



WINTER ADDRESS

Morality and Markets

gospel of an economist

Lord Harris of High Cross



CENTRE FOR POLICY STUDIES



WINTER ADDRESS

Morality and Markets

gospel of an economist

Lord Harris of High Cross

CENTRE FOR POLICY STUDIES

8 Wilfred Street, London SW1E 6PL
1986

The author

From 1949 to 1956 Ralph Harris was lecturer in political economy at St. Andrew's University; and since 1957 has been General Director of the Institute of Economic Affairs. His publications include studies on advertising, hire purchase, welfare, monetary policy – and countless articles on the snares and delusions of central economic planning. In June 1979 he was created a Life Peer by Margaret Thatcher as Lord Harris of High Cross. He sits on the cross-benches. Having been brought up as a Methodist, he was confirmed into the Church of England about twenty years ago.

The text of this pamphlet follows that of his speech, delivered at a consultation on The Church and Social Policy which was held in the autumn of 1986 at St. George's House, Windsor Castle, under the joint aegis of St. George's House and the Centre for Policy Studies.

The Centre for Policy Studies never expresses a corporate view in any of its publications. Contributions are chosen for their independence of thought and cogency of argument.

ISBN 1-870265-00-9

© Centre for Policy Studies, December 1986

Printed in England by G. Donald & Co

Osiers Road London SW18

I AM SPEAKING HERE AT ST. GEORGE'S HOUSE, WINDSOR, not as an amateur theologian but as a professional economist concerned with moral values.

Allow me to start by asserting ten missionary truths, which I shall lay down with the utmost boldness, and without apology.

Testament

1. We do not in Britain enjoy the benefits of a market economy; rather we suffer (like most of Europe outside Switzerland) from a corruption of confused collectivism.
2. To praise the market economy is not to call for the absence of government, but nor is it to countenance government deploying compulsion to spend half the nation's income.
3. Government is essential for the provision of collective services, such as defence, police, judiciary, monetary order and minimum standards of living (including income support for the poor – in cash rather than in kind).
4. The massive expansion of government this century has not been guided, or justified, by intellectual analysis or the 'public interest' but by electoral expediency driven by political competition for votes and power.
5. The resulting growth in government taxation, regulation and spending, especially on so-called 'social welfare', has not removed (but rather inflamed) the grievances that were its original justification.
6. Competitive markets do not work perfectly; but government, resting on competitive politics, is even more incurably flawed.
7. Behind the rhetoric of government as guardian of the public interest, lurks the reality of rival politicians appealing to private sectional interests to win or retain a majority.

8. Within a legal framework which punishes force and fraud, competitive markets limit the evil bad men can do, whilst unlimited government opens the door to big and little Hitlers, Stalins, Khomeinis, Nyereres and lesser tyrants and tormentors.
9. The standing temptation of unchecked political power is chronic over-spending to buy votes, leading to mounting inflation followed by high unemployment.
10. Disillusion with overblown government has provoked a world-wide reaction towards the freeing of individual enterprise, even by socialists in countries as different as Australia, New Zealand, Hungary and China.

Bias against markets

I now turn to illustrate my charge against what passes as Christian economic argument by a couple of quotations from the Bishop of Liverpool, which I think may help to focus the discussion. Both my texts are taken from his recent socialist testament *Bias to the Poor*. First in his chapter entitled 'A Crisis for Capitalism', on page 136 he complains of the free market that:

. . . it is not only the inefficient that go to the wall; so do efficient industries which happen to be operating in areas from which the market has shifted away.

The second quotation comes in the final chapter entitled 'Can the Church Bear Good News to the Poor?' where he writes on page 219:

. . . There is no more painful matter in Church life than pastoral reorganisation which involves closing churches. . . . Yet it is right to go through the painful processes of making some churches redundant in areas where the population has drastically reduced.

He goes on to explain:

If we keep too many church buildings, we trap small congregations into putting all their energies into maintaining the buildings and justifying their existence by running Church organisations to use them.

If we substitute 'coal-mines' or 'steel-mills' for 'churches', we have a powerful vindication of Ian McGregor's recent activities with the BSC and NCB. My reason for recalling these passages is certainly not to mock one of the most attractive leaders of the Church to which I am sometimes proud to belong. It is to emphasise that much of the lofty moral criticism directed at the market economy and its practitioners is misconceived, where it is not plain humbug.

The Church is as much part of the market as the Coal Board, BL or, say, the brewers (who occasionally close pubs). Bishops have to close churches, not for the fun of it, but because resources are scarce. They have to weigh up their costs against the proceeds of selling old sites and investing in new buildings. They have to live within budgets, mostly derived from voluntary payments by customers who are free to choose rival brands of salvation or to buy quite different goods and services. Churches necessarily engage in advertising, packaging, display, product differentiation, and even – to judge from certain heretical Bishops – product development, if not outright switch-selling. The fact that their leading 'product' is intangible in no way distinguishes it from many subjective satisfactions offered by commercial producers (such as comfort, cures, confidence and cosmetics).

Indeed, not only are the churches part of the market economy: their ability to compete for the public's money and allegiance rests on the same freedom that allows

consumer choice in more humdrum goods and services. It is a truism that religious freedom is severely curtailed in the countries of Eastern Europe because they lack the dispersed initiative and private property rights that are the cornerstones of a market economy. Yet the priceless boon of freedom is taken for granted by Bishops and others in Britain, while the system which guarantees that freedom is given no credit, but held up to moral obloquy.

The significance of such episcopal criticisms is that they typify so much hostility to the market as being unworthy, selfish, materialistic, money-grubbing, profit-seeking. As with so much purely party-political abuse, hostility springs from judging the great issue of economic freedom by reference to motives rather than results. Thus even critics of private enterprise may acknowledge its powerful productive impulses; but like many practitioners of capitalism, they nourish doubts about reliance on self-interest as the ruling incentive to effort, economy and investment.

Intentions versus results

The first answer to such criticism is that good intentions are no guarantee of good results. If we supposed politicians were motivated exclusively by their conception of the 'public interest', would we have to approve of the havoc they have unintentionally wrought through the debasement of our currency to less than one-twentieth of its pre-war value, with the attendant inequity and impoverishment of millions living on savings or fixed incomes? And what about the evil consequences of other well-intended, compassionate policies like rent control that have destroyed millions of lettings and worsened the plight of the homeless? Since 1906 'liberals' have preened themselves for conferring on trade unions exceptional legal privileges, which have contributed inadvertently but decisively to the tragic decline of British shipbuilding, steel,

coal, motor cars, docks and printing. 'Do-gooders' may mean well, but they often turn out to be do-badders. The proof of public puddings is in the eating, not in the professed pure intentions of the amateur cooks, spiritual or political.

It is true that inventors and entrepreneurs may be driven on – against many discouragements – by material ambitions. But if they are successful, by far the larger part of the benefit is spread among millions of consumers in better or cheaper products and services. More prosaically, such firms as M & S, Boots, ICI, Beecham, do not aim directly at doing good, but at doing well, i.e. making bigger profits. But, so long as competition is not impeded, the law of the market is that they will continue to succeed only by doing better for their customers than alternative suppliers. Thus spake Adam Smith in the *Wealth of Nations* over 200 years ago:

It is not from the benevolence of the butcher, the brewer or the baker that we expect our dinner, but from their regard to their own interest.

Mixed motives

The second answer to those who damn the market by deriding self-interest and profit is that they are in truth damning – and often damning falsely – the mixed motives of ordinary people as producers, workers and consumers who operate in the market. Most of God's creatures are a mixture of the divine spark and the devil's streak. How can the fat man in a restaurant blame his own obesity on the waiter? In truth the market is neutral; it will supply what consumers want, from prayer books and communion wine to pornography and hard liquor. Within the law, competition will offer whatever incentives are likely to move people to work, save, invest, innovate.

It is true that differential monetary rewards are the most common forms of inducements to effort in modern

economies. But few people are activated, like cash registers, exclusively by ready money. In choosing a job, for instance, people will give differing weights to less tangible features like training, long-run prospects, job satisfaction, location, vocation, social esteem, comfort, challenge, length of holidays or amount of overtime. No-one is obliged to work for the highest pay.

Likewise as consumers, people will not always choose the cheapest product, or spend all their income indulging their appetites. Most people have mixed motives. Take the prototype economic man, who sells his labour in the highest market and always shops around for bargains: even he may be redeemed by sharing his surplus income with charities, poorer members of his family, and what Bishops would approve as other good causes.

The merit of the market is that it harnesses individual effort, economy and thrift to maximise present and future social output, *not* by the narrow incentive of self-interest, but by the widest opportunity for everyone to pursue his own *self-chosen purposes*.

Lift up our eyes

If bishops and other critics of the market economy don't like the goals pursued by fallen man, they are not alone. But they have a special duty which should make them redouble their effort to elevate our conduct by preaching, teaching and personal example. If we object to people's tastes and appetites we must try to convert them by persuasion. It is no remedy for human weakness and fallibility to extend the coercive power of government, for this simple reason: we will have done nothing thereby to transform the conduct of politicians or voters. Instead we simply transfer the same self-seeking propensities in human nature to the political power-seeking process where their scope for corruption is wider, and the risks of damaging freedom and economic advance greater. As Keynes warned:

dangerous human proclivities can be canalised into comparatively harmless channels by the existence of opportunities for money-making and private wealth, which if they cannot be satisfied in this way may find their outlet in cruelty, the reckless pursuit of personal power and authority, and other forms of self-aggrandisement . . .

It is better that a man should tyrannise over his bank balance than over his fellow-citizens . . .

I would add only that people who tyrannise over their fellow-men in the political arena seldom neglect to attend to their personal bank balance as well.

The Bishop of Liverpool capped his chapter 'A Crisis for Capitalism' with what he called 'a challenge to Socialism to produce the same energy, imagination, profitability and efficiency in a public enterprise as an entrepreneur brings to his own business'. He looked for 'more efficiency not go-slow protection of jobs'. Tell that to Mr. Scargill and Mr. Buckton. Tell it to the other Luddites in the so-called 'public' service. Tell it to the marines! As with so much unworldly denunciation of economic freedom, present imperfections are compared with hypothetical perfection. Stubborn, deep-seated human frailties and inadequacies are thus verbally vanquished by nothing more than wishful thinking and a lapse into empty exhortation. This emotional bubble was best pricked by an American philosopher, Professor William Barrett:

I think I can say, with some degree of assurance, of every intellectual I have known personally who was a committed socialist, that the Socialist ideal represented a displacement of moral and religious values which had not found their outlet elsewhere and here came to distorted expression.

In the socialist tradition you can scarcely disentangle specific social protest from a metaphysical rebellion against, or evasion of, the human condition itself.

We certainly need to elevate our daily conduct, above all by more direct, daily, unadvertised, personal caring and thought for others. Meanwhile, we might look for wider agreement in purging our present institutions of avoidable 'moral hazard' which positively encourages individuals and families to neglect self-reliant and responsible behaviour. I have a long agenda for radical reform which would mostly require a progressive limitation rather than an indefinite extension of government. The state has functions indispensable to a healthy social order. But on my analysis, the worst disorders have come from excessive and misdirected political intervention which has perverted the market, for example by inducing the alternation between the moral and economic abominations of inflation and unemployment.

Hear the prophets

Let me cap what I regard as the misplaced idealism of collectivists by offering a panegyric of competitive markets as indispensable for rational behaviour in a free society, drawing on some of our great thinkers.

Lionel Robbins taught that the market is like a daily referendum where individual consumers are free to vote with their money between a wide range of competing suppliers. (One deduction is that market democracy is more efficient and sensitive in serving diverse tastes than political democracy.)

F.A. Hayek has taught that in a complex and changing world no central board can have the knowledge necessary to plan an industry, much less an economy. Socialism is based on 'the pretence of knowledge'. Because knowledge is widely scattered, competition wins as 'the optimal discovery

procedure'. (The NHS monopoly has suppressed improvements in health care pioneered in the USA).

Adam Smith taught that the 'wealth of nations' is derived from 'the effort of every man to better his condition.' We have the authority of Shakespeare (*Henry V*, Act II, scene IV) that 'Self-love, my liege, is not so vile a sin as self-neglecting'. (Political appeals to 'public interest' or 'the Dunkirk spirit' do not work except in dire emergencies.)

John Jewkes has taught the advantages for freedom, efficiency and economic progress of dispersed initiative compared with central direction – which was highly wasteful even in war-time planning. (Hence the general superiority of private enterprise over nationalised-politicised industry, including education and medical care),

Neo-classical economists have taught that market prices act as signals of changes in the relative scarcity of human and material resources. Changes in prices – rents, interest, wages, salaries – provide at once the information and the incentive for action to adjust both the supply and demand for goods, accommodation, savings, labour. (If you increase the relative reward for not working by raising benefits and taxing low earnings, you will increase the supply of unemployed people. That is one reason why the official 3.2m unemployed is, mercifully, a myth.)

Milton Friedman has taught that individual choice through the market maximises consent, whereas even if government were truly representative, it rests on coercion. Thus in a competitive market both buyer and seller gain from trade, whilst all government over-rides the preferences of minorities, if not of the majority. (Pushed too far, state taxes and regulation increase the temptation for normally honest people to resort to what is variously called the informal, submerged, underground, or black economy.)

David Friedman has taught that there are only three motives for getting people to put forth their best efforts: love, fear, or self-interest. Love is a scarce resource and is incorporated in the market, through the family, voluntary service, charity, mutual/cooperative enterprises. Fear depends on coercion which is necessarily the ultimate sanction of all government. So if we prize individual freedom, we are left with self-interest (or self-chosen purposes) as the widest incentive for effort, economy, thrift, honesty and risk-taking.

Buchanan and *Tullock* from Virginia have taught that most advertised 'compassion' in the political market is little more than buying votes with other people's money.

Peter Bauer has taught that foreign aid has helped to impoverish African 'developing' countries by underwriting state policies that destroy peasant agriculture and displace commercial investment.

Hayek, again, has taught that 'social justice' is a will o' the wisp since there is no objective criterion for settling relative rewards unrelated to market incentives. Pressed too far, redistribution of income will blunt incentives and reduce total income. Our concern should not be with income differences (so-called 'inequality') but with topping up low incomes to avoid poverty.

Mises taught that without market pricing to indicate changing relative scarcities, rational calculation is impossible even in the simplest economy.

Röpke taught that even if the competitive market were not the most efficient social organism available, it would be morally preferable to collectivism as affording the poorest individual maximum freedom to shape his own life and destiny. Above all, freedom of action is linked with

personal responsibility for the outcome, whereas so-called 'collective responsibility' by politicians is the pretext for all kinds of irresponsible mischief.

I believe . . .

Like Professor Denis Robertson, I do not think economists are equipped to handle the keys to the kingdom of heaven. The 'market' is nothing more than men and women cooperating for mutual advantage to serve their own values – which, alas, are not those of which Christians or other moralists would always approve. Much as I rejoice in the variety of God's creation, I deplore some of the tastes exhibited by others – and occasionally by myself. But I deplore even more strongly the relapse of good men and women who seek to impose their will on others by coercion – or outright violence.

I take my stand with the IXth Article of Religion that 'man is far gone from original righteousness and is of his own nature inclined to evil. . . This infection of nature doth remain, yea in them that are regenerated.' I observe that original sin operates in both the economic and the political markets.

I believe that around the world the worst manifestations of evil in cruelty, oppression, exploitation, persecution of minorities, disregard of human life, and contempt for the sanctity of individual freedom, come from powerful governments or from those who seek to capture the power of governments to enforce their values or interests on others.

I conclude that it is easier to check or discipline evil through the voluntary processes of the market under a regime of limited government, than by concentrating economic and political power in the grasping hand of the State.