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## LAISSEZ-FAIRE, PLANNING AND ETHICS

NEW sections of society searching for an answer to the problems of unemployment and war have lately become interested in economics. With the help of a growing volume of literature and of lectures, economic wisdom is being preached and listened to as never before, but this quantitative increase is apt to hide the lack of a solid basis for the thoughts and actions recommended. It is less the disagreement on the final purpose of political economy and of economic thought than the almost complete absence of discussion on this issue which is, in face of the growing importance of economics in public life, so remarkable.

Very many economists seem to work without a clear concept of the task of modern political economy and its limitations. With painstaking care research is carried out into isolated problems or into groups of problems without, apparently, any awareness of the need for a greater conception and of a supreme aim.

No economic textbook fails to give a definition of economics; but this information seems to be given rather to provide the student with an answer to a possible question in the examinations, not to inspire him with a vision. Examinations do include questions such as :—

“ In what way are the conclusions of moral philosophy and economic theory relevant to each other ? ” (Oxford Examination Papers, 1935.)

or :—

“ Discuss the ethical basis of the institution of private property.” (Oxford Examination Papers, 1924.)

Yet, these questions were asked not in Economics, but in Moral and Political Philosophy, and years pass without any attention being paid to the relation between economics and ethics.

In 1938, out of 93 questions dealing with Economics<sup>1</sup>—none dealt with the purpose and only two with the ethics of economics :—

“ Does economic science contribute anything to the creation of the concept of social justice ? ”

and :—

“ Was Robert Owen a constructive social thinker ? ”

The year 1938 was in this respect representative of other peacetime years. In 1932 and 1933, when the world experienced the

<sup>1</sup> Oxford Examination Papers—Theory, Organisation, History and “ Further Subjects ” (Currency and Credit, Public Finance, etc.).

most severe economic crisis, examinees—if they chose the question—could content themselves with describing the *sequence* of changes in the course of a trade cycle and the possible use of unemployed labour. No awareness of deeper causes in the structure of the economy and of the social and moral consequences of economic crises was required.

The two Parts of the Cambridge Economics Tripos show similar features. In the Easter Term Examinations 1939, 1940 and 1942 the questions asked numbered about 170, 160 and 130 respectively, but there was none about the purpose of economics. The subjects included, however, Social Problems, Labour, and British East Indies with some ten questions each, and a choice of essays.<sup>1</sup> In the above sample years, three, one and two questions respectively were asked on problems which could be classified as ethical :—

In 1939, “ Discuss the outstanding features of the problem of malnutrition amongst children in Great Britain,” “ The idle valleys of South Wales are a condemnation of that industrial dogma of the nineteenth century, the doctrine of the division of labour,” “ The proper distribution of the tax burden is a matter of morals, not economics ”; in 1940, “ Describe the life of a factory worker in Bombay ”; in 1942, “ Consider the expansion of social services as ‘ the historical fulfilment of the liberal state ’,” and “ Should we condemn the Poor Law of 1834 for its cruelty or praise it for its courage ? ”

Among the essays given for choice, two, nought and one dealt with socio-ethical subjects :—

In 1939, “ A dialogue on the question of retaining or abolishing the motive of private profit ” and “ Economic equality can only be maintained by a system of force, while economic freedom leads inevitably to inequality ”; in 1942, “ The colour bar.”<sup>2</sup>

The examination papers quoted indicate a certain fixed attitude towards the question whether economists should occupy themselves with the problem of human happiness. Overwhelming weight is given to the non-ethical, purely normative aspects of economics. And it is with this attitude that students pass into life and start their careers as administrators, business men and—economists.

The causes of the modern non-ethical approach to economics can perhaps be found in the close connection existing between study and career. An ethical approach, in a world where the politics of power and the power of politics are such essential features, may be feared to cause serious—inner and

<sup>1</sup> Other subjects were: Modern English Economic History, Elementary Economic Theory, Economic Structure, Economic Principles, Industry, Money, Public Finance.

<sup>2</sup> The choice of essays in 1940 was “ Bicycles,” “ East and West,” “ England, the native country of compromise,” “ If I were Chancellor of the Exchequer,” “ The Century of the Penny Post.”

outer—conflicts. It may ruin a successful career in a society which threatens with insecurity and rewards with promotion. Where a career depends on the sense of expediency and on the matter-of-fact efficiency with which a critical situation is mastered, without letting other considerations interfere, a sensitive conscience fed on ethics becomes a liability. Yet, investment in university education is, from a professional point of view, intended to create an asset.

If this explanation should be even partly correct, we should expect a close relation between the degree of maladjustments in the economic system and the non-ethical approach to economics. The weaker and the more unstable the foundation of society, the more unwelcome should be an economist who was trained to ask first and foremost if the present organisation of society is the one best suited to achieve the greatest possible human happiness. Indeed, simultaneously with the intensification of economic and political crises we witness a marked change in the conception and definition of economics away from ethical concepts.

Adam Smith moved in the sphere of religious-philosophic considerations. He believed that human happiness was independent of wealth, and that therefore all sections of society could be equally happy in spite of inequalities in the distribution of wealth. The just distribution and "the greatest possible quantity" of happiness were guaranteed by the existence of God, who, all-wise and benevolent, was ruling the Universe. Only because, according to Adam Smith, the ethical side of economics was looked after by a higher being could economists concentrate on the material problems.

J. S. Mill's concept of political economy was that of a moral science which dealt with the moral laws of production and distribution of wealth. No one was likely to be a good economist who was nothing but an economist. Social phenomena acting and reacting on one another could not rightly be understood apart. From the middle of the nineteenth century, after the upheavals of the eighteen-forties had been successfully overcome, an ethical approach, as long as it did not conflict with the whole existing order, could be accepted by a society which, at that time, felt sufficiently secure to tolerate, and even to welcome, the thought of the slow transformation towards a higher social ideal.

In this atmosphere the two great Cambridge contemporaries, Henry Sidgwick and Alfred Marshall, born in 1838 and 1842 respectively, were able to develop their system of thought. The spirit of their writings and lectures was so forceful that it could,

to a certain degree, withstand even the modern anti-ethical trend.

Marshall, who had been greatly influenced by Sidgwick's thoughts, combined the gifts of mathematician and economist with a sense for ethical values so strong that he had, originally, planned to become a missionary of the Gospel. The meeting of these two persons and the blending of their gifts proved to be extremely propitious at this particular moment of history. Without Marshall's prominent rôle in the field of economics, Sidgwick's influence on the thought of his generation might not have left so deep a mark.

Sidgwick, on his part, had been greatly influenced by Mill and Bentham, but he lifted their primitive utilitarianism to a higher level. Sidgwick found unsatisfactory the thesis that the sum total of economic activities based on self-interest would automatically achieve the best possible result. Unrestrained pursuit of private interest would, even if we assumed the utmost intellectual enlightenment, develop anti-social, disorganising and anarchical features. We had to consider the conflict between the good of the individual and the good of the larger whole to which the individual belonged. The neglect to observe the great difficulties in harmonising the interests of the individual and those of the community was a major defect of utilitarian ideology.

True, morality was in need of a utilitarian basis. Means could ultimately be justified only by the ends they served. But in order to prevent an amoral and anti-moral misuse as preached by Machiavelli and practised by his disciples, the end desired should reach beyond the limits of individuals, nations and governments, and should be *universal*, serving the whole human race. Human beings were not governed exclusively by economic self-interest, but to a large degree by moral considerations. Since economic science dealt mainly with the actions of human beings, a theory of economics taking no account of the non-economic factors was necessarily deficient.

Taking moral considerations as his basis, Sidgwick adopted a critical attitude towards the limitations of a *laissez-faire* economy. That such an economy resulted in a correct apportioning of rewards to merit was an individualistic fallacy "crushingly repudiated." He restated the main objections raised against unrestricted *laissez-faire*, leaving their justification to future events: free competition tended to annihilate itself and give rise to monopolies directed against the common interest, while individual oppor-

tunities were, in spite of the legal freedom of modern society, not equally distributed.

Two opposite ideals were exercising their influence on society : that of an individualistic system without great monopolies and cartels, with perfect competition and with wages determined by their market value ; and that of regulation of the economy by Government administration and legislation. The contemporary system represented an *intermediate* stage, with competition being gradually replaced by combined action. Against a combination of selfish interests which were not only the judges of, but also secured a majority for, their actions even the best representative system would not be effective. Corporate sentiments and habits of action in industry were on the increase and were cutting across the traditional national boundaries.

While stressing the dangers of Government interference, Sidgwick recognised the need for it. Against the argument that enterprise would suffer if private initiative were replaced by dependence (on the Government), he maintained that this would apply to wage labour, and even to managers as well working for private employers and for joint stock companies. For the encouragement of private initiative, the Government had more incentives at its disposal than had private enterprises, such as honours, distinctions, security of employment, etc. It was less in the economic than in the moral and political field that Government interference might be disadvantageous. But even if it were, for these reasons, not desirable at the moment, one " may yet look forward to it and perhaps prepare the way for it. "

The *guiding principle* for all problems was to " make as workable a system as we can of our own morality. " Two safeguards were to be created when moral laws were violated : firstly, the *exceptional* character of the violation should be emphasised ; and secondly, the smaller part of the community should pursue its interests only so far as it was compatible with the interests of the larger part.

Sidgwick was aware of the violent character which the struggles for wealth and power within a State could assume. They could often be compared with war " in the state of thought and feeling they arouse. " Before strife would be abolished and sympathy would reign among men, we should pass through an interim period, during which " the sympathetic resentment against wrongs " might cause as much strife as was averted by the diminution of mere selfishness. " Though the interests of all individuals, classes and nations are not harmonious, their rights

are; that is the essential difference between the two." The idea of a sum total of strife, irrespective of right and wrong (whereby only the share of each of these two objects varied), seems very original.

Sidgwick emphasised that, in view of the grave hindrances to right living created by external circumstances, society should make "the most earnest efforts" to remove these external causes. At the same time as we strive for economic improvements, we should try to act rightly under any circumstances.

The above outline in no way does justice to Sidgwick's system of thought. It merely illustrates his demand for certain priorities of approach in considering economic problems and phenomena: the moral right and wrong, the universal good, the social responsibility and the development of the individual. By recognising the limitations of *laissez-faire* and the necessary trend towards Government interference, Sidgwick became a link between the liberalism of the last century and the centralism of to-day.

Alfred Marshall defines economics as statements of tendencies expressed in the indicative mood, and not ethical precepts in the imperative. "But," he added, "ethical forces are among those of which the economist has to take account." According to him, the dominant aim of economics was to contribute to a solution of social problems. The main concern of economics was with human beings who were impelled, for good or evil, to change and progress.

Writing about Ricardo and his school, Marshall criticised theories worked out on the tacit supposition that the world was made up of City men. Labour—*i.e.*, the labourer—was spoken of as a commodity, without allowance being made "for his human passions, his instincts and habits, his sympathies and antipathies, his class jealousies and class adhesiveness, his want of knowledge and of the opportunities for free and vigorous action." *These economists attributed to the forces of supply and demand a much more mechanical and regular action than was to be found in real life.* They did not allow sufficiently for the influence of his circumstances on a man's character.

Marshall had a clear concept of the ideal economist, who needed three great intellectual faculties: perception, imagination and reason; most of all imagination, to put him on the track of those causes of visible events and of those effects of visible causes which were remote or lay below the surface. He also needed *active* sympathy, so that he was able to put himself in the place not only of his equals, but also of other classes. "Nearly all the

founders of modern economics were men of gentle and sympathetic temper, touched with the enthusiasm of humanity." Discussing the history of economics, Marshall speaks of the physiocrats as giving to economics the *modern aim* "of seeking after such knowledge as may help to raise *the quality of human life*." His essentially ethical approach to economics is disclosed in one sentence of his *Principles of Economics*. He states that *the most economic use of man as an agent of production is wasteful if he is not himself developed by it*. (May we remember this in discussions on full employment.)

Thoughts similar to that of Marshall were expressed by his contemporaries. Benjamin Jowett, Master of Balliol, wrote in the middle of last century:—

"I should like to see a political economy beginning with the idea not how to gain the greatest wealth, but how to make the noblest race of men. A Greek rather than a modern idea. I would show how the laws of political economy came to check or to realise this ideal—the form of society best adopted to it. The first business of mankind is not to make money, but to elevate the greatest number of human souls physically and morally."

One of the outstanding economists in the U.S.A., the late Professor Ely, born in 1854, was of the opinion that the ideal of political economy was the most perfect development of all human faculties which can be attained in each individual.

A highly illuminating exposition of the task of political economy can also be found in A. C. Pigou's *Unemployment* (1913):—

"The compelling motive that leads men to economic study is seldom a mere academic or scientific interest in the movements of the great wheel of wealth. It is rather the sense that, in the world of business and of labour, justice stands with biased scales; that the lives of the many are darker than they need be. In these things lies the impulse to economic investigation; and the removal or at least the mitigation of the evils they portray is the goal of the economist's search. . . . Their effort, though it may well be roused to action by the emotions, itself necessarily lies within the sphere of the intellect. . . . Pity, however sincere and grief, however real are here intruders to be driven ruthlessly away. Stirred by their appeal we have entered the temple of science. Against them its doors are closed, and they must wait for *our return*."

This brilliant exposition defines the aim of the economist to be the removal of social evils. This end can be achieved only by means of scientific study. After a problem has been solved scientifically, the economist *returns to the world* and applies his scientifically arrived at solution to procure social improvements. Thus the driving force and the final goal, the beginning and end of economics, is moral, and the scientific treatment of problems is a necessary, but only intermediate, stage.

Lord Keynes' father, J. N. Keynes, in his work (1891) *Scope*



*and Method of Political Economy*, which is one of the very few books dealing extensively and thoughtfully with this controversial subject, also recognised two branches of economics, the one—*theoretical and non-ethical*—which is science, the other—*applied and ethical*—which is art.

In later definitions of economics, the second branch, concerned with the ethical aspect, gradually disappears :—

“ Economics is the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses. . . . Economics is entirely neutral between ends. . . . ” (Lionel Robbins, *The Nature and Significance of Economic Science*.)

J. R. Hicks is, if anything, more non-committal. He defines economics as the science which deals with business affairs.

The modern schools of economists consider it a kind of strange aberration to use the word ethics in connection with economics; hardly any major publication by young economists exists on the subject. And the explanation of this is in no way to be found in a “reactionary” attitude; on the contrary, there is a considerable proportion of “progressive”-minded economists among the younger generation. But only a few have the opportunity of working on the lines of their socio-ethical ideas. Under the pressure of circumstances many of them have developed “split personalities.” As professional economists they examine scientifically things as they are. In their capacity as private citizens they concern themselves with things that ought to be. Although torn by this conflict, the “dual economist” refuses to acknowledge the existence of this problem.

He often tries to escape from it by asserting that theoretical and applied economics are two different fields which can easily be separated, the ethical approach being suitable for the latter only. Yet, something decisive is omitted in this argument. For, before the economist enters the sealed and sacred temple of science, he has to ask himself which problems he is going to solve and which principle is to guide the choice of his problem. At present the direction research takes is mostly determined by sheer accident and by conditions connected with research grants or, of course, by the character of employment. But it is above all the refusal to think in terms of the final purpose of one's own life, activity and profession which is responsible for the lack of a guiding principle.

One of the great merits of Marshall was his awareness of the importance of the choice of problem. He went into minute details to set down the questions with which an economist should

occupy himself. The following selection demonstrates once more the possibilities of economics as a branch of social ethics :—

“How should we act so as to increase the good and diminish the evil influences of economic freedom both in its ultimate results and in the course of its progress? If the first are good and the latter evil, but those who suffer the evil do not reap the good, how far is it right that they should suffer for the benefit of others?”

“How far would a more equal distribution of wealth justify changes in the institution of property, or limitations of free enterprise even when they would be likely to diminish the aggregate of wealth?”

“How far could this be done without injustice and without slackening the energies of the leaders of progress?”

“How far does the influence of economic freedom reach in any place, in any rank of society, or in any particular branch of industry? What will be the ultimate and intermediate effects?”

“Ought we to rest content with the existing forms of division of labour? Is it necessary that large numbers of the people should be exclusively occupied with work that has no elevating character? Is it possible to educate gradually, among the great mass of the workers, a new capacity for the higher kinds of work; and in particular for undertaking co-operatively the management of business in which they are themselves employed?”

“What business affairs should be undertaken by society itself acting through its Government, imperial or local?”

“Is it necessary to retain in their full force all the existing rights of property?”

“Are the prevailing methods of using wealth entirely justifiable?”

One of the foremost tasks facing the economist to-day is an investigation into the problem of incentives. Society moves in the direction of increased planning, and the dangers of regimentation and bureaucratic control grow accordingly. The only efficient antidote seems to lie in society creating incentives of such a character as will make the citizens do voluntarily what they are expected to do in the interest of the community. In this way, planning need not be the end of individual freedom, but may be the beginning of a scientific direction of personal initiative. In order to start work on such lines, however, one would first have to agree on an ethical principle, *i.e.*, that it is better to attract than to force.

If full employment is to be secured without a development towards slave labour, incentives for occupational and geographical migration would have to be created sufficiently strong to achieve the socially necessary transfer. Incentives for the movement of capital, for new research and inventions, for an improvement in housing and in working conditions, and, last but not least, incentives for a higher birth rate—as far as economic conditions are involved—would have to be worked out. Otherwise, the unpleasant picture painted by adversaries of planning may easily come true, and a society, steadily declining, deprived not only of the freedom of thought and movement, but even of the desire for it, may evolve.

Again, the opposition to such a society can only be based on

ethical grounds, since economic science as such is neutral to the form of society. Progressive economic planners, indifferent to ethical problems, may influence society in a direction away instead of towards our traditional concepts of freedom and independence. They need to be conscious that planning all the time demands an answer to the question : what should be done ? and this answer cannot be given without a definite ethical attitude to progress, and human happiness, poverty, illness, unemployment, slumps and ignorance. Without this ethical basis, planning would not be necessary at all, and things could be left to themselves. The effects of economic actions must be desirable for other than economic reasons.

We witness to-day the strange phenomenon of planners who are, fundamentally, inspired by ethical principles, being, in our age of cynicism, as it were ashamed of such principles, and omitting to safeguard the most essential ones, the freedom of thought and action, and the intellectual and spiritual development of man.

Yet a society in which planning plays an important rôle could base its economic policy to a much higher degree on ethical principles than could a *laissez-faire* society. *Laissez-faire* implied the free play not only of beneficial, but also of evil forces, and the lack of executive power to enforce measures necessary for the general well-being. It would be calamitous if the very society which could plan the fulfilment of vital ethical principles in economic life were not to take heed of this unique opportunity.

The student of to-day who is educated mainly in the spirit of expediency and, above all, of efficiency, may soon have lost all sense for ethical principles as the basis of economics precisely at a time when society is moving in the direction which would make their application possible. The increasing rôle which planning and controls play in society will make the economic maladjustments less severe ; at the same time the growing hold of the State (with the help of modern methods of propaganda and organisation) over its citizens will lessen the fears about society's stability. Theoretically, then, a society may evolve stable enough to offer a margin for an ethical approach to its problems, but only few human agents would come forward to fill the ethical void with their ideals.

Modern economists will have to find a cure for the broken continuity of economic thought. With the general decline of liberalism, precious ideas have been eliminated together with outdated concepts. Yet it would not be too difficult to preserve

many values fast being discarded and to raise economics again to a higher level where it consciously deals with and connects what is and what ought to be. Awareness of the problem may induce a few economists, tutors, lecturers, examiners, editors and writers of economics to think, and to train others to think, about their tasks and the purpose of economics.

Then we may discover how greatly we can profit in taking over some of the moral fervour from past generations of economists. Without it, we may never achieve the world of food, work and homes for all. The God of efficiency may prove too weak for this task. Bowing to this tacitly assumed prime mover of all our rational actions, we are sure to destroy the sense for higher, non-economic values. And a future world run on principles of superb organisation will offer no fertile soil for their revival.

S. Moos

*Oxford.*