

had increased whether or not compensation was paid. This proposition is discussed in Chapter 3 of this volume. It was soon discredited in the economic literature when Scitovsky pointed out that if compensation was not actually paid income distribution could change and with the new preferences in play a change back to the original position might again indicate an increase in income. Since Hicks was using revealed preference analysis this criticism was fatal.

The next stage in my understanding of the relationship between values and economics was when I was able to contribute as well as learn. Fast forward about 25 years to the last quarter of the twentieth century when my intuitive feeling that policy makers should have advisors who shared their values was formalized.¹ Moreover, this was done in a way I had not seen set out in the literature. In this volume I have included, as Chapter 6, a late version, in which the argument is set out fully and clearly.

In one sense the argument in Chapter 6 goes further than rejecting the widespread view that it is possible to separate positive and normative economics. Although, at least with hindsight, facts may appear to be unambiguous, historical records, one's understanding of what happened may differ according to one's values; "facts and values are not mutually exclusive categories". This quotation, used in Chapter 10 of this volume, refers to what Walsh and Putman have called "the entanglement of fact, theory and value".

Thus, my ideas about values and economics can be summed up as a progression over time of three different types. The first, for very roughly 15 years starting in 1950, were those of a student absorbing, with increasing understanding, the economic literature of the time. This was followed by a period of making my own contribution, at first only with intuitive ideas, but developing into formal economic analysis in the last 15 years of the twentieth century. Then, in the first four or five years of the twentieth-first century, I learnt from others the concept of "entanglement of fact, theory and value" which put beautifully a very vague idea lurking at the back of my mind.

The first piece of my own work in this volume, Chapter 2, is an extract from a slim volume written in response to concerns about the ethical nature of an economy in which the main motivation is the love of money, or, more accurately, the love of things that money can buy. I have put it "up front" because the extracts emphasize that the benefits of a market-driven capitalist economy that flow from decentralized decision making, must, if the economy is to work, be restrained by a moral code. P. N. Junankar drew my attention to a quote from George Bernard Shaw which makes this point very effectively.

That any sane nation, having observed that you could provide for the supply of bread by giving bakers a pecuniary interest in baking for you,

should go on to give a surgeon a pecuniary interest in cutting off your leg, is enough to make one despair of humanity. [George Bernard Shaw, *The Doctor's Dilemma*, 1911]

In fact, with the resurgence of market liberalism, or economic rationalism as it is usually known in Australia, there is a choice between two codes. One is upholding the welfare state including the premise that a healthy welfare state depends on keeping unemployment to a minimum. The other, based on Hayek's book, *The Road to Serfdom*, and even more on the influence of his follower, Milton Friedman, puts the cost of inflation centre stage in formulating economic policy and advocates using monetary policy as the major policy weapon to combat inflation. Not surprisingly, I favour the first option for reasons set out in Chapter 3.²

Chapter 3 distinguishes two ways in which macroeconomic policies may be just or unjust. The first is the obvious one, the effects of the policies on individuals and groups in the community. But one has to look beyond this. The nature of the policy instruments used may help or harm individuals quite apart from the effects of the goals of policy or to the extent to which they are achieved. There is also a third way injustice may occur; that is, due to the actions of the bureaucrats administering the policies. I have written little on this but it is briefly discussed in Chapter 5 drawing on the 2003 review of Work for the Dole carried out by my daughter Ann and myself.³

While Chapter 3 argues strongly in favour of the first of the two codes, it does not examine in detail the costs of unemployment. The importance of these costs must be discussed as part of a complete case for the first code. This is done in Chapters 4 and 5. Chapter 4 concentrates more on hard costs that can be measured to some extent using statistical data. Chapter 5 looks more at soft data and indicates how unemployment can sap people's self-confidence and even their sense of identity. Chapters 3 to 5 provide the necessary background to the discussion of economic rationalism in the next four chapters.

Chapter 6 serves two distinct functions. As noted above, it is a late version of my formal argument that policy makers should have advisors who shared their values in which the argument is set out more fully and clearly than in earlier versions. In this context it also outlines the basic tenets of economic rationalism and emphasizes that economists writing about economic rationalism were trying to encourage a political movement rather than establish a new school of economics. This latter point was even more true of overseas English-speaking economists who generally called their discussion "market-liberalism" or sometimes just "neo-liberalism". In the following three chapters, as originally published, both the discussion of the tenets of economic rationalism and its nature as a political crusade were summaries of material in Chapter 6. They have been omitted in the versions included in this volume as readers have the fuller version to hand.

Chapter 7 is about the effects of deregulation on the welfare of the less well off. While it is mostly descriptive, it ends with a question which provides a good link between the preceding and subsequent chapters.

Labour market deregulation has not proceeded anywhere near as far as many would wish in Australia. Yet it may have already proceeded far enough to undermine a viable incomes policy.

Chapter 8 does praise some valuable results of economic rationalism but these are not enough to offset the increased unemployment caused by giving priority to reducing inflation rather than reducing unemployment. These, set out in Chapters 3 to 5, are also discussed in the section on human rights. Chapter 8 includes material from a study I had published three years before, which is described in full in Chapter 9. In this volume Chapter 9 is in effect an appendix to Chapter 8.

Most of my publications in the section on "Human rights and social justice" are jointly authored with Peter Kriesler who has commented on them but I am the sole author of Chapter 16. This chapter was written at the request of Peter Kriesler and it is included mainly because what it says is very relevant to the material in Chapter 8, even more so now than when it was first published. However, I am also glad to include it as it marked the start of my very fruitful collaboration with Peter on human rights and social justice.

In the comments by Peter Kriesler that follow mine in this introduction Peter sets out the basis of his position on ethics before discussing his contributions in this volume on social justice. In my case Chapter 1 does that. However, I would like to conclude my introductory remarks, with a brief piece of "potted theology"⁴ which is an elaboration of one sentence in that chapter. Many Christians think of their faith as a personal thing that is of no concern to anyone but themselves and God. Despite this, both historically and today, the vast majority of Christians see, as central to being a Christian, being part of a local community that together assesses what it is doing and how its performance can be improved. However, God's concern reaches far beyond Christian communities, notably to nations and ethnic groups. Hence, what local churches, both corporately and through members acting on their behalf, do to change Australian policies, such as our treatment of refugees, is an important part of their performance. It also provides an underlying rationale for all advocacy of social and economic policies by Christians.

Peter Kriesler

The first essay in this volume is a joint essay with John Langmore that pays tribute to John Nevile and looks at the ethical dimension that underlies his work, and which Geoff discusses below. This ethical dimension and the associated concern with social justice is an important part of our collaborations

on employment and labour rights which are reproduced in the second part of this volume. John's emphasis on these issues was an important motivating factor for these collaborations.

My own views as to the importance of human rights in general, and as standards by which to evaluate economic policy in particular, emerged from my relativist view of ethics. I have always believed that there is a strong cultural and materialistic base for the determination of social and individual ethics – a position that developed further with my understanding of Marx's materialism. According to this view, ethical judgements vary between cultures and are determined by the material base of the economy – which is always evolving. However, this clashed with my belief that there are some eternal invariant ethical truths – certain things were simply wrong, regardless of the social or material base. For me, some obvious examples are the holocaust, genocide, racism and sexism. This suggests that there must be some ethical values which are independent of society and the material base. I discussed these issues with Joseph, an intellectual undogmatic Marxist, at great length when I was a graduate student. In the end, I realized that these invariant ethical truths were the result of our humanity, and reflected the rights that we owe other people – in other words, they are fundamental human rights. Reading the *Universal Declaration of Human Rights*, I realized that this embodied those universal truths which were independent of social and cultural norms. It is these rights which form the basis of my views on social justice. Through my collaboration and discussions with John, I realized the importance of the right to employment, to a decent job. As we argue in the essays reproduced in this volume, employment is about much more than merely providing income. A person's job helps define their role in society, and has important implications for their status and well-being. Unemployment is associated with a number of serious social and medical problems, from the breakup of families, loss of self-esteem, physical and mental health problems and increased crime.

Chapters 11–15 are concerned with the different aspects of these rights. In 2007 the Australian Institute of Employment Rights published *The Australian Charter of Employment Rights*. The purpose of the book was to develop a blueprint to define the rights of workers and employers. John and I contributed two chapters to the book. Chapter 12 argues that there should be a societal obligation to provide a right to work. Chapter 11 offers an “economic perspective on workers' rights”, by considering the argument that providing workers with employment rights imposes a cost on the economy in terms of lost output or increased unemployment. The mainstream arguments against rights is that they, either directly or indirectly, increase the cost of employing labour, which will reduce employment. On the other hand, improved rights may lead to increased demand and also, by improving workers motivation, increased productivity. The actual evidence shows that employment rights do not have any detrimental impact on either

employment or output, but, rather, lead to improvements in equity and to fairer outcomes.

The global financial crisis had a severe impact on employment throughout the world. Chapter 13 reiterates the importance of the right to a decent job, and outlines policies to restore full employment as soon as possible.

Chapter 14 looks at how labour market deregulation erodes workers' rights, in particular, to a fair and decent wage. Minimum wages reduce inequality; whereas the increase in inequality consequent on labour market deregulation has adverse effects on the economy in the short run and disturbing longer-run effects on society.

Chapter 15 re-examines the right to full employment, showing that many other rights, such as those to adequate health and well-being, are contingent on it. We argue that the existence of significant levels of unemployment is an abdication of that right. Since governments can always reduce unemployment by fiscal policy, the chapter considers why the situation is tolerated. It argues that there are two reasons for this. First, the benefits of reducing unemployment are underestimated because the costs of unemployment to the individual and to the community are often neglected. Secondly, the costs of reducing unemployment are significantly overestimated due to the widespread use of an inappropriate economic model to estimate these costs. A more plausible alternative model is used to evaluate the impacts of reducing unemployment – which we argue confers benefits rather than costs. A feasible policy package is then suggested as a way to restore full employment.

My final essay in this volume is on the theme of the biographies of economists. The role of biographies in humanizing the subject, making it more interesting and presenting the stories of the individuals who are responsible for major developments is important. Biographies can also throw light on why ideas develop, and put those ideas and economists into context. The other papers in this final section of the book are excellent examples of precisely this point. The last chapter by Joseph on Sylos-Labini highlights his intellectual and ethical role, demonstrating how he was able to unify the historical with a theoretical approach.

Geoff Harcourt

In October 2012, the School of Economics at UNSW celebrated John Nevile's 80th birthday (and getting on for 50 years at UNSW) with a conference at the School. At the conference a number of John's admirers presented papers which subsequently were published in a special issue of the *Economic and Labour Relations Review* with which John has been associated since its inception. In our paper, the first essay in the volume, John Langmore, Peter Kriesler and I traced the influence of John's deep Christian faith and values on his many important contributions to economic theory and policy.

In 2010 Philip Arestis kindly organized a session about my contributions at the Annual Conference of post-Keynesians in Bilbao. The carrots were wonderful papers given by Stephanie Blankenburg, Claudio Sardoni, John McCombie, Philip Arestis and Malcolm Sawyer, and Lilia Costabile, all published in a special issue of *Intervention*. The stick was that I had to give a paper too! I wrote an autobiographical memoir in which I described how I became politically radicalized as a result of Australia's involvement in the Vietnam War and the impact this had on how I saw and did economics.

Since the 1970s I have been writing intellectual biographies and tributes. As I am now in my 84th year, it is not surprising that these are more and more obituary tributes. The four essays reprinted here illustrate this. Two are tributes to Phyllis Deane and Frank Hahn, former Cambridge friends and colleagues; both were published in the Cambridge Faculty's *Alumni Newsletter*. Phyllis and I were friends from the 1960s on when she supervised my Part I Trinity Hall pupils in Economic History and I supervised her Part II Newnham pupils in theory and policy. Subsequently I read most of her books in manuscript, we shared a room in the Faculty in the 1980s until the overflow of my surplus papers on to her desk led to her gracious withdrawal to work at the University Library and at home. Joan and I often enjoyed the wonderful hospitality that Phyllis and her life-long friend Joan Porter extended to us whenever our mutual friend, the late Mark Perlman, visited Cambridge. The traditional British fare cooked by Joan Porter was an ideal complement to the innumerable and extraordinary anecdotes about our trade with which Mark regaled us, holding forth in his three piece tailored suit and sporting the inevitable bow tie: such happy occasions to treasure.

Phyllis was one of the finest, balanced and honest persons I have been privileged to know. She was a pioneering outstanding scholar, modest about her achievements and a stout defender of the essential merits of economic history and the history of economic theory.

The essay on Frank Hahn is a longer version of the published version which Willy Brown's careful editing brought within the word limit imposed for space reasons. As I point out, Frank and I had many clashes but I regarded him as a major intellectual presence in the profession and the Faculty, one that has never been replaced since his death in 2013. In the Tribute I concentrate on his deep understanding of the economics of Keynes and Frank's courageous fight against the forces of darkness associated with Milton Friedman, Robert Lucas and their surrogates.

In July 2010 the *Cambridge Journal of Economics* through Stephanie Blankenburg organized a conference to celebrate 50 years on from the publication in 1960 of Piero Sraffa's classic, *Production of Commodities by Means of Commodities*. The object was to look to the future and to explore how Sraffa's great contributions would help the formation of relevant theory and policy. I opened the conference with a short tribute to Piero and to his,

and my, great friend, the late Krishna Bharadwaj. I reprint the tribute here as Essay 18.

The other two tributes are to Australian friends. Peter Kenyon was my Master's student at Adelaide in the 1970s after completing his Honours Degree at Monash. He worked on post-Keynesian themes and our joint article, "Pricing and the investment decision", Harcourt and Kenyon 1976, is the core chapter of his thesis. The article was described by Peter Groenwegen, never one to hand out compliments lightly, as his favourite theoretical paper of mine.

The story of the genesis of the article/chapter is perhaps worth telling. In 1966, before leaving Cambridge, where I was a University Lecturer in Economics and Politics and a Fellow of Trinity Hall, to return to Adelaide, I wrote the first draft of a paper with the same title and submitted it to the *Oxford Bulletin of Economics and Statistics*. It was rejected for a good reason. I deduced from the initials pencilled in on the copy that was returned to me that one referee had been George Richardson (G.B. Richardson), a really great but relatively unsung hero of British economics. He liked the idea of the paper but pointed out a serious logical flaw in the argument. (I subsequently lost the file in which I kept all the go to whoa correspondence and drafts so I cannot now remember exactly what the flaw was, something to do with inconsistent time periods in decision processes.)

In 1974 I spent three weeks in the Royal Adelaide Hospital for an operation on my large intestine, the blockage of which had nearly killed me. I took a monkey mask with me intending to put it on and then hide under a sheet before I was taken to the operating theatre. Unfortunately, a prior injection made me so drowsy I could not get to the mask. Not to worry: on the day I was discharged Peter was giving a progress report on his research. I took in his seminar on the way home, wearing the mask.

As I listened to Peter, the solution to the logical slip flashed into my mind. In a euphoric state, as soon as I was home, I sketched the theoretical argument of the paper and asked Peter to put the scholarship around it. I tell the story of how it came to be published in *Kyklos* in 1976, after rejection from the *Economic Journal*, in George Shepherd's 1995 volume *Rejected*, reprinted in Harcourt 2012.

Peter did not submit his Master's until after he returned from the University of Virginia as PhD, ABD (All But Dissertation) and started his distinguished career as scholar, wonderful teacher, good citizen and chef extraordinaire, ending up with a Chair at Curtin University in Perth. There his life was cruelly cut short by cancer, he was only 60 when he died. His partner, Jan Wright, and his huge host of friends and colleagues miss a fine, unique, human being and an insightful, down-to-earth, humane economist.

The other tribute is to Allan Barton. Allan and I started Commerce degrees together at Melbourne University in 1950, we were PhD students together at Cambridge in the 1950s, and colleagues for some years at Adelaide, and saw one another when Allan was on study leave in Cambridge or I was in

Canberra. His PhD dissertation was supervised by Austin Robinson; it was on multi-product firms. It was never published because Allan was such a selfless person, he put his own interests last on the lists of n things he had to do. He had told me that it contained the essence of Oliver Williamson's contributions, for which Williamson received the Nobel Prize. I often pestered Allan to publish the dissertation but to no avail. When he was dying of cancer, on my last visit to see him in Canberra, I conspired with his brother Graham to pinch (temporarily) Allan's copy of the dissertation. After he died in 2012, Selwyn Cornish, Richard Holden and I prepared a tribute to Allan for the *Economic Record*. Richard understands deeply the areas on which Allan wrote and he confirmed what Allan had told me. In the tribute there are incisive paragraphs by Richard documenting the case.

This was but one of Allan's many claims to have been an important and influential applied economist as well as the best Treasurer the ANU has ever had. *The Economic Record* has a rule of thumb that the "greats" get 1000 word obituaries and the "also ran rest", 500 words. The Philistines who now constitute its editorial board relegated Allan to the "also ran rest", writing him off as only an accountant. Jeff Sheen, to his credit, kindly interpreted 500 words very loosely. Nevertheless, I reprint here the longer version of our tribute, both to honour Allan and to show what a splendid and substantial person he was.

Towards the end of 2010, now back in my native land at the School of Economics at UNSW, I was handed an email by Viet Ha Nguyen (I don't "do" email so I employed Ha, then a PhD student at UNSW, to do email for me); the email told me I had been nominated for the 2010 Veblen-Commons Award of the Association for Evolutionary Economics in the USA. (I subsequently found out that it was awarded jointly with Jan Kregel, whom I regard as one of the greatest living all round economists.) I involuntarily exclaimed "Good heavens" and showed the email to John Neville who kindly lets me share Room 411 with him. I was flabbergasted but delighted; I knew Philip Arestis had nominated me but I never in my wildest dreams thought I would be so honoured.

The conditions of the Award include attending a lunch at the annual AEA meetings (they were held in Denver in January 2011) and delivering a paper at a lunch given by the Association. The paper was then to be published, sight unseen, in the *Journal of Economic Issues* as one of the outstanding papers given at the Meetings. I chose as my subject, topical themes in the writings of Veblen and Commons, and illustrated their bearings on theoretical and policy issues.

Notes

1. Or, if this was not the case in the days when senior public servants were not changed when governments changed, such public servants should be able to put themselves in the shoes of those they advised and give briefings which covered

both the wisdom of the public servants and the inclination of those the public servants advised.

2. Chapter 3 is an unpublished manuscript of an address given in 1999. It was revised very slightly in the light of the discussion following the address and then set aside, awaiting the necessary revisions and additions before it could be submitted to an academic journal. This never happened, partly because some major sections put in different words, material that had already been published. I welcome this opportunity to see it in print in the more informal language appropriate to an address.
3. The report on this is Nevile A and Nevile J,W. *Work for the Dole: Opportunity or Obligation*, Centre for Applied Economic Research, University of New South Wales, Sydney, 2003.
4. I say potted to make clear that the theology, and to a large extent the implications I draw from it, are second hand. If anyone wants to read a fuller discussion I recommend a small (84 pages) book, *Being Christian*, published in 2007 by Rowan Williams, the former Archbishop of Canterbury.