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## Ethics and Capitalism

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Hyman P. Minsky

Notes for comments at the Ethics and Capitalism Workshop at the Levy Institute.

November 3, 1994

*ETHICS AND CAPITALISM*

Questions raised

What is the role of ethics in economic theory? Assuming that economic theory embodies a set of ethical presuppositions, how does that influence the choice of economic policies and the evaluation of outcomes?

Are there and should there be policy implications in an exploration of ethical issues in terms of assuring economic growth, what is generally regarded as an equal distribution of income, incomes related to one's contribution to production, and the opportunity to have a job commensurate with one's skills and experience ?

If the system cannot achieve full employment, then is it flawed because it is not achieving its potential for the production of goods and services? How is the theory of the natural rate of unemployment justified ethically? In addition if the system cannot achieve (close to) zero inflation, then is it flawed.?.  
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Ethics:

"Do unto others as you would wish others do unto you",  
All else is commentary.

"There but for the grace of God, go I."  
A profound comment.

### Capitalism and Ethics:

One problem with the above phrasing of the issues is that there are as many varieties of capitalism as Heinz has pickles.

We must never forget that Hitler took power in January of 1933 and Roosevelt took office in March of 1933. Both were dedicated to the salvation of capitalism.

An ethical foundation of the New Deal version of State Capitalism

1.

A: No one will starve in America.

B: A dole is anathema: a bad thing.

A and B imply

WPA, NYA, CCC as the foundation stones of macroeconomic policy.

*"If God had not meant for them to be sheared, He would not have made them sheep"* Comment by an participant at Lloyds of London, cited in the Economist, April, 1994

The SEC follows from the above

Adam Smith on the corporation.

a. Conveyance: How much of the multimillion dollar salaries of corporate executives is really conveyance, the transfer of corporate assets to the purse of the corporate officers.

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b. Money manager Capitalism is a new thing. All of the problems that Smith saw in the corporate form are compounded when a second layer of operators with other peoples money is added.

We have been told by public choice economists that the political powers and the bureaucrats in government agencies use their powers to increase their own income and security.

If the maximization of private income and wealth determines the behavior of political persons would it not also determine the behavior of economists? Inasmuch as by far the highest consulting and speechifying fees come from the rich and corporate structures, wouldn't this mean that rational self seeking economists tailor their economic findings and analysis so that they will get such fees. The self interest of an economist leads to a conservative bias in the economics discipline.

Is economics Economic Science or is it a branch of moral philosophy?

Economics as Economic Science.

The basic construct is some preference mapping over real outcomes. In order to achieve the first proposition of modern economic theory about the existence of a competitive equilibrium it is necessary to put restrictions upon the preference relations which essentially rule out the dependence of the preferred outcome of one individual upon the outcomes for other individuals.

If economics is a moral science then concerns about how well others do will enter preference systems. In truth for some limited set of others we do modify the preference system to include their well being.

The *crack mother* as an example of *homo economics*:  
"Damn the fetus light my fire."

Economics as apologetics:

The earlier Jeremy Bentham rule of the desired behavior of the economy "The greatest happiness for the greatest number" had as an implication that the use of the powers of government to redistribute income from the rich to the poor increased total welfare. This equalitarian result was uncomfortable for the apologetics (defense of the rich and the powerful) task of economics. This led to the none comparability of preference systems and the substitution of preference ordering for utility over goods and services. The shift from Benthamite diminishing marginal utility to the Paretian regime of indifference curves is not without political significance.