

The first reading is from Milton Friedman, the most famous conservative economist of the 20<sup>th</sup> century, in his book *Capitalism and Freedom*, 1962.: "There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it **stays** within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

The second reading is from John Maynard Keynes [note to Laura: Keynes pronounced with hard a, like “canes”], the most famous liberal economist of the 20<sup>th</sup> century, in his 1930 essay: “Economic Possibilities for Our Grandchildren”

“Let us... suppose that a hundred years hence we are all of us... eight times better off in the economic sense than we are today....[Tim notes that this prediction for the year 2030 is roughly accurate.].I see us free, [because of this improvement], to return to some of the most sure and certain principles of religion and traditional virtue-that greed is a vice, , and the love of money is detestable... But...the time for all this is... not yet. For at least another hundred years we must pretend... that **fair** is **foul**, and **foul** is **fair**; for **foul** is USEFUL and **fair** is NOT. Greed and [the love of money]... must be our **gods** for a little longer still. For only they can lead us out of the tunnel of economic necessity and into daylight.”

First, I want to make it clear that I disagree with both of these quotes, from Friedman and Keynes. This talk will make it clear why I disagree. In my disagreement, I would unfortunately only be joined by a minority of my fellow economists, but it is a significant minority, going back to Adam Smith in the 18<sup>th</sup> century.

My topic is “Can Economics Be Moral?” My answer is Yes – but a capitalist economy needs restraints, not just from government, but from social norms. These social norms are, in the end, determined by our choices, both individually and collectively.

Let me first summarize my 4 main points.

Point 1 is that economics is a moral endeavor. Achieving broadly-shared prosperity helps everyone develop their inherent worth and dignity. Broadly-shared prosperity is a necessary condition for achieving a just and democratic society.

My second point is that to promote broadly-shared prosperity, the economy has to be regulated by both the government and social norms. Government must correct for market failures. But we also need social norms to inhibit the excesses of capitalism, because government can't do everything.

Point 3 is that right now, the pursuit of profits is overstepping its proper constraints. Business is becoming more monopolistic. Government regulatory agencies have been captured by the businesses they are regulating. Business resistance to higher taxation is restricting needed public goods.

My 4<sup>th</sup> point is that to deal with capitalism's excesses we need a strong social norm that business has social responsibilities beyond the pursuit of profits.

Now I will expand upon those points.

On point 1, that economics is a moral endeavor, let me tell a story. Some years ago, I was on a canoe trip with a long-time family friend of mine. He happens to be an environmental researcher. Around the campfire one night, he shocked me with the following question: Why do we even need economic growth?

I was shocked because I, like most economists, went into economics because we believe that broadly-shared growth in living standards is essential for a more just society. If people feel they don't have a reasonable opportunity to do at least as well as their parents, people tend to stigmatize minority groups and immigrants, and turn to strongman leaders. My own research is on how to help cities. If you want to help disadvantaged people in disadvantaged neighborhoods in Detroit, good luck trying to do so without policies to increase the overall economic pie.

On point 2, that a good economy requires government and other constraints on capitalism, people sometimes think that economists worship the free market. But economics is also about how frequently the market fails to achieve efficiency, let alone equity. There are very stringent conditions for the private market on its own, without government intervention, to achieve economic efficiency. You need perfect competition with firms having zero market power to set prices or wages. Consumers must have perfect information, so they cannot be ripped off by bad products, including often complicated financial products. There must be complete insurance markets against all possible losses, such as losing one's job or getting sick. And there must be no situations in which one individual's or businesses actions cause external benefits or costs for others, such as are caused by environmental pollution.

Even if the private market is efficient, it may not result in economic justice. Even if all workers are paid the value of what they produce, why on earth is that at all just, given that the value of what you produce depends upon many accidents of history? We didn't choose our parents, or the neighborhood we grew up in, or our home town, or whether our employer chose to shut down the plant or facility where we work.

A prosperous economy and a just society will need many government interventions. Anti-trust regulators need to prevent any business from getting too much market power. We need strong regulations of product safety and worker safety. Environmental programs are needed to reduce pollution. Government will need to ensure the adequate provision of education and infrastructure, and we need social insurance and welfare programs to protect people against life's risks. Government taxes and social programs will need to redistribute income.

In recent years, these corrections for market failures have proved inadequate. The business pursuit of self-interest has overstepped its proper bounds. Many large businesses have increased market power and political power. Businesses are using that power to raise prices and lower wages, to gut regulations that would restrict their actions, and to lower taxes on corporations and their executives. Because many businesses are not being forced by competition to invest for the future in R&D or worker training, many corporate CEOs have chosen to use their profits to buy back their own stock and thus increase the value of their own stock options. That used to be illegal, but no longer.

In our daily lives, we see the consequences of this in sluggish wage growth for most U.S. workers and excessive prices for many products such as pharmaceuticals. We see the consequences of excessive business power in frequent layoffs of long-term workers, which may increase short-term profits, but undermines long-term competitiveness by throwing away skilled workers.

Let me give an example from right here in Kalamazoo. As you know, in 2002, our largest employer, the Upjohn pharmaceutical company, was acquired by Pfizer. Pfizer closed the Kalamazoo corporate headquarters, and axed all the human drug R&D in Kalamazoo.

Maybe Pfizer's actions were painful, but increased efficiency. But I have my doubts. Business media reported that Pfizer's prime motive was acquiring Upjohn's patents. Pfizer did not seem to be acting to improve its research. A friend of mine who was transferred by Pfizer told me that it made no sense – his lab in Kalamazoo was clearly superior to where he was transferred. I believe that Pfizer's main motive for the acquisition was to increase the company's market power, not to become better at inventing new drugs. Certainly Pfizer lost many skilled researchers by its actions.

Now, if this were more of a policy talk than it already is, I would now go into the public policies that are needed, in reforming corporate governance, our anti-trust laws, our business regulations, our tax laws, etc. But we also need to rethink our social norms. We need to avoid social norms that praise profit-making as an end in and of itself. A for-profit economy is not an ultimate good, but only an instrumental good to the greater goals of achieving social justice. Businesses as well as individuals all have social responsibilities, not only to the business's shareholders, but to workers, consumers, the public and the environment.

Too often, how we talk about the economy can lead individuals to pursue profits at the public expense. One disturbing finding of economics research is that taking undergraduate economics leads individuals to behave in more narrowly self-interested ways that sacrifice the public interest.

We have run experiments with students in which each student is given some amount of money, say \$10. Then this group of 10 students, is told: each of you has to choose how much money to put into a common pool. Every dollar put into the common pool will be doubled. And then the pool will be split evenly among the 10 students, regardless of how much money you put in.

From a collective perspective, the group of 10 students would benefit most if each student put in \$10. Then the students collectively put in \$100, and the experimenter doubles the amount to \$200. Each student takes home \$20.

But a selfish student could benefit more from putting in nothing and counting on the others to contribute. The selfish student keeps their original \$10. The other 9 students put in a total of \$90, which the experimenter doubles to \$180. The selfish student ends up with their original \$10, plus one-tenth of the common pool of \$180, or a total of \$28. The other 9 students lose out by only taking home \$18 each.

Taking even one course in economics causes students to be far more likely to take the selfish route and refuse to contribute to the common pool. Let everyone else pay for public goods that I'll use: I'll keep my money for my own use. This can occur in the business sector as well if the pursuit of profits is not subject to some constraints, from government or social norms.

We should recognize that the pursuit of profits is fine, but should be subordinated to broader social responsibilities. Business should not forget its responsibilities to its workers and to the broader community.

In other words, I disagree with the Keynes quote that we need to forget about the traditional social norms of religion and philosophy until we are much richer. No, we need them now for a more prosperous economy that invests in the future. And if the pursuit of profits goes too far, it undermines the fair and open competition that Milton Friedman praises. The easiest way to maximize profits for a business is for it to get rid of its competition – that is to NOT stay within the rules of the game.

I agree more with another quote from Keynes, from 1936: Keynes said the following:

**“The ideas of economists..., both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. ...Soon or late, it is ideas, not vested interests, which are dangerous for good or evil.”**

I would modify Keynes's statement to say that both ideas and vested interests can be dangerous for good or evil. Just as practical people are often slaves to bad ideas from economists, many economists end up in the pay of vested interests, who in turn are infected by bad ideas that give them a narrow view of their self-interest. There is often a vicious cycle or feedback loop from vested interests to bad ideas, and from bad ideas to vested interests. Who benefits from the idea that greed and narrow self-interest are just fine, for they will be restrained by market forces? The answer is obvious.

I think a liberal religious faith requires a belief that we are not slaves to our past bad ideas and narrow views of self-interest, but rather can rise above them to pursue a better idea of social responsibility. We should not take for granted a privileged place, but rather recognize that we share one world with the whole human race. The ideas we have about the economy affect us all.

What does this all mean for how we should act in this world? If we believe that we need greater corporate social responsibility, we need to act on that belief as consumers, as stock owners, as workers, and as voters. Whether a corporation is socially responsible should affect who we buy from as consumers, and who we invest in if we have enough assets to own stock.

Just to give one concrete example: Amazon has a lot of monopoly power, so it's hard to avoid them entirely. But where we still have choices, let's exercise them by buying from local bookstores, local shoe stores, etc.

As workers, let's do what we can, within what is possible for us, to encourage the businesses and organizations we work for to recognize their social responsibilities to their workers, to consumers, and to the Earth.

Finally, and perhaps most importantly, we need to act on this understanding of the economic world as voters. I have avoided a lot of policy wonkery about desirable policies to encourage social responsibility. But if you ask an economist to give a sermon, you have to expect some policy wonkery. As voters, we need to educate ourselves about how public policies might affect corporate social responsibility, for example policies such as rules on corporate governance and enforcement of anti-trust laws. These may seem like dry topics, but they affect all of us. Whether we are ready to assume our responsibilities as voters affects us all. We need to increase the odds that corporations that are socially responsible are rewarded and encouraged, and those that are irresponsible suffer significant adverse consequences.

The state of our personal spiritual well-being cannot be separated from how we act not just as voters, but in the economic world, as consumers, investors, and workers. It is an illusion to think of the economic world as a world apart in which we can act in our narrow self-interest, while preserving some separate higher personal morality in our non-economic lives. We only have one self in this life, and a life of integrity requires that we bow to the ideal of fairness as our god in all parts of our lives, including in the economic marketplace. Let us wake up, and realize that this world is indeed one world. Let us move beyond greed, and hear a different call, and act to transform the world. May we make it so.