

## The Value of Values in Economics- Economics with Justice

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**Abstract:** The financial and economic crash of 2008 and its aftermath has seriously called into question the usefulness of conventional economics as taught in the majority of universities. Since that time there have been a number of initiatives to re-formulate the subject. The School of Economic Science is an educational charity that has been offering courses in value-based economics for over seventy years, most recently under the title: Economics with Justice. Its courses offer an ethical approach to economics that could provide an example of an alternative approach to the subject for those seeking a reformulation. The present course is offered in three termly modules. The first unit introduces the basic elements of the subject but from the perspective of justice. It explores issues such as employment, land tenure, banking, credit creation and taxation not just dealing with the mechanisms in operation but also from the perspective of their inherent justice or injustice. In the second unit the history of the development of economic ideas is followed. As in the first module the approach is not just to look at the content of these ideas and their effects but also to consider how they relate to justice. The third module explores recent developments in economics relating to growth and sustainability. By also including the topic of human development it opens for consideration the need for man's inner growth as well as the satisfaction of his outer needs. The paper will describe this example of a values based approach to economics.

The School of Economic Science has been offering courses in economics for over seventy five years. The School was founded by Mr. Leon MacLaren in 1937 at a time of economic upheaval when there was a strong sense that the conventional economic system had failed ordinary people and did not provide effective solutions. The situation is not so very different today. Since that time the content and shape of the courses the School has offered have evolved substantially and adapted to changing needs. In the late 1960's a substantial nine-term course was produced covering all the main areas of economics. The contents of this course have recently been updated and published in a book form. The current offering is a three-module programme entitled "Economics with Justice" and is presented as an evening course of three sets of ten weekly sessions. The aim of the course is to present economics in a values-based way and the association of economics with justice continues to attract members of the public, including economics graduates, who have a sense that there a better way is possible of conducting our economic affairs, and that basing economics on rational choice and supply and demand functions is not effective in meeting the challenges of our times.

That sense of dissatisfaction with conventional economic thinking and the desire to find something better is now extending to university students, not only in the UK

but world-wide. The last year has seen a growing momentum in the student movement that is calling for a re-formulation of the economics taught to them in universities. It is not just the students who are dissatisfied but also employers who are finding that students who have studied conventional economics are not equipped to deal with the actual situations that arise in the real world.

The context in which the School of Economic Science operates is considerably different from that of universities offering undergraduate courses but its radically different approach could have a contribution to make to the debate on how economics should be reformulated for the benefit of the common good.

The first stated object of the School is “to promote the study of natural laws governing the relations between men in society and all studies related thereto...” As one of the related studies economics is deals principally with the provision and distribution of goods and services for society but the focus on “relations between men in society” gives the study a very human basis.

The course title “Economics with Justice” implies that the subject is essentially values-based and that the most important criterion for judging the effectiveness of an economic policy should be whether or not it leads to a just outcome. The question of what exactly justice is has exercised some of the greatest minds for centuries. The approach taken in the course is to assume that justice is not an artificial construct of society but is innate in each human being and so both justice and injustice can be intuitively recognised. In establishing a sense of what is just acknowledgement is given to the traditional provided by the Eastern Roman Emperor Justinian of “the constant will to render each his due” which is still widely recognized. As to the question of what is due to each the response given is: “a fair portion a knowledge, happiness, health, freedom and prosperity for everyone.”

Where justice is found in the economic sphere is ultimately in the nature of the relations between people in society – between the buyer and seller, the creditor and debtor, the employer and employee, between the landlord and the tenant. A fundamental challenge for the economist is to determine the conditions under which justice is most likely to prevail.

The first, or introductory, module of the Economics with Justice course deals with the fundamental concepts of economics and the relations between them. In accord with the direction to study the Natural Laws the idea is to bring out what is inherent in the nature of man and the universe in which he finds himself. The course begins with the most basic process in the economy, the production of wealth. Care is taken in the course to define terms carefully and use them consistently. Wealth is defined as any man-made product that satisfies human needs or desires. As many of the terms used such a “wealth” are also used in a general and non-technical way in everyday life this requires a certain discipline.

The process of the production of wealth is always ultimately dependent upon two fundamental contributing factors: humanity, with our needs and desires and the will and skills to satisfy them, termed “labour” in the context of economics, and the natural world with its provision of all the material and locational requirements which is conventionally termed “land”. Classical economics includes capital as a third primary factor of production. The term is now often used in a very general way, and both land and various financial instruments have been subsumed in it. Traditionally it was defined in a much more concrete sense as “wealth used to produce more wealth” – *“All those man-made aids to further production such as tools, machinery and factories which are used up in the process of making other goods and services rather than being consumed for their own sake.”* [Lipsey & Chrystal: *Positive Economics*]. Although capital is of immense importance it is not fundamental in a primary sense since it will always itself be a product of human labour on land.

Our present economic system is conventionally described as “capitalism.” This is taken to be an economic system in which trade, industry, and the means of production are largely or entirely privately owned and operated for profit. Hence, it is essentially a system of ownership.

Economics does not operate in a vacuum, it takes place in the context of a society. As humans naturally co-operate human societies are natural. For a society to exist it requires a location, it has to be somewhere. Any society is in practice a combination of people and territory. How that territory is distributed between the members of society is a fundamental issue of economic justice, since whoever owns the land controls access to all the provision of nature and hence has enormous power over all subsequent economic activity.

Recognising the underlying significance of land and land tenure reveals that ultimately the “capitalist” system depends not upon capital in itself but on something more fundamental, having a system of well-defined private property rights, particularly in land. This enables land to be used as collateral to borrow against, and this provides the mechanism to enable the investment that leads to the build-up of capital. Time and again history has shown that where private property in land is in place the build up of capital can happen rapidly and where it is not economic development languishes.

Although the capitalist system is successful in accumulating and employing capital to produce goods and services in great quantities it almost invariably accompanied by a very uneven distribution of both wealth and income.

Where inequality arises from a situation in which many who contribute do not receive a full reward for their efforts, whilst others receive a proportion of the wealth produced greatly in excess of their contribution and a third group are excluded from making a contribution at all this is a situation of injustice.

The recent appearance of Tommas Picketty's book on Capital in the Twenty First Century has re-stimulated the inquiry into inequality in the capitalist system and its case and effects. However, as the more astute commentators have pointed out the way the term capital is used is very broad and in particular fails to make the fundamental distinction between man-made capital and land. To quote Joseph Stiglitz: "A closer look at what has gone on suggests that a large fraction of the increase in wealth is an increase in the value of land, not in the amount of capital goods."

The approach of Economics with Justice is to seek the underlying causes of the injustice that gives rise to the perceived inequality. A very useful tool for this is the law of rent of classical economics. The classical analysis shows how the wealth produced in any given location naturally divides between the two basic contributing factors of land and labour. A just basis for the distribution of wealth would be in harmony with this natural division. What emerges from this analysis is the insight that as an economy develops a growing proportion of the wealth produced becomes attributable to the efforts of the community as a whole as distinguished from the individual contributions. The big question for economic justice is: who gets this? In systems of privately owned land it tends to fall firstly to landowners as rents and later, in significant part, to financiers, through interest charges on the loans they make against land as collateral.

Applying the law of rent gives a unique insight into the general level of wages and reveals, counter-intuitively, that there is no systematic relationship with labour efficiency. It is effectively determined by the productive capacity of marginal land. This in turn is affected by the system of land tenure and in particular the extent to which land has become private property. If the underlying relationship between the level of wages and the system of land tenure is not understood then attempts to address economic injustices through dealing with wages alone are likely to fall foul of the law of unintended consequences. As a general rule for communities where there is no access to free land the general level of wages falls to the least workers are willing to accept. At the same time the price of occupying a location for both commercial and domestic use rises to the most the occupant can afford to pay. Measures to ameliorate this state of affairs through social provision without tackling the underlying causes of the injustice are likely to end up in the long term making matters worse particularly if they are financed through burdensome taxation which places an unjust and heavy deadweight on the productive part of the economy.

In a capitalist economy the use of money to facilitate both trade and investment is fundamental so a clear understanding of the creation and role of money is hugely important. This is a subject about which there are many common misconceptions. One of the most significant weaknesses of conventional economics brought to light by the economic crash of 2008 was its failure to include the way the financial system works in their models.

In the Economics with Justice course money is regarded as essentially a social phenomenon, a means of exchange representing relations of indebtedness and credit between people in society. The responsibility for a sound monetary system is an essential role of government. Under present arrangements the creation and directing of the money supply has been largely taken over by the private banking system, bestowing it with great power. The unrestrained tendency to abuse that power by taking advantage of the privilege for its own self-interest without acknowledging the corresponding obligations is a significant source of economic injustice.

The traditional and economically useful function of banks is to extend credit for production and trade. This used to be called the provision of “sound money.” In recent years, and particularly since financial deregulation this function has been largely replaced by lending against collateral, usually to support the transfer of already existing assets from one party to another. The process is highly destabilizing. It is potentially inflationary since there is expansion of the money supply with no corresponding production of goods and services. It also tends to lead to the concentration of assets in the hands of a smaller and smaller proportion of the community. In terms of the relations between people in society credit is essentially about trust but this essential economic fact is in danger of being undermined as the growing financialisation of the economy replaces relationships with transactions. This is an area where the value of values in economics is of the utmost importance.

The practical consequences of a system of private property in land and bank lending against that property is to greatly accentuate natural economic cycles into much more violent episodes of boom and bust. Periods of optimism spur increase in lending against assets leading to an upsurge in their prices, encouraging further borrowing until overextension leads to an inevitable collapse. These cycles have been a feature of economic history since at least the middle of the eighteenth century so it is strange how conventional economists continue to be surprised and taken off guard each time the next one appears.

In modern developed economies up to around half the wealth produced is collected and used by government. It follows that the place of public revenue and government expenditure in a valid economics cannot just be that of an-odd but must be intrinsic to the overall system. In the Economics with Justice course the topic of public revenue is treated in three stages. Firstly the history of public revenue in the UK is followed going right back to Anglo-Saxon times. What this survey shows is how intrinsic the collection of public revenue is, not just to economic, but also to key political and social developments. The basic thesis proposed is that, historically, having abandoned natural and just sources of public revenue successive governments have continually resorted to expedience resulting in a complex, unjust system of arbitrary levies that is unnecessarily burdensome on productive enterprise and too readily avoided.

The second stage is to explore some of the damaging effects of the present tax system. The example taken is PAYE. This is shown to be effectively a tax on employment which greatly increases the cost of labour making it unnecessarily uncompetitive and uneconomic, thus distorting the whole economy by placing a huge disincentive on employers to take on labour. The third stage of the analysis is to show that the economic rent of land provides a natural and just source of government revenue, since it is the portion of the wealth that a community produces that can be attributed to the community as a whole rather than individual effort. If this is not used for the public good it falls into the hands of individuals who have no natural right to it and this constitutes one of the primary underlying causes of economic injustice. The injustice is compounded when taxes on production are used for government revenue instead since this deprives those who work of a portion of the production of their labour.

The course gives examples of where this principle of using land rents and resource rents have been put into practice in different ways in economies around the world.

The first module concludes by comparing the strong sense of civil justice that is found, particularly in the UK, and the corresponding civil freedom under the law that this provides through the existence of complimentary rights and duties, with the corresponding lack of justice and freedom in the economic realm. It draws together the strands covered in the preceding parts by considering the basic economic rights and corresponding duties that are necessary to establish economic justice and hence economic freedom.

The essential economic rights are taken to be the right to work and to retain the fruits of that work and the right of access to land with security of tenure. The corresponding duties are to support oneself and ones family, not to live off the earnings of others, to look after the land and keep it in good condition, to return to the community the advantages derived from special advantages of location and not to interfere with other's quiet enjoyment of land.

This places corresponding duties on the community. The first is a general duty to keep the peace and good order. The next relate to the care for the territory. There is the duty to ensure individuals have the access to land and natural resources they need and to keep unused land in good condition. Then there is the duty to collect the economic rent of land and ensure it is used for the benefit of the community. In any humane society there is also a duty to provide for those who are not able to provide for themselves and are not otherwise provided for. The vision is that if individuals and government carried out these basic duties there would be much less need for government to intervene in other matters and much greater economic freedom.

Thus the first term sets out some basic ideas of economics in the context of economic justice endeavouring to elucidate the value of values such as justice in the economic sphere.

The second module of the course continues with this underlying theme but takes a very different direction. It sets out to explore the main ideas that have influenced economics since the time of Adam Smith.

Studying the development of economics thought is of great importance because it brings out the basic ideas that have developed in the subject, many of which still operate and influence us today. To quote John Maynard Keynes: *The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.*

This study of ideas is particularly important in the context of the students' recent rebellion against the rather narrow focus of university economics on the neoclassical approach. Studying the history of economic thought can give a context into which to place this particular approach and hence to evaluate its usefulness.

The underlying intellectual framework in which economics was formulated in the eighteenth century and then evolved in the following two and a half centuries came from the thinking of the Enlightenment. Key components of this mode of thought include a mechanical view of the universe, a strong sense of individual identity, a belief in society as a social contract and a sense that it was society that made its own laws.

Another framework that is introduced in the course to provide a reference to the way societies develop, particularly in terms of their underlying values, is the teaching of Plato. His dialogue, the Republic, provides descriptions of different forms of government – aristocracy, timocracy, oligarchy, democracy and tyranny. The genius of Plato is the way he shows how these outer forms correspond to different inner conditions of the souls of the citizens. In this sequence the stage of development of Western Civilization from which economics in its present form emerged corresponds to the oligarchy. Plato describes this as “a government resting on a value of property in which the rich have power and the poor have none.” This description provides a deep insight into the basis of what has come to be called the capitalist system. It also shows up how the concept of property is fundamental to appreciating economic justice.

The question of whether there is a natural law of private property exercised the minds of some of the greatest thinkers of the age, particularly John Locke. The conclusion of William Blackstone, the eighteenth century expert on English law was that the concept of private property had no basis in natural law but was “*begotten of necessity*” and had then become one of the foundations upon which modern society had been built.

The economics of Adam Smith was based around a three-factor model of land, labour and capital, corresponding to the three classes of society, the landowners,

workers and capitalists. A careful analysis of their corresponding factor incomes (rent, wages and profit or interest) shows that they are more accurately attributable to the ownership of these factors than to the factors themselves.

Adam Smith was a powerful figure in shaping modern economics. His writings delineated and promoted basic aspects of the modern industrialised economy: the division of labour, the accumulation of capital and the invisible hand of the self-regulating market, but these rested on a combination of stoic and Christian ethics expressed in his earlier work, *The Theory of Moral Sentiments*. Adam Smith's outlook was an optimistic one. He saw the economy as a dynamic and progressive organism which had the potential of ever increasing improvement in material conditions for everyone, He was a compassionate philosopher who saw that "*No society can surely be flourishing and happy of which by far the greater numbers are poor and miserable.*"

However in the following generations as, reluctantly, awareness grew of the poverty and squalor that was accompanying industrialization the mood began to darken. Smith had recognized the importance of location to the effectiveness of both agricultural and industrial production and how this gives rise to differences in land rent. In the next generation David Ricardo gave a more precise formulation of the law of rent [described in the first module] and thought through its consequences. He showed that when all land is privately owned the unique beneficiaries of industrialization and the accompanying increase in population, at the expense of both capitalist and worker, were the landowners. However attention was diverted from the import of Ricardo's conclusion by the writings of his economic sparring partner Thomas Malthus. Through his essay on population Malthus exonerating the status quo by conveying the idea that the appearance of an impoverished class was the consequence of an unavoidable law of nature rather than the consequence of a fundamental man-made injustice.

One of the most powerful responses to the inequalities and injustices of the nineteenth century industrialization was the outpourings of the writer and political philosopher Carl Marx. He framed the socio-economic situation as a bilateral struggle between the owners of capital and the workers they employed that inevitably had to end in violent revolution. His message was taken up by the revolutionaries in Russia, and later in China, and interpreted in a more benign form by the socialist movement in Western Europe. The long-term effect over the following century was to impose a rather crude dualism onto economic thought – that there was either the centralized planned socialist state with no private property or the free market capitalism based with everything as private property.

The American writer Henry George was also hugely influential in the latter part of the nineteenth century. George was strongly motivated by a sense of innate justice and natural law. This did not really fit into the Enlightenment intellectual framework but nevertheless had considerable popular appeal. George's analysis of the question of the natural basis of private property was that it was valid to claim

ownership of those things where work had been done in their production and then acquired either directly or through exchange. It followed that there was no valid basis of claims of property in things that were not man-made, in particular land and natural resources. He saw these invalid claims as a fundamental cause of economic injustice and described how their effect was that they enabled wealth to be accumulated on the basis of ownership rather than useful work, or, in other words, to be diverted from those who worked to those who owned.

From this perspective he saw that there could be a peaceful resolution to the problems of economic injustice and the associated inequality by diverting the economic rent of land from the hands of private landowners and using it in place of conventional taxation as the natural source of public revenue. Although quite popular and influential at the time, for example with the liberal government of the UK in 1909, after the first world war these ideas fell out of favour, some would argue that they were deliberately obfuscated in the new economics departments of the universities that were funded by American business.

During the latter part of the nineteenth century what had been called “political economy” gave way to modern “neo-classical” economics. There was a move to frame the subject as a positive science with a strong mathematical basis and move away from the questions of class struggle and injustice that Marx and George had respectfully sought to tackle.

Although it gave the pretense of being value-free the new science did have a value system. It was of the consequential type and can be traced back to the Utilitarianism of Jeremy Bentham and James Mill. Value became price of utility and that could be made the subject to a mathematical analysis. The concept was refined to give marginal utility and a basic idea of supply and demand coming to equilibrium provided a simple conceptual framework to both describe and justify a self-regulating market system implying the need for minimal government interference.

However, this laissez-faire approach to free market economics provided no policy solution to deal with the great depression in the nineteen twenties and thirties. This is when Keynes appeared on the scene providing a macro-economic view that included a role for the state in implementing policies to regulate the economy and prevent the excesses of booms and busts. As was described in the first module these are the inevitable consequences of a free market system in which there is private property in land with no corresponding obligations and in which banks lend in an unfettered way against landed property as collateral.

Keynesian type policies, and particularly government led investment, proved effective in aiding economic recovery, particularly after the Second World War. However by the 1970's they started to fall out of fashion when government policies appeared to be producing high inflation at the same time as high unemployment. The monetarists led by Milton Friedman promoted a return to a laissez-faire approach. They advocated less government interference and regulating the

economy through using interest rates to target inflation. The monetarists provided an inviting image of economic freedom but one without reference to economic justice making it highly susceptible to corruption and exploitation. In practice the monetarist policies proved ineffective. There was a failure to understand the nature of the money supply and how the banking system expands it through credit creation [as described in module one of the course]. In the run up to the 2008 financial crisis interest rates were kept low to regulate the inflation rate. At the same time there was a massive expansion of credit but because it went mainly into asset price inflation it operated in parallel to the low inflation in the real economy. Eventually, and inevitably the bubble burst with devastating consequences.

The second module ends by summarizing the main policy implications of Neo-classical economics as they appear in the Washington Consensus. These are contrasted with an alternative set of proposals based on Economics with Justice.

The third module of the Economics with Justice Course is entitled, "Growth, Sustainability and human development". It addresses more directly current issues and particularly the question of how we can adjust our economic arrangements so that they serve the people and preserve the environment rather than enslaving people and destroying the surface of the planet.

The three themes of growth, sustainability and human development are closely interlinked.

In a just economic system human development will be a primary consideration. The first stage must be the satisfaction of basic material needs such as food, clothing and shelter but there is much more to human development than this. Consideration also needs to be given to development of heart, mind and spirit.

Human society is a complex network of relationships. For a healthy society it is important that each values their place in it and particularly values the contribution that they make. Present economic arrangements make this difficult. At the centre of conventional macro-economics theory is the interaction between firms and households. Conventional economic development has given preference to the requirements of firms over the needs of real people. Ultimately this leads to a situation that there is an expectation that society should be serving the economy rather than the economy serving the needs of society.

To provide a method for to address and restore this imbalance the story is given of how the concept of the "free and lawful person" of the English common law emerged and molded the norm of behavior in the civil realm. A similar concept is much needed in economics so that legislation can guide the way the economy develops to set the conditions in favour of strengthening and developing the household in a way that facilitates the possibility for all citizens to lead a free and fulfilling life.

The conventional measure of the health of an economy is its rate of growth and so to achieve growth remains the main policy goal. Yet the conventional measure of growth, GDP has a number of obvious flaws and omissions, for example it takes no account of the depletion of natural resources or changes in the health and wellbeing of citizens.

When it is asked what drives growth the answer is not easy to find. One route to follow is to examine the influence of the financial system. Growing indebtedness in the real economy causes money to be drained out of it leading to a general shortage which fuels a drive to expand. Another direction of exploration is the effect of the availability of relatively cheap energy supplies, particularly in the form of fossil fuels. Where this has been the case it greatly facilitates the development of capital and the replacement of human and animal labour with machines. This leads to economic growth but of a type that becomes dependent on the availability of the energy sources. This is ultimately not sustainable as the arrangements become dependent upon the fuel supplies of which the accessible portion is limited.

In relation to sustainability in general the physical limits of the environment and its capacity to provide for humanity need to be acknowledged. But human development and increasing prosperity do not necessarily require increased use of natural resources. There can be growth by refinement. Hence, there is the need to consider the decoupling of economic development from natural resources use. This leads to the idea of a steady state economy in which the use of natural resources is limited by what the environment can sustainably supply.

The idea of decoupling also brings in the relationship between conventional economic growth and human development. As countries develop, up to a point increasing material wealth provides increase in general welfare but after a certain point the correlation starts to break down and increased material prosperity ceases to bring gains in welfare, it can even have negative effects. The idea of a sufficiency economy is introduced and illustrated by developments in the rural economy in Thailand.

The course concludes by returning to a consideration of the basic economic rights and corresponding duties that need to be recognized and fulfilled to provide and opportunity for prosperity and freedom for all.

For quite a long time the School has concentrated on the provision of courses in Economics with Justice. Recently, some students have published books which make the approach more widely available, A few years ago Brian Hodgkinson produced a quite thorough exposition of a reformulated economics entitled "*A New Model of the Economy*", that has the level of detail a first year undergraduate text would require. The work covers much of the conventional micro and macro topics of a university degree course but in such a way that it underpins them with the Economics with Justice aspects that are covered in the courses. More recently Raymond Makewell produced and edited an updated version of an earlier version of the course as "*The*

*Science of Economics*” and Ian Mason, the Principal of the School, has published a series of essays exploring the basic ideas of Economics with Justice in “*One World, One Wealth.*”

This valued-based approach extends the scope of economics well beyond the limiting confines of the conventional approach and provides a refreshing alternative to both explaining the actual issues that mankind now faces and providing a basis for developing policies for dealing with them. It is hoped that it could have something of significance to offer to those seeking to reformulate conventional economics.

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