MONEY, METAPHYSICS AND MORALITY

(Paper for Kingston Philosophy Café session held on 2 October 2012 as part of the Kingston Festival of Ideas October 2012 on 'Money')

1. INTRODUCTION

1.1 Here's what a few people have had to say on the subject of money.

- "The love of money is the root of all evil." (Saint Paul)
- "Money is not the most important thing in the world. Love is. Fortunately, I love money." (Jackie Mason)
- "When I was young I thought that money was the most important thing in life; now that I am old I know that it is." (Oscar Wilde)
- "Most men love money and security more, and creation and construction less, as they get older." (John Maynard Keynes)
- "The only way not to think about money is to have a great deal of it." (Edith Wharton)
- "Money is better than poverty, if only for financial reasons." (Woody Allen)
- "If you would know the value of money, go and try to borrow some." (Benjamin Franklin)
- "A bank is a place that will lend you money if you can prove that you don't need it." (Bob Hope)
- "If you owe the bank $100 that's your problem. If you owe the bank $100 million, that's the bank's problem." (JP Getty)
- "If you think nobody cares if you're alive, try missing a couple of car payments." (Earl Wilson)
- "All I ask is the chance to prove that money can't make me happy." (Spike Milligan)
- "What's the use of happiness? It can't buy you money." (Henry Youngman)
- "Whoever said money can't buy happiness simply didn't know where to go shopping." (Bo Derek)
- "The importance of money flows from its being a link between the present and the future." (John Maynard Keynes)
- "Money is like muck, not good except it be spread." (Francis Bacon)

1.2 Themes identifiable from the above include the following.

- Money has the *potential*, at least, to corrupt.
- The role of banks is not always helpful[1].
- Money can buy *some*, at least, of the things in life that help make us happy.
- Money represents the power to determine the future pattern of production and consumption.
- The *distribution* of money between individuals matters.

1.3 Whatever we feel about money, there is no question that it has played a vital role in the transformation of human society from bare subsistence to the production, distribution and consumption of a vast range of goods and services, both private and public. It retains nevertheless an elusive if not mystical quality. This paper, in attempting to 'tie down' the concept of money, explores a wide range of philosophical issues. In particular it examines 'money' as a feature of the 'social and institutional world' in which we live and asks whether this world has to be the way it is. How, if at all, can inequalities in the distribution of income and wealth be justified? Are we sure that we know what we mean by 'wealth'? Is an obsession with the size of 'National Income' the hallmark of a society that "knows the price of everything and the value of nothing" (Oscar Wilde)? These and related questions are explored if not answered.

[1] If only Bob Hope's description of banks had been true over the last few years we might have avoided the financial crisis triggered by irresponsible 'sub-prime' lending.

2. SOME BASIC ECONOMICS

2.1 Before 'getting philosophical' about money let's look at some basic economics.

- Money serves as:
  a. a means of exchange (i.e. for buying and selling goods and services) - its primary function;
  b. a store of value (assuming its purchasing power can be reasonably preserved);
  c. a unit of account (e.g. for measuring national output, income and expenditure).
- Money is whatever is *accepted* as a means of exchange.
- Money is a *stock* i.e. a given amount exists at any one time.
- Different things serve the function of 'money' to different extents. There is thus more than one measure of money depending upon what is or is not included.
- In modern economies money consists mainly of *bank deposits*. *Cash* (notes and coins) provides the 'small change' of the monetary system.
- Bank deposits exist simply as account 'balances' (now recorded on computer databases but formerly in written ledgers). They are not 'backed up' to any significant extent by bank-held notes and coins.
- The bulk of payments by value are now made without the use of cash. A completely cash-free economy is conceivable.
- Debit/credit cards and cheques are *not* money but authorise 'transfers' of money between bank accounts (i.e. they authorise matching reductions and increases in account balances)[2].
- When banks give loans they increase the money supply.
- The Bank of England can create money simply by increasing its own 'bank balance' and can then 'feed' the money into the economy[3].
- Money is *not* the same as expenditure or income. These are *flows*. Money is a stock.
- Money is *not* the same as 'wealth'[4]. 'Personal wealth' includes, apart from money, other financial assets such as stocks and shares and physical assets such as real estate and goods.
- It is *spending* that generates output, income and employment. If productive capacity is inadequate, however, increased spending may simply result in increased prices.
- Changes in the stock of money *may* result in changes in the amount of spending but could be counterbalanced by changes in its 'velocity of circulation' (the rate at which it is used to make final purchases)[5].
- Money has no *intrinsic* value. Its value derives from its power to purchase goods and services and is affected by rising or falling prices. The Retail Price Index (RPI) and Consumer Price Index (CPI) calculate the 'weighted average' of the change in price of a representative range of items.
- The effect of price change on the money value of each year's national income has to be eliminated (using the RPI) in order to identify *real* change in their volume.

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[2] Stanlake (1983) provides a particularly clear description of the process of money transfers between bank accounts. "The greater part, in value terms, of the payments made each day are carried out by adjustments made to the totals in different bank deposits. A payment from one person to another merely requires that the banker reduces the amount in one deposit and increases it in another. Transferring money, therefore, has become little more than a kind of bookkeeping exercise; the money itself does not consist of some physical tangible commodity."

[3] So-called *quantitative easing* is an example of this process. "The Bank of England *electronically creates new money* and uses it to purchase gilts from private investors such as pension funds and insurance companies" (Description on the Bank's website). The Bank has created £375 billion in this way over the last three years.

[4] For most people 'wealth' is a vague 'feel good' word for which they can supply no *coherent* definition.

[5] 'Monetarists' and 'neo-Keynesians' argue not so much about whether the supply of money can influence spending and prices but about the likely *nature* and *extent* of such influence.

2.2 In June 2012 the total amount of money ('M4' definition) held in the UK was about £2,057 billion[6]. This consisted of £56 billion privately held notes and coins, £1,232 billion 'retail' bank deposits and £769 billion 'wholesale' bank deposits. The 2010 UK Gross Domestic Product (the total value of goods and services produced by UK *located* factors of production) was £1,458 billion (measured at 2010 market prices). About 10% of the value of GDP can be attributed to the financial and insurance sector.

2.3 The activities of banks are wide-ranging. Core functions remain the holding of customers' money deposits, making payments into and out of their accounts, supplying cash and providing loans to both individuals and organisations. They are increasingly interested in selling 'add-ons' including various insurance products. An expanding area, particularly since the financial deregulation of the 1980s, has been investment in a wide variety of both money and non-money assets (including currencies, commodities, real estate and stocks and shares). This essentially involves speculating about short or long term changes in their price, in the hope of buying low and selling high. It is, in effect, a form of gambling, generally with other people's money. It involves 'swapping' the ownership of existing assets and may be only tenuously linked to funding investment in *new* 'productive' and 'social' capital (see 5.2). Over recent years banks have come in for much criticism over high-risk speculation and there is increasing pressure for their 'retail' and 'investment' arms to be more clearly separated. The collapse of Barings Bank in 1995 due to the activities of one 'rogue trader' illustrated the dangers involved. Unfortunately lessons were not learnt. In 2008 major banks (including Northern Rock and the Royal Bank of Scotland) were saved from collapse only by a massive government 'bail-out'. It cannot be emphasised too strongly that the whole banking system is predicated on customer confidence. If this is lost and it becomes regarded as a confidence *trick* customers will try to withdraw their money, banks will inevitably default and the whole edifice will tumble like a house of cards.

3. MONEY, METAPHYSICS AND 'INSTITUTIONAL REALITY'

Money has a *physical* reality.

3.1 Metaphysics is concerned with the nature of 'being', 'existence' or 'reality'. As far as its *physical* reality is concerned, money in the modern world comprises, to a lesser extent, notes and coins (made of stuff that has little value in itself) and, to a much greater extent, entries on computer databases[7]. There is nothing vastly complicated about the 'physics' involved. Indeed the relative ease with which notes and coins can be produced makes them an obvious target for forging. Computer databases, although technologically more complex, are also potential targets for both criminal and enemy 'attack'[8].

Money is the creation of 'collective intentionality'.

3.2 Regardless of the physical form that it takes, what makes something *money* is our *acceptance* of it for recognised purposes, primarily for the buying and selling of goods and services. As argued by the American philosopher John Searle (1932-), "the word *money* is just a placeholder for a complex set of intentional activities, and it is the capacity for playing a role in those activities that constitutes

[6] A billion = 1,000 million. A trillion = 1,000 billion (i.e. a million million).

[7] It might be argued that such entries are just '*representations*' of money but this leaves ambiguous the ontological status of what is being 'represented'. The important point is that bank deposits, whether recorded in written ledgers or on computer files, serve the function of money just as much as the bits of paper and metal that constitute 'cash'. Money is what money does.

[8] Lenin said: "the surest way to destroy a nation is to debauch its currency". During WW2 Germany tried to undermine the UK economy by flooding the country with forged banknotes. The modern nightmare scenario is the 'wiping' of banks' computer systems, including back-up systems, by cyber-terrorists.

the essence of money" (Searle, 1999). Money, he argues, is a feature (along with a multiplicity of others including government, property and marriage) of the "social and institutional world" created through the exercise of "collective intentionality" and involving the "assignment of status functions" through the application of "constitutive rules", typically[9] in the form of "X counts as Y in context C". In the case of banknotes, for example, pieces of printed paper (X) produced in an approved way (C) count as tokens accepted for the purpose of making transactions (Y).

Institutional reality is 'observer-*dependent*'; physical reality is 'observer-*independent*'.

3.3 Searle (1999) defines 'intentionality' as "simply the features of mental states by which they are directed at or about objects and states of affairs other than ourselves." How we 'divide up' and categorise the 'world' of our *sensory* experience (e.g. into mountains, rivers, trees, animals, houses and chairs) is, by its very nature, "*observer-dependent*". Its scope, however, is narrowly constrained by the "brute reality" of "physical particles in fields of force" that gives rise to the sensory experiences involved. Such brute reality is "*observer-independent*". It is what it is regardless of the existence or otherwise of beings capable of consciousness and intentionality.

Institutional reality is nevertheless *objectively* knowable.

3.4 In our 'social and institutional world', the 'objects and states of affairs' to which our mental states 'are directed' are not 'fixed' by sensory experience of brute reality. They emanate from and embody complex patterns of beliefs, attitudes and behaviour. Phenomena such as governments, the banking system, companies, trade unions and philosophy cafés are not 'things' that can be seen or touched. They are nonetheless *real*. Although clearly observer-dependent they possess what Seale calls "*epistemic objectivity*". In other words, they exist as identifiable facts about human intentional states amenable to examination and analysis. If this were not true, social scientists including economists and sociologists would be out of a job.

Searle summarises his position.

3.5 Given the importance of his distinction between observer-dependence and observer-independence, it is worth quoting Searle at some length. "Think of the things that would exist regardless of what human beings thought or did. Some such things are force, mass, gravitational attraction, the planetary system, photosynthesis and hydrogen atoms. All of these are observer-independent in the sense that their existence does not depend on human attitudes. But there are lots of things that depend for their existence on us and our attitudes. Money, property, government, football games and cocktail parties are what they are, in large part, because that's what we think they are. All of these are observer-relative or observer-dependent. In general, the natural sciences deal with observer-independent phenomena, the social sciences with the observer-dependent. Observer-dependent facts are created by conscious agents, but the mental states of the conscious agents that create the observer-dependent facts are themselves observer-independent mental states. Thus the piece of paper in my hand is only money because I and others regard it as money. Money is observer-dependent. But the fact that we regard it as money is not itself observer dependent. It is an observer-independent fact about us that I and others regard this as money" (Searle, 2004).

The attribution of function links physical with institutional reality.

3.6 A common connection between brute reality and social or institutional reality is provided by the attribution of 'function'. In purely physical terms, a chair, for example, is just an assemblage of 'stuff' (wood, metal, plastic or whatever). What makes it specifically a *chair* is the observer-dependent

[9] Searle (2010) recognises the existence of "freestanding Y terms" i.e. of status functions not embodied in *particular* 'Xs' (i.e. in *particular* persons or objects). Examples include 'organisations' (see 3.19) and non-cash money (comprising, as we have seen, alterable written/electronic records).

recognition that it is designed and used for a given purpose i.e. to sit on[10]. In a similar way, as already described, specially designed and produced bits of paper and metal become *money*. The buildings we call 'shops' and 'banks' are just physical structures composed in the main of calcium, silicon and carbon based materials. What makes them specifically *shops* and *banks* are the human purposes to which they are put. Change these and overnight a 'shop' may become an 'office', a 'bank' a 'restaurant'.

Features of institutional reality possess *causative powers*.

3.7 Everyday familiarity with the features of our institutional world can blind us to their remarkable nature[11]. Particularly remarkable is their ability to have a causative effect upon brute reality. By the utterance of a few words and the exchange of a piece of paper (a banknote) for another piece of paper (a train ticket) I can make happen, which otherwise I could not, a given 'space-time' transportation of the particles comprising my body. More generally, the distribution of spending power in the world determines the uses to which resources are put (including the extent to which they are used to produce what some might regard as wasteful luxuries). Extreme brute facts caused by extremes in the distribution of income (an institutional fact) include human starvation and death. Searle (1999) recognises that "we have complex interpenetrations of brute and institutional facts. Indeed, typically, the purpose or the function of the institutional structure is to create and control brute facts. Institutional reality is a matter of positive and negative powers - including rights, entitlements, honour and authority as well as obligations, duties, disgrace and penalties ... all of institutional reality in one way or another is about power."

Collective intentionality involves the concept of 'we'.

3.8 The notion of 'collective intentionality' (i.e. of *shared* understanding and purposes) raises significant conceptual issues. If, for example, we accept something as money only if we are confident that other people accept it as money (e.g. if I believe something to be money only if I believe that you believe it to be money and if you believe something to be money only if you believe that I believe it to be money) then both circularity and the potential for infinite regress clearly arise. Searle argues, however, that we can avoid such problems without being "forced to postulate some sort of collective mental entity, some overarching Hegelian World Spirit, some 'we' that floats around mysteriously above us individuals and of which we as individuals are just expressions". He suggests instead: "In order to account for the fact that all intentionality is in the heads of individual agents, we do not have to suppose that all intentionality is of the form 'I intend', 'I believe', 'I hope'. Individual agents can have in their individual heads intentionality of the form 'we intend', 'we hope', and so on[12]. The requirement that all intentionality be in the heads of individual agents, a requirement that is sometimes called 'methodological individualism', does not require that all intentionality be expressed in the first person singular" (Searle, 1999).

[10] The attribution of function is not confined to artefacts. For example, someone viewing Kingston's Coronation Stone for the first time and unaware of its alleged 'provenance' might see it as just 'a stone'. Someone knowing and believing the story of its former function, on the other hand, might see it as 'a seat' used for the crowning of seven Saxon kings.

[11] As Searle (1999) points out: "In philosophical studies we have to begin by approaching the problems naively. We have to allow ourselves to be astounded by facts that any sane person would take for granted."

[12] The word 'we' has *user-determined* reference. When someone uses the word 'we,' it designates a *set of individuals* that includes the user (necessarily) and anyone who meets user-determined criteria (also met by the user). For different purposes, different sets of individuals may be designated. In different contexts and for different purposes, for example, I might refer to "we Kingston Philosophy Café participants", "we British", "we Europeans", "we citizens of the world", etc. The extent to which, for a given purpose, there is correspondence between my "we" and your "we" determines the scope for our mutual co-operation and exercise of collective intentionality (whether it concern philosophical debate, sport, politics, money or anything else).

Language can play a '*performative*' role in the creation of institutional reality.

3.9 In discussing the role of language in the creation of institutional reality, Searle (1999) points out that language can be used not only to *describe* facts but also to *create* facts by virtue of the utterances involved i.e. it can have a *performative* function. To utter the words "I promise" under appropriate circumstances, for example, is not to describe an already existing reality but to create the very reality to which the words relate. In a similar way, institutional reality is created through *collective* expressions of belief and intention (for example: "We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the pursuit of Happiness ..."[13]). A more mundane example of the expression of collective intentionality linked to the creation and maintenance of a feature of institutional reality is the wording on a US dollar bill: "This note is legal tender for all debts public and private". The Bank of England promises on its banknotes "to pay the bearer on demand the sum of £--". Taken literally this is an empty promise (the bearer would be paid for the banknotes only with other banknotes) but it serves to underwrite the collective intentionality within the UK that the notes be assigned the status function of money.

Institutional reality *evolves* over time.

3.10 Much of our institutional reality has grown up piecemeal over centuries if not millennia. Searle (1999) highlights the evolution from "commodity money" (comprising a commodity such as gold which is valued for its own sake), to "contract money" (comprising 'promissory notes' redeemable for the commodity on demand) and finally to "fiat money" (comprising unredeemable bits of paper). Another example of institutional evolution is the change in the function of the British monarch from that of ruler to that of figurehead (in which capacity the Queen is portrayed on UK banknotes, coins and postage stamps).

***Commonality* between intentional states requires explanation.**

3.11 If human consciousness exists only as mental activity within the heads of separate individuals then any *commonality* in the content of such activity requires explanation. Being confronted, more or less, by the same brute reality and having similar mental 'equipment' provides part of the answer. Most crucial is the fact of human *intercommunication*, primarily through language which, by its very nature, involves users in identifying, comparing and categorising the objects of their intentional states. Such commonality as exists between our separate intentional states is nevertheless surprising given the limited means of communication at our disposal (aural, visual and tactile 'signs') and the potential for misunderstanding if not sheer incomprehension.

***Divergence* between intentional states is an important fact.**

3.12 The intentional states associated with institutional reality are distanced, if not entirely divorced, from the constraints imposed by brute reality. Any commonality in the contents of such intentional states within different people, therefore, is likely to be partial and fragmentary. Underlying attitudes and beliefs can range widely and may (depending on one's point of view) be rational or irrational, coherent or incoherent, benign or pernicious. Different groups of people are likely to differ significantly in their collective intentionality e.g. in how they conceptualise their social and institutional world. Most people, for example, appear to find a place in their world for some sort of 'god' although a substantial minority do not. Different believers, moreover, follow different gods with different things to say about how we should live our lives (including how we should use our money and whether some uses constitute 'usury'). With regard to the financial system, the perspectives of the protestors who camped outside Saint Paul's Cathedral and those of City bankers are very different. The perspectives of monarchists and republicans are similarly divergent.

[13] *Preamble to the United States of America Declaration of Independence 1776*. The 'we' was obviously intended by the signatories to encompass all American colonists, a substantial minority of whom (perhaps 20%) wished to remain loyal subjects of George III and might have responded "don't include *us* in *your* 'we'!"

Institutional reality represents a 'battleground' of competing perspectives.

3.13 'Collective intentionality', it is clear, should not be taken to imply 'consensus'. Instead there are c*ompeting* 'world views' reflecting, amongst other things, different social and economic perspectives. At any time there will be a *prevailing* institutional reality reflecting power relationships in society. Such reality, however, will not necessarily possess internal consistency or coherence. In the United States, for example, the democratic institutions founded upon the recognition of the 'self-evident' truth that 'all men are created equal' existed into the second half of the 19th century alongside the institution of slavery[14] and into the second half of the 20th century alongside institutionalised racial segregation. 'Men' was interpreted literally, equal voting rights for women not being fully achieved until 1920. The struggle between competing perspectives means that institutional reality is in a constant state of flux. Observer-dependent attitudes are *constitutive* of institutional reality. By changing them we change that reality, for good or ill.

Institutional reality is inherently *fragile*.

3.14 The observer-dependent nature of institutional reality makes it inherently *fragile*. Features (e.g. systems of government) that have endured for a long time may appear set in tablets of stone. Peacefully or otherwise, however, they can be overturned in a short space of time by shifts in underlying beliefs and attitudes. Searle (1999) expresses this very clearly. "The collective assignment of status functions, and above all their continued recognition and acceptance[15] over long periods of time, can create and maintain a reality of governments, money, nation-states, ownership of private property, universities, political parties and a thousand other such institutions that can seem as epistemically objective as geology and as much a permanent part of our landscape as rock formations. But with the withdrawal of collective acceptance, such institutions can collapse suddenly, as witness the amazing collapse of the Soviet empire in a matter of months, beginning in *annus mirabilis* 1989." The direction of change, unfortunately, is not necessarily positive. In the space of a few years, for example, Germany's broadly democratic Weimar republic was supplanted by a self-styled 'national socialist' regime with an institutional reality (and associated brute reality) that included racialism, concentration camps and mass murder. Symbolic, at least, of the disintegration of the collective intentionality supporting the Weimar Republic was the 'debauching' of its currency through hyper-inflation.

Collective intentionality may produce unintended 'fallouts'.

3.15 In his more recent work, Searle (2010) recognises the existence of "institutional facts that are not matters of collective agreement, acceptance or recognition" but that arise as "systematic fallouts or consequences of ground-floor institutional facts". Examples include 'macro-economic' phenomena such as recessions and trade cycles arising as unintended fallouts from our purposive day-to-day 'micro-economic' activity (e.g. making, buying and selling things).[16] They might be seen as examples of the 'law of unintended consequences', the concept of which was popularised by the American sociologist Robert K. Merton (1910-2003) who suggested "the need for a systematic and objective study of the elements involved in the development of unanticipated consequences of purposive social action, the treatment of which has for much too long been consigned to the realm of theology and speculative philosophy" (Merton, 1936). Such need has been partly met by 'game

[14] Thomas Jefferson, a signatory of the Declaration of Independence and later a US President, was a prominent Virginia slave owner of whom English abolitionist Thomas Day commented in 1776: "If there be an object truly ridiculous in nature, it is an American patriot, signing resolutions of independency with the one hand, and with the other brandishing a whip over his affrighted slaves."

[15] Searle does not intend 'acceptance' to imply 'approval'. "Acceptance, as I construe it, goes all the way from enthusiastic endorsement to grudging acknowledgement, even the acknowledgement that one is simply helpless to do anything about, or reject, the institutions in which one finds oneself" (Searle, 2010).

[16] A recent example, of course, has been the near collapse of financial systems resulting from the unregulated pursuit by individual banks and financial traders of corporate aggrandisement and short-term profits.

theory' which explores the outcomes of our attempts to 'second-guess' the content of each other's intentional states (a classic example being provided by the so-called 'prisoner's dilemma'). In the economic sphere, game theory has been applied to explaining the business decision-making of the big firms that dominate much of national and global output. In the political sphere the potential consequences of 'getting the game wrong' are frightening. During the 1962 Cuban missile crisis the second-guessing going on in the heads of two people (Kennedy and Khrushchev) and of a few close advisors determined whether most of the world's population would live or die. In the event, the consequences were broadly as intended (the overriding intention, it must be assumed, being to avoid a nuclear holocaust) but games of 'chicken' or 'who blinks first?' can go horribly wrong.

Recognised macro-economic phenomena demand causal explanation.

3.16 Macro-economic phenomena such as recessions and trade cycles can be *recognised* as such (i.e. as distinct processes) and can thus become the *objects* of intentional states. The fact of such recognition, however, does not *itself* render them understandable or amenable to 'corrective' action. A classic example is hyper-inflation, the process of which has been described (Keynes, 1919) as engaging "all the hidden forces of economic law on the side of destruction" but "in a manner which not one man in a million is able to diagnose". Recognition of macro-economic phenomena involves *observing* and *linking* specific events. Macro-economic phenomena do not exist 'over and above' such events but are constituted by them. We don't observe things such as falling output and rising unemployment and *separately* observe a recession any more than we observe a spate of deaths displaying certain symptoms and *separately* observe a plague. The linking of events generally involves the search for *causal connections*. *Where* we look for these depends both upon the nature of the events and how we conceptualise 'the world'. In the economic sphere it seems most obvious to look at the motivations behind people's economic behaviour (e.g. why employers hire and fire workers and why manufacturers and retailers raise and lower prices). In the 'natural' sphere we generally look for 'natural' causes, but not necessarily. Phenomena such as plagues and crop failures have been attributed in some primitive societies to supernatural causes (e.g. 'divine displeasure' or the 'work of the devil') and remedies sometimes sought in human sacrifice (including the burning of 'witches'). Much economic theory has been barely less superstitious and, arguably, has had more sacrificial victims.[17]

Intentional states are open to 'self-examination'.

3.17 Perhaps the most important fact about humans is their individual and collective *self-consciousness*. Our intentional states can *themselves* become the objects of other intentional states. One moment my neighbour's new car may be the object of my envy. The next moment that envy itself may become the object of my attention. We can and do examine our individual and collective selves and ask whether we *have* to be that way and, if not, how we *want* to change. The first is an empirical issue, the second an ethical one. Ethical decisions may involve 'trade-offs'. We might consider that the macro-consequences of patterns of behaviour are sufficiently 'good' to outweigh their morally unattractive nature (put crudely, that 'the ends justify the means'). A question raised later (see 4.10 & 4.11) is whether we are by nature 'greedy' in our economic behaviour and, even if capable of behaving differently, whether 'greed is good' because it maximises our collective 'prosperity'. 'Working backwards', we might look at the macro-economic consequences (perhaps gross inequalities of personal wealth and income) of our micro-economic behaviour, find them unacceptable and collectively take action to modify such behaviour and its outcomes. Crucial to the

[17] Perhaps most of the estimated one million people who starved to death in the Irish potato famine of the 1840s could have been saved by effective government action to redistribute available food resources but were sacrificed on the altar of 'laissez-faire' economics that opposed significant interference with the 'natural workings of the market'. To economic dogma was added religious bigotry. Sir Charles Trevelyan, the man in charge of the government's ineffective relief programme, considered "the judgment of God sent the calamity to teach the Irish a lesson".

success of such intervention is a correct diagnosis of the causative processes at work and the scope for their manipulation (including the scope for changing fundamental attitudes and motivations) together with the monitoring of outcomes to check for unintended and undesired side effects.

Choices are possible. Metaphysical speculation is unhelpful.

3.18 The existence both now and in the past of societies with very different political, social and economic institutions suggests considerable scope for changing the content of intentional states and associated patterns of human behaviour. Without going into issues of 'free will', we generally believe that we *can* choose, within limits, to change the way we behave. If this were not true, Jesus, when delivering his 'Sermon on the Mount', would have been wasting his breath. We have already identified the possibility (see 3.14) of radical change, for good or ill, in collective intentionality. The role of 'ideas' and 'circumstance' in bringing about such change is considered shortly (see 4.2). A fundamental divergence of outlook (already suggested in 3.16) must be recognised at this juncture. There are many who clearly believe in the existence of 'outside' forces that determine, or at least influence, the course of events. Such forces include 'gods', 'devils', 'world spirits', 'destiny', 'nature' and 'fate'. It is, of course, salutary to be reminded now and again both of the limitations of our understandings and that we are not always in control of things as much as we might like to think[18]. This does not mean, however, that we have to seek explanations in 'metaphysical' entities the existence or non-existence of which are inherently incapable of being tested. Metaphysics, unfortunately, has infected much of the social sciences including many 'schools' of history, politics and economics (see 4.3). Rejecting metaphysical speculation, of course, presents us with the challenge of explaining how mental processes (and their concomitant electro-chemical brain activity) occurring within separate but intercommunicating 'heads' produce all the social and institutional phenomena of which we are aware.

'Organisations' constitute *power frameworks* for group activity.

3.19 Metaphysical entities 'exist' to the extent that they form part of many people's mental 'baggage' and, as such, can have immense power to influence behaviour. Many people, for example, have killed and died for their own particular 'god'. Whether such entities have observer-independent existence is irrelevant to their causative power. Certain other 'entities' within our intentional world lack *particular* physical realisations and may thus appear to have something metaphysical about them. Prime examples (see 3.4) are *organisational* entities including governments (both central and local), political parties, firms (e.g. limited liability companies) and trade unions. They are *linked*, at any particular moment, to identifiable physical entities, (primarily people but also things such as buildings and equipment) but are distinct from them. Go in search of 'Kingston Council' and you will find individual councillors, members of staff and council buildings (all of which are liable to change over time) but you will never meet 'the Council'. This exists only as a set of organisational arrangements that, amongst other things, confers specific *powers*[19] upon designated office-holders (e.g. upon whoever currently counts as the 'Leader of the Council' or the 'Chief Executive'). Such arrangements (and the collective intentionality they reflect) are usually formalised in written laws and rules, but not necessarily (e.g. significant aspects of the 'British Constitution' remain unwritten).

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[18] In *War and Peace* (1869), Tolstoy, very much a 'fatalist', describes the French occupation of, and subsequent retreat from, Moscow as follows. "Napoleon, whom we imagine as guiding this whole movement (as a savage imagines that the figure carved on the prow of a ship is the force that guides it), Napoleon, during all this time of his activity, was like a child who, holding the straps tied inside a carriage, fancies that he is driving it." A coachman not 'fate', however, drives Tolstoy's metaphorical 'carriage' and people, including military leaders, can and do make a real difference, for better or worse, to events.

[19] The "*deontic powers*" carried by "*status functions*" include "rights, duties, obligations, requirements, permissions, authorisations, entitlements, and so on." (Searle, 2010)

'Organisations' include nation states with limited control over their own affairs.
3.20 The *territorial* groupings of people known as 'nation states' operate as 'organisations' with their own individual systems of decision-making and control (ranging widely in the degree of concentration or diffusion of power). Most are products of the 20th century and of decolonisation. Many embrace a wide mix of racial, cultural, religious and language groups. The common unifying factor seems to be simply a *recognition* and *acceptance*, for whatever reason, of group identity[20]. If this is withdrawn, a split into smaller states is likely to follow (as with former Yugoslavia). A key feature of a nation state appears to be control over 'its' own affairs. However, such control is much constrained by factors such as debt obligations (including money owed to domestic and foreign banks), international trade agreements and membership of economic and political partnerships such as the European Community. In the post-war years there has been increasing recognition of the power wielded by multinational corporations (the turnovers of which exceed the national incomes of many countries). "One aspect of the growing internationalism of the post-war years which most clearly represents a threat to the ability of any single nation to determine its own economic destiny is the development in recent decades of those giant industrial companies that now bestraddle the world … Such companies, because their operations no longer coincide with national boundaries, are in a position where they can to a large degree circumvent national attempts to regulate them." (Donaldson, 1978)

***Collections* of individuals should not be treated as intentional beings.**
3.21 Untold problems arise from the 'category error' of treating organisations as unitary 'beings' capable, like human beings, of intentionality. This is part of the wider category error of treating *collections* of individuals as individuals e.g. of creating a conceptual 'monster' called 'the people' with a will of its own distinct from individual people with their own separate wills[21]. The error pervades so much of our thinking that absurd claims arising from it often pass unnoticed and unchallenged[22]. We need to remind ourselves constantly that 'out there' in the real world the only intentional beings, excluding members of other species, are individual human beings. 'Organisations' (such as 'the United Kingdom', 'Barclays Bank' or 'Kingston Philosophy Café'), although the creation of collective intentionality, are themselves incapable of intentionality (for the obvious reason that they do not exist as conscious beings). There is, of course, a long-established legal fiction of treating various organisations (e.g. private companies) as 'legal persons'. Such a fiction enables both private and public bodies to be sued without having to prove culpability on the part of any individual. It exists as an inevitable and necessary feature of the collective intentionality that creates and maintains such bodies and enables both rights and obligations (see 3.24) to be attached to organisations as well as to individuals. It should not fool us, however, into believing that those bodies are, like real people (or, to use the legal jargon, 'natural persons'), capable of intentionality.

We must never lose sight of the individuals 'hidden' behind organisational smokescreens.
3.22 A downside of the legal fiction that confers 'personal' status on some of the entities created by collective intentionality is that it can allow actual people to hide behind a 'corporate veil' which is

[20] William Inge (1860-1954), Dean of St Pauls and Professor of Divinity at Cambridge University, expressed the perhaps cynical view that "a nation is a society united by a delusion about its ancestry and by a common hatred of its neighbours".
[21] Some philosophers (e.g. Rousseau and Hegel) have enthusiastically promoted such an entity. If we were able to 'map' our intentional world there are many regions to which we might add the warning label, as on medieval charts, "here there be monsters".
[22] After the last general election, for example, some politicians and political commentators claimed that *'the electorate'* had shown that *'it'* wanted a coalition government. The reality, of course, was that most *electors*, certainly those who voted Conservative or Labour, wanted their own party to gain an *overall majority* of parliamentary seats and *not* to have to go into coalition with any other party.

rarely lifted to hold them personally to account.[23] Companies, as 'legal persons', can be sued and fined (viz. the recent high profile cases affecting some major banks) but obviously, not being 'natural persons', cannot be sent to prison. Company fines ultimately mean less money for real people. Those who hold most power within the organisations and who may be the most culpable (e.g. top executives and directors) will generally try to ensure that such people include anyone else but themselves (e.g. that the cost is passed on to customers, employees or perhaps general shareholders). The only possible *beneficiaries* of human economic activity are sentient beings, primarily human beings. Identifying 'who gets what for doing what', however, is made particularly difficult by the relative ease with which money (whether acquired legally or illegally) can be transferred across the world and held, for example, in 'offshore' accounts or concealed as 'company assets'. An aspect of economic internationalism appears to be a growing 'elite' for whom national identity is little more than a 'flag of convenience'[24] and for whom any residual sense of national or group loyalty is seriously challenged by a small increase in top-end tax rates.

All institutional facts 'bottom out' in brute facts.

3.23 It cannot be emphasised too strongly that "all institutional facts have to bottom out in brute facts" (Searle, 2010) and that the latter include human beings (e.g. "*owners* of money and *officers* and *shareholders* of corporations") upon whom specific 'status function' powers have been conferred through the exercise of collective intentionality. Such powers very much determine access to goods and services. Given the very unequal distribution in most societies of power, income and personal wealth it has to be questioned how the principal beneficiaries 'get away with it'. Searle (2010) suggests that part of the answer is a general lack of understanding of 'what is going on'. Economic inequality, instead of being seen as an institutional creation, tends to be regarded as part of the natural order of things. Those who gain most from the system have an interest in actively encouraging such a belief and 'academics' (often well-rewarded) can usually be found to oblige with some theoretical justification (see, for example, 4.6 below). A useful device is to focus upon 'average income' (whether arithmetic mean or median) and to ignore the spread around the average. The poor, if sufficiently naïve, might be consoled by the thought that 'average income' in their country is above 'the average' for other countries. If really naïve they might even be persuaded, if they have any choice in the matter, to take a cut in income on the basis that this will somehow help to raise 'average income' (and incidentally the income of the rich).

'Ownership' or 'property' rights are the creation of collective intentionality and thus alterable.

3.24 Crucial to the relationship between people and 'things' (i.e. land, natural resources, physical capital and commodities together with the 'claims' upon them including money) is 'ownership' which essentially boils down to sets of c*onferred* and *protected* 'rights' to control, and benefit from, the use of *particular* things in *particular* ways. There are no *absolute* ownership or property rights. All are conditional and limited. Rights often have to be restricted in order to protect or create other rights. The modern UK planning system, for example, restricts (without compensation) the development rights of property owners in order to protect the rights of people in general to a decent environment. Throughout history, the right of individuals to enjoy in full the rewards of labour or ownership has been subject to the right of 'rulers' to levy taxes and to compulsorily

[23] The 1984 Bhopal disaster (which resulted in the death of over 17,000 people and permanently injured hundreds of thousands more) and the 1987 Zeebrugge 'Herald of Free Enterprise' disaster (in which nearly 200 people died) illustrate the difficulty of getting *either* companies (Union Carbide and European Ferries in the case of these disasters) *or* key individuals within them (e.g. directors and senior executives) to accept responsibility for gross negligence.

[24] Writer and lexicographer Samuel Johnson (1709-84) was presumed to be referring to *false* patriotism when he proclaimed "patriotism is the last refuge of the scoundrel". An early and outspoken opponent of slavery, his sympathy for humanity did not appear to extend to Scottish people!

acquire property for public, and sometimes private, purposes.[25] Rights, moreover, generally involve corresponding obligations (e.g. the reciprocal rights and obligations of landlords and tenants).[26] The nature and distribution of rights and obligations (which may attach to both individuals and 'organisations') reflect power relationships in society and over the centuries have been the focus of struggle between competing interest groups (viz. Magna Carta and the English Civil War). All 'rights', although often represented as having some independent metaphysical existence (e.g. the 'unalienable Rights' of the American Declaration of Independence), are entirely the creation of collective intentionality and thus 'permanently alterable'. Although resisted initially by some interest groups, significant change affecting property rights can rapidly become the accepted norm and provide the framework for further peaceful and evolutionary change (e.g. the introduction and extension of taxes on income, expenditure and personal wealth). However, if the *whole system* of ownership and control ceases to be regarded as legitimate (being seen, perhaps, as a form of 'theft' by a minority determined to hang on to its privileged position) then change may be sudden and violent (viz. the French Revolution of 1789 and the Russian Revolution of 1917). The facile response to the assertion by French anarchist Pierre-Joseph Proudhon (1809-65) that "all property is theft" is that it presupposes the existence of the very thing it calls into question (i.e. theft has no meaning except in the context of property rights). Proudhon, nevertheless, draws attention to the fact that there is nothing sacrosanct about the *particular* system of ownership that exists at any moment and that its legitimacy is always open to challenge. Property issues are fundamentally issues about *control* i.e. about who should be able to control what, in what way and in the interests of whom. Of central concern is the balance to be struck between the spheres of *individual* and *collective* control and how the latter can operate in the interests of as many people as possible.

Government (central and local) is *part* of society and crucial to the exercise of collective choice.

3.25 A contrast is often made between 'the individual' and 'the state'. The latter is a prime example of a 'mental monster' (see 3.21) and has been portrayed in various guises including a 'leviathan'[27] and a 'nanny'. It is a myth but a powerful one with causative powers to influence human behaviour. Much has been done in the name of 'the state' including, as in the name of 'liberty', some appalling crimes. In a meaningful sense, however, it simply refers to the system of government whereby decisions are made and enforced in respect of a territorially defined group of people (reference being made by political scientists to both 'the national state' and 'the local state'). In this sense it is morally neutral. Such systems range widely in their degree of accountability to the people they are meant to serve. Potentially they provide a vehicle for the expression of collective intentionality. Collective choice, it is important to emphasise, should not be seen as inimical to individual freedom. Much collective action (e.g. making and enforcing laws, regulating economic activity, controlling development and providing community facilities and services) provides the framework within which individual freedoms can flourish. Democratically accountable central and local government are essentially *part* of society i.e. the means by which its individual members make collective choices affecting how they live together. To seek to counterpoise 'the state' and 'society', as did the Prime Minister recently, is dangerous and fundamentally anti-democratic. The alternative to representative government is very often rule by unaccountable minorities including 'mafias'.

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[25] We owe the existence of Richmond Park (the largest urban park in Europe) to the compulsory purchase by Charles I of farmland to create a hunting ground near London in 1637 for his own personal use.

[26] Obligations may be *negative* i.e. not to *hinder* the exercise of a right (e.g. not to obstruct the free use of a public highway or footpath) or *positive* i.e. to *facilitate* the exercise of a right (e.g. to guarantee free medical treatment by providing a national health service). To simply 'not hinder' is to fulfil an *empty* obligation in cases where we know that *only positive* intervention will achieve some end (e.g. minimum living standards). Refusal to take such action, indeed, could be seen as a form of 'hindering'.

[27] In *Leviathan* (1651) the English philosopher Thomas Hobbes (1588-1679) asserted: "For by art is created that great Leviathan called a Commonwealth or State (in Latin, Civitas), which is but an artificial man, though of greater stature and strength than the natural, for whose protection and defence it was intended…"

For human groups to display collective intentionality conditions must be met.

3.26 The nature of 'human groups' and their relationship to 'collective intentionality' require further examination. Individuals 'belong' to many groups. Sprott (1958) defines a *social group*[28] as two or more people "who interact with one another in a given context more than they interact with anyone else". Possible contexts include kinship (e.g. families), living arrangements (e.g. households), locality (e.g. neighbourhoods and towns), economic activity (e.g. workgroups), education (e.g. schools and colleges) and 'interest' (e.g. clubs). Two features should be noted.

- The role played by s*patial proximity* will range from crucial (e.g. households and neighbourhoods) to non-existent (e.g. internet clubs).
- Groups may be structured *hierarchically*. An individual, for example, might work within a *department* of a *local office* of a *national division* of an *international company* (each one of these constituting a 'group' to which she belongs).

For a social group to be capable of displaying collective intentionality there are three requirements.

- The individuals involved must accept (willingly or otherwise) their common membership (i.e. they must include themselves within the same 'we').
- Membership must confer upon them 'status functions' (e.g. rights, obligations and behavioural expectations) that would not arise if they did not belong to the group.
- Some system must be in place to give operational effect to those functions.

'Area-based' groups aspire to 'primacy' but are 'cross-cut' by other groups.

3.27 A fact of brute reality is that we exist as bodies distributed in space. Given the relevance of spatial proximity to much human interaction it seems 'natural' for individuals to form, as they generally do, area-based groups exercising collective intentionality through governmental and administrative 'institutions'. The boundaries of areas may take into account natural features and people's feelings about the 'neighbourhoods' or 'communities' to which they 'belong' but are often quite arbitrary and subject to periodic and sometimes radical change (e.g. the 'Royal Borough of Kingston upon Thames' was formed from the merger of 3 Surrey districts as one of the 32 'Greater London' boroughs created in 1965). The hierarchy of areas involved may vary widely and may include 'regional' as well as 'local' divisions. The distribution of powers represented by the 'status functions' (including economic and financial functions) conferred at each level also vary widely (especially between 'unitary' and 'federal' states and in the extent to which legislative, executive and judicial functions are formally separated). The so-called 'nation state' represents the apex of each hierarchy being *dominant* over lower levels. An issue that will be raised later (see 6.10 and 6.11) is the feasibility of relatively small area-based groups operating without some overarching higher level 'authority' to which they are subject (as, broadly speaking, do nation states). An obvious question is how they might work together to achieve shared objectives (e.g. regarding the more equitable distribution of resources). Whilst territorial groups may aspire to primacy of power and position, in practice they are 'cross-cut' by other groups. We have already mentioned the power of multi-national corporations (see 3.20) and 'mafias' (see 3.25). Religion provides another source of rivalry for group loyalty. Individuals may feel at least as much allegiance to religious as to secular leaders (e.g. to popes as to kings) and at least as much bound by religious as by secular laws (e.g. by their interpretation of the Bible or the Koran as by the 'laws of the land'). Money-lending at a rate of interest, for example, might be perfectly legal as far as a nation state is concerned but forbidden by some religious code.

[28] A 'social group' can be contrasted with a 'logical group' which is based purely on the factual sharing of one or more common characteristics ('red-haired archdeacons', for some reason, being a popular example amongst sociologists). A logical group may become a social group if its members become *aware* that their common characteristics give them a common interest, purpose or cause (a fictional example being provided by the Sherlock Holmes story *'The Red-Headed League')*. That most economically active people have the status of 'employee' is a fact about them. Awareness of their vulnerability, if isolated, to exploitation and unfairness has provided the basis for trade unions, whose members clearly form a social group as defined by Sprott.

4. ECONOMICS, METAPHYSICS AND MORALITY

The study of institutional reality faces three key challenges.

4.1 People who attempt to analyse and understand features of institutional reality face a three-fold challenge.

- Such reality, being observer-dependent, is likely to present a moving target. To search for eternal verities (e.g. regarding human 'economic behaviour') may be to pursue chimeras. Any 'truths' may be limited to time and place.
- They themselves occupy a place within observer-dependent reality and have perspectives that are influenced by their own existing attitudes, beliefs and prejudices. In the social and economic sphere, it is particularly difficult to study how people *actually* behave in isolation from thoughts about how they *ought* to behave.
- Their own findings, if sufficiently influential, may change beliefs and behaviours and become themselves part of a new institutional reality requiring renewed investigation.

Thinkers have the power to change institutional reality through their ideas.

4.2 Robert Heilbroner (1999) provides a fascinating insight into "the lives, times and ideas of the great economic thinkers" who "sought to embrace in a scheme of philosophy the most worldly of all of man's activities - his drive for wealth" and whom he thus labels "the worldly philosophers". He examines the influence upon their work of their widely differing personalities, backgrounds and beliefs and how some undoubtedly changed the world through the power of their ideas. Such seminal thinkers include Adam Smith (1723-90), Karl Marx (1818-83) and John Maynard Keynes (1883-1946). Their ability to change institutional reality was recognised by Keynes himself: "The ideas of economists and political philosophers, 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 influences, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back. I am sure that the power of vested interests is vastly exaggerated compared with the gradual encroachment of ideas" (Keynes, 1936). The American economist John Kenneth Galbraith (1908-2006) qualifies Keynes assertion, arguing that at any time there will be a prevailing 'conventional wisdom' comprising accepted 'truths'. This will change only when *new circumstances* render it no longer tenable, clearing the way for new ideas and explanations that eventually become the new conventional wisdom. "But the rule of ideas is only powerful in a world that does not change. Ideas are inherently conservative. They yield not to the attack of other ideas but … to the massive onslaught of circumstance with which they cannot contend" (Galbraith, 1998).

Both ideology and metaphysics are embedded in much economic theory.

4.3 The English economist Joan Robinson (1903-83) highlights the ideological and metaphysical content of much of what passes for 'objective' economic theory. "The hallmark of a metaphysical proposition is that it is not capable of being tested. We cannot say in what respect the world would be different if it were not true. The world would be just the same except that we would be making different noises about it. It can never be proved wrong, for it will roll out of every argument on its own circularity; it claims to be true by definition on its own terms. It purports to say something about real life, but we can learn nothing from it" (Robinson, 1962). She accepts, nonetheless, that metaphysical statements (e.g. "all men are equal") are not without content or usefulness. They may express important moral standpoints and encourage us to identify hypotheses that *are* testable through objective research (e.g. regarding the correlation between particular human characteristics and economic rewards).

Attempts to explain 'value' tend to become metaphysical and abstracted from reality.

4.4 'Value' is an example of an economic concept imbued with metaphysics. It is an obvious fact that, at any given time and place, commodities will have particular relative 'prices' (whether transactions take place through barter or the use of money). At present, £3.50 spent in Kingston town centre will buy, amongst other things, a pint of beer *or* a pair of M&S 'Union Jack' socks *or* a copy of 'Philosophy *Now*'. Why do they command the same price? If we say it is because they possess the same 'value' we then have to explain the nature of such value and what determines its amount. Adam Smith argued that the relative value of commodities is determined by the labour input needed to produce them. "If, among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer. It is natural that what is usually the produce of two days' or two hours' labour should be worth double of what is usually the produce of one day's or one hour's labour" (Smith, 1776). Karl Marx elaborated this basic idea into a full-blown 'labour theory of value'. Commodities become abstract entities comprising simply "the products of labour" and labour itself becomes an abstraction distinct from any particular form that it might take. "Along with the useful qualities of the products themselves, we put out of sight both the useful character of the various kinds of labour embodied in them and the concrete forms of that labour; there is nothing left but what is common to them all; all are reduced to one and the same sort of labour, human labour in the abstract" (Marx, 1867).

The *distribution* of 'value' seems to require justification.

4.5 If we accept that 'value' is the sole creation of 'labour' we are faced with an obvious moral issue. Shouldn't the providers of such labour receive *in full* the value which they create? Adam Smith appears to accept as a fact of life that the owners of land and capital will simply muscle in and grab a share. "As soon as the land of any country has become private property the landlords, like all other men, love to reap where they never sowed and demand a rent even for its natural produce ... As soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence, in order to make a profit by the value of their work or by what their labour adds to the value of the materials" (Smith, 1776). His essential concern was not with justifying the *distribution* of wealth but with how the *totality* of wealth might be maximised through the division of labour and the competitive pursuit of self-interest. Marx argued that by paying workers only the minimum subsistence needed to obtain their labour (their 'labour value') the owners of capital thereby extract for themselves 'surplus value'. This he regarded as an *inevitable* feature of capitalism, part of its own internal 'logic'. The system, being incapable of reform, simply had to be overthrown. Economists broadly sympathetic to capitalism, not surprisingly, have felt it necessary to identify a theoretical justification for the 'rewards' of ownership. The English economist Alfred Marshall (1842-1924), for example, argued that prices reflect the cost of compensating not only workers for their labour but also capitalists for 'waiting' i.e. for tying up their money in factories, machines, etc. rather than spending it on immediate consumption. He remained concerned, nevertheless, about the *degree* of inequality, arguing that there is "no moral justification for extreme poverty side by side with great wealth. The inequalities of wealth, though less than they are often represented to be, are a serious flaw in our economic organisation" (Marshall, 1890).

***Utility* became a key concept in economics and has been used to justify *laissez-faire*.**

4.6 In Adam Smith's hypothetical "nation of hunters", if it took twice the labour to catch and kill a *mouse* as a deer, would one mouse therefore exchange for two deer? Would not the *usefulness* of what is being exchanged have at least some impact on its exchange value? During the 19th century economists developed the concept of *utility*, broadly speaking the 'satisfaction' obtained from goods and services. The Irish philosopher and political economist Francis Edgeworth (1845-1926) suggested this could be *measured* in terms of the intensity and duration of pleasure afforded. "Any individual experiencing a unit of pleasure-intensity during a unit of time is to 'count for one'... A mass of utility ... is greater than another when it has more *intensity-time-number* units" (Edgeworth, 1881).[29] By introducing the concept of *marginal utility*[30] and by making far reaching assumptions about the nature and behaviour of consumers and producers, economists theorised that utility would be *maximised* under 'free-market' conditions. Robinson (1962) summarises their position as follows. "The whole point of *utility* was to justify *laisser faire*. Everyone must be free to spend his income as he likes, and he will gain the greatest benefit when he equalizes the *marginal utility* of a shilling spent on each kind of good. The pursuit of profit, under conditions of perfect competition[31], leads producers to equate marginal costs to prices, and the maximum possible satisfaction is drawn from available resources. This is an ideology to end ideologies, for it has abolished the moral problem. It is only necessary for each individual to act egoistically for the good of all to be attained".

Utility is a metaphysical concept only tenuously linked to 'real-life' behaviour.

4.7 The existence or non-existence of 'utility' does not appear any more amenable to scientific testing than Marx's 'abstract labour'. As Robinson (1962) argues, "*utility* is a metaphysical concept of impregnable circularity; *utility* is the quality in commodities that makes individuals want to buy them, and the fact that individuals want to buy commodities shows that they have *utility*." It is questionable, moreover, how far 'utility-based' theories offer a *description* of the way in which consumers *actually* behave as opposed to a *prescription* concerning the way in which it is considered they, 'rationally', *ought to* behave. We do, of course, choose between alternative commodities but this does not obviously involve any calculation of the 'marginal utility' that an extra £1 spent on each will provide. This would, in any case, be an incredibly difficult if not impossible calculation to make, as utility is supposedly obtained not from *purchasing* commodities but from *consuming* them and the periods over which such consumption takes place vary widely (with a pint of beer perhaps minutes, with a pair of socks perhaps years). Even if, when choosing between alternative purchases, we could estimate the *future* satisfaction they would deliver ('discounting' for the *timing* of such delivery), the reality is that buying is an on-going process and the range of commodities that might be compared on any particular occasion extremely limited[32].

Utility provides, if anything, an argument for greater *equality* of incomes.

4.8 Even if (which is questionable) 'perfect competition' could be shown to achieve an optimal allocation of resources to meet consumer preferences, this does not mean that 'utility' would thereby be maximised. The purchasing power of consumers depends ultimately upon their incomes

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[29] Some textbooks on economics refer to 'utils' (units of satisfaction) but emphasise that these are fictions invented for explanatory purposes only and that satisfaction with goods and services, being entirely subjective, is not quantifiable.

[30] *Marginal utility* is defined as the *addition* to a commodity's total utility obtained by consuming an *extra* unit of it (over some unspecified period of time). Supposedly this *diminishes* i.e. the more we have of something the less we value a bit more (on the basis, it seems, that it *is* possible to have too much of a good thing).

[31] 'Perfect competition' is a theoretical situation involving *many* producers, all too *small* to affect, by their individual behaviour, the market price for their products (they are thus *'price-takers'* rather than 'price-makers'). The modern day reality, of course, is that most of what we consume is produced and sold by a relatively *small number* of *large* producers and retailers (a situation of so-called 'oligopoly').

[32] Problems relating to the *timing* of purchasing and consuming also apply to 'indifference preference theory' which hypothesises that consumers can *rank* alternative 'bundles' of commodities in *order of preference*. Although unable to quantify *how much* they prefer one bundle to another, they are nevertheless assumed to be able to recognise bundles that they prefer *equally* and between which they are therefore *indifferent*. Supposedly, a consumer might be indifferent between consuming, say, 10 units of clothing and 20 units of food per week compared with 8 units of clothing and 25 units of food per week. (Lipsey & Chrystal, 1995) The nature of the 'units' involved is left entirely mysterious. How much of a pair of socks or a shirt, for example, constitutes a 'unit of clothing', how is such a unit 'consumed' and how could we identify its 'price'? Again we appear to have abandoned the real world for the realms of metaphysics.

and there is nothing 'god-given' about any particular distribution of income. Change it and an entirely different set of consumer preferences results. Arguably, greater equality of income should generate greater total utility since the marginal utility of income is considered to diminish, i.e. the higher a person's income the less utility obtained from any addition to it. If income is transferred from rich to poor the utility gained by the latter should therefore outweigh that lost by the former. "A shilling is the measure of less pleasure, or satisfaction of any kind, to a rich man than to a poor one" (Marshall, 1890). "This points to egalitarian principles, justifies Trade Unions, progressive taxation, and the Welfare State, if not more radical means to interfere with an economic system that allows so much of the good juice of *utility* to evaporate out of commodities by distributing them unequally." (Robinson, 1962)

Attempts to justify income inequalities appear more ideologically than evidentially based.

4.9 Not surprisingly, economists whose main concern was to find in 'utility' a justification for *laissez-faire* sought to downplay, if not ignore, its egalitarian implications. The standard argument trotted out to this day is that inequalities incentivise 'entrepreneurship' and result in higher total output thus benefiting *everyone*. In a more unequal society the poor may get a smaller *proportion* of the national cake but the cake will be much *bigger*. Obvious but unanswered questions include:

- Over what range of income inequality is the incentive effect supposed to operate? Is it *without limit* and, if so, are *ever-increasing* levels of inequality therefore justified?
- Is the size of the incentive effect over given ranges of inequality *sufficient* to make the poor better off? Is the national cake made bigger *enough* to outweigh the fact that they take a smaller share of it?
- Where is the evidence that rich people make a disproportionately large contribution to boosting national output? How much of their income is derived from productive employment and how much from the 'passive' ownership of financial and other assets (perhaps through inheritance)?
- Does satisfaction with economic position depend as much, if not more, upon *relative* rather than *absolute* levels of income?

Can private vices be public virtues?

4.10 Adam Smith broadly favoured *laissez-faire*, believing that the individualistic pursuit of self-interest works to the benefit of all by maximising the output of goods and services in line with consumer preferences. "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. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities, but of their advantages. Nobody but a beggar chooses to depend chiefly upon the benevolence of his fellow-citizens" (Smith, 1776). He was deeply disturbed, nevertheless, by the moral conclusions drawn by Bernard Mandeville (1670-1733) in his *Fable of the Bees* (1714). Alternatively entitled *Private Vices, Public Benefits*, this argues that a wealthy and powerful nation can be achieved only by fostering in its citizens (steered by politicians) vices such as avarice, envy, pride and prodigality. He describes how a hive of bees thrives whilst they remain covetous and acquisitive but falls into decay when they discover 'virtue' and become content with little[33].

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[33] Lines from '*The Grumbling Hive, or Knaves Turned Honest'* (the poem in Mandeville's *Fable of the Bees*):

Before 'turning honest'	After 'turning honest'
The root of Evil, Avarice,	*As Pride and Luxury decrease,*
That damned ill-natured baneful Vice,	*So by degrees they leave the Seas.*
Was slave to Prodigality,	*Not Merchants now, but Companies*
That noble Sin; whilst Luxury	*Remove whole Manufactories.*
Employed a million of the Poor,	*All Arts and Crafts neglected lie;*
And odious Pride a million more:	*Content, the Bane of Industry,*
Envy itself, and Vanity,	*Makes them admire their homely Store,*
Were Ministers of Industry;	*And neither seek nor covet more.*

Is greed good?

4.11 Mandeville's *Fable* remains a challenge to both 'virtue' and 'duty' ethicists who baulk at the idea that 'vicious' individual motivations might be needed to achieve 'great things', including national prosperity. A similar challenge is provided by the character Gordon Gekko (played by Michael Douglas) in Oliver Stone's film *Wall Street* (1987) when he proclaims: "Greed, for lack of a better word, is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures, the essence of the evolutionary spirit. Greed, in all of its forms; greed for life, for money, for love, for knowledge, has marked the upward surge of mankind … "

The Keynesian revolution: can private virtues be public vices?

4.12 Whilst Mandeville argued that private vices can be public virtues, Keynes added a further moral twist by showing how private virtues can be public vices. If an economy is languishing in a slump, with millions of people unemployed, the last thing needed is for everyone to exercise the private virtue of thrift. Since one person's spending is another's income, to increase saving in such circumstances is to 'beggar thy neighbour', and ultimately to 'beggar thyself'. It cannot be assumed that things will 'naturally' sort themselves out. Even if they do in the long run, how long can we wait? As Keynes pointed out, "in the long run we are all dead". Active government intervention is required to boost aggregate demand in the economy and thus bring unemployed factors of production back into use. Keynes rejected prevailing *laissez-faire* ideology. "Let us clear from the ground the metaphysical or general principles upon which, from time to time, *laissez-faire* has been founded. It is *not* true that individuals possess a prescriptive 'natural liberty' in their economic activities. There is *no* 'compact' conferring perpetual rights on those who Have or those who Acquire. The world is *not* so governed from above that private and social interest always coincide. It is *not* so managed here below that in practice they coincide. It is *not* a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does *not* show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately" (Keynes, 1926).

Keynesian policies are now commonplace but he had little to say on *distributional* issues.

4.13 Although appearing revolutionary at the time, Keynes' analysis of the processes determining national income and his prescription for government manipulation of levels of spending, saving and investment rapidly achieved the status of conventional wisdom. In the post-war period, government intervention broadly along Keynesian lines has become standard practice in capitalist economies, disagreements relating mainly to the precise level, mix and timing of monetary and fiscal measures. Keynes was, in fact, far from revolutionary in his views. He accepted that, if governments acted to secure 'full employment', the content and distribution of output could be determined by 'the market'. "If we suppose the volume of output to be given … then there is no objection to be raised against the classical analysis of the manner in which private self-interest will determine what in particular is produced, in what proportion the factors of production will be combined to produce it, and how the value of the final product will be distributed between them" (Keynes, 1936).

We still lack a coherent 'philosophy' regarding the distribution of income and wealth.

4.14 Robinson (1962) is less sanguine than Keynes about leaving the distribution of income and wealth to private self-interest and the operation of market forces or about the effectiveness of government attempts at redistribution. Her words still ring true today. "Through political channels (the tax system and social services) we are continually pushing against the distribution of income that our economic system throws up. The pressure is haphazard and often ineffective (the difference between our highly progressive tax system on paper and highly regressive system of tax avoidance in reality is sufficiently notorious). The effort at redistribution has no particular philosophy behind it and there does not seem to be any rational criterion for the point at which to draw the line; it sways to and fro (though not very far) as the balance of political pressures shifts."

National Income is not the 'be-all and end-all'.

4.15 The belief appears widespread that, distributional issues aside, the output of goods and services is necessarily a 'good thing' and should be maximised within the limits of available resources. 'National Income' is widely assumed, when expressed per head of population, to provide an indicator of national 'prosperity' or 'well-being' and the basis for 'league tables' of national economic performance. There are many reasons to question such an assumption including the following.

- National income accounting makes no moral or aesthetic judgements. Anything counts as long as it involves payment to factors of production. £14 billion spent on tobacco products (the UK figure for 2010), for example, counts the same as £14 billion spent on health services.
- Prices, according to economic theory, reflect *marginal* not *total* utility. National Income is calculated on the basis of prices paid for goods and services. It does *not*, therefore, measure their total utility (which includes so-called 'consumer surplus' i.e. the excess of utility over price that consumers supposedly derive from their 'intra-marginal' purchases).
- Goods and services may, through clever advertising[34] and the promotion of 'fashion' and 'in-built obsolescence', serve 'created' rather than 'autonomous' consumer wants[35] (although the extent to which people necessarily 'know what they want' before being made aware of possibilities is open to question).
- Much expenditure is on things that do not serve consumer wants but that are *forced* on us. An increase in crime, foreign aggression or pollution (itself largely a by-product of economic activity) may force us to spend more on policing, prisons, weapons, armed forces and environmental cleansing. This will serve to boost National Income but we are unlikely to feel 'better off' as a result.
- National Income ignores the value of *unpaid* activity, including voluntary work and anything we do for ourselves such as housework, gardening and DIY. If neighbours *paid each other* to do each other's housework, a big increase in National Income would result without any change in the amount of activity actually taking place. Conversely, the use of DIY rather than paid professionals makes National Income lower that it would otherwise be.
- Although 'net' measures of National Income allow for the depreciation of capital assets no account is taken of the depletion of limited natural resources (e.g. tropical rain forests) which are treated, in effect, as 'free goods'.
- The consumption of private goods may entail negative 'externalities' (affecting, for example, the quality of urban and rural environments) that are not reflected in their prices. The cost of 'private affluence' may be 'public squalor' (see Galbraith, 1998).

[34] In 2011 the total 'advertising spend' in UK media was about £16 billion. The cost of advertising is, of course, included in the price of goods and services and forms part of National Income.

[35] Galbraith (1998) argues that the creation of wants is a key feature of affluent societies and invalidates the basic assumption of traditional economics that producers simply respond to autonomous consumer demand. "Consumer wants can have bizarre, frivolous or even immoral origins, and an admirable case can still be made for a society that seeks to satisfy them. But the case cannot stand if it is the process of satisfying wants that creates the wants. For then the individual who urges the importance of production to satisfy these wants is precisely in the position of the onlooker who applauds the efforts of a squirrel to keep abreast of the wheel that is propelled by its own efforts. ... As a society becomes increasingly affluent, wants are increasingly created by the process by which they are satisfied. … Wants thus come to depend on output. In technical terms, it can no longer be assumed that welfare is greater at an all-round higher level of production than at a lower one. It may be the same. The higher level of production has, merely, a higher level of want creation necessitating a higher level of want satisfaction."

'Well-being' and 'happiness' cannot be measured simply by the output of goods and services.

4.16 As long as it is interpreted with caution and its limitations are recognised, National Income does have its uses as a broad indicator of levels of economic activity. The importance of much of the output of goods and services in enabling happy, healthy and fulfilling lives, moreover, should not be decried. For the reasons outlined above, however, National Income cannot be taken as a reliable indicator of national 'well-being'. Not only is judgement required regarding the nature and distribution of what is produced but also the existence of non 'money-measured' values (relating broadly to 'quality of life') must be recognised. Robinson (1962) argues that the first essential for economists is to "combat, not foster, the ideology which pretends that values which can be measured in terms of money are the only ones that ought to count." Galbraith (1998) suggests that we need to assess happiness and well-being on their own terms rather than equate them with the production of consumer goods. "The Benthamite test of public policy was 'what serves the greatest happiness of the greatest number', and happiness was more or less implicitly identified with productivity. This is still the official test. In modern times, the test has not been very rigorously applied. We have somewhat sensed though we have not recognised the declining importance of goods. Yet, even in its deteriorated form, we cling to this criterion. It is so much simpler than to substitute the other test – compassion, individual happiness and well-being, the minimization of community and other social tensions – which now become relevant."

Alternative measures of 'well-being' exist.

4.17 Some interesting attempts have been made to produce indicators that go beyond money measures of economic output.

- The *Genuine Progress Indicator (GPI)*, developed by academics in the USA during the 1990s and associated with 'green economics', attempts to take into account factors such as the distribution of income, the value of unpaid work, the loss of natural habitats, the depletion of non-renewable energy resources and the costs of crime, accidents and pollution. Studies (e.g. in the USA and Australia) have claimed to show that rising Gross Domestic Product (GDP) has been associated with *falling* GPI.
- The United Nations produces a *Human Development Index (HDI)* which combines indices relating to National Income per head, life expectancy at birth and mean/expected years of schooling. An inequality-adjusted HDI is also produced to allow for the fact that averages (e.g. mean income per head) can conceal wide variations between individuals. In 2011 Norway came first and Australia second on both indices. The UK came 28th on main HDI and 24th on inequality-adjusted HDI. The USA came 4th on main HDI but dropped to 23rd on inequality-adjusted HDI.
- The *Happy Planet Index (HPI)* is produced by the New Economics Foundation (NEF) and aims to provide a global measure of 'sustainable well-being'. It is calculated by dividing the product of life expectancy and 'experienced well-being'[36] by 'global footprint'[37]. The HPI 2012 Report shows Costa Rica ranked first with the UK 41st and the USA 106th. Of European countries, Norway has the highest ranking (29th). The inequality-adjusted version of the HPI still ranks Costa Rica first (with the UK ranked 39th).
- The concept of *Gross National Happiness (GNH)* originated in Bhutan in the 1970s where it has been based on Buddhist principles, its four 'pillars' being the promotion of *sustainable development*, the preservation and promotion of *cultural values*, conservation of the *natural environment* and establishment of *good governance*. Secular versions of GNH have been developed. The International Institute of Management, for example, is conducting a global GNH

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[36] This uses the results of the 'ladder of life' question in the Gallup World Poll. Respondents are asked to say on which step of an imaginary ladder they feel they currently stand (where 0 represents the 'worst possible life' and 10 the 'best possible life').

[37] This uses the World Wildlife Foundation (WWF) measure of the amount of land per capita required to sustain a country's consumption pattern.

Survey that asks people to rate satisfaction with home/family, work, society, physical/mental health, economy, politics and living environment.

- The Organisation for Economic Cooperation and Development (OECD), as part of its stated aim of helping governments "design better policies for better lives for their citizens", produces a *Better Life Index* based on 24 indicators ranging over 11 topic areas (housing, income, jobs, community, education, environment, governance, health, life satisfaction, safety and work-life balance). Data users can 'weight' the topic areas to produce an overall index. The results available in 2012 cover the 34 OECD member countries plus two others (Brazil and Russia) and show the UK in the top half of rankings for all topic areas except education (25th), life satisfaction (20th) and work-life balance (20th).
- The results of the UK's first *'Subjective Well-being Annual Population Survey'* were published in July 2012 as part of a wider government programme to develop "measures of well-being that include, but go beyond, measures of economic performance such as GDP". A sample of adults were asked to indicate, on a scale of 0-10, overall 1) how satisfied they felt with life, 2) how much they felt things they did in their private lives were worthwhile, 3) how happy they felt on the previous day and 4) how anxious they felt on the previous day. Responses were obtained from about 165,000 adults and the average scores for the four questions were 7.4, 7.7, 7.3 and 3.1 respectively. The proportion of adults giving a figure of 7 or more in response to the first three questions were 76%, 80% and 71% respectively. The proportion of adults rating their happiness level at 7 or more was highest in Orkney and Shetland (83%) and lowest in Blackpool (64%)[38].
- At a 'micro' level, types of *'cost-benefit analysis'* have sometimes been used when deciding on major projects (e.g. nuclear power stations, motorways, railways and retail parks). These generally involve putting money values on predicted positive and negative impacts (e.g. in respect of pollution and congestion) as well as identifying and giving weight to factors (e.g. 'social' effects) that are important but that may not be amenable to 'shadow pricing'.

Just as with National Income, the indicators described above have to be interpreted with caution and their limitations recognised, including the reliability of data sources. The choice of, and relative weights given to, their component factors are bound to be subjective. Change these and very different outcomes may result. They are nevertheless valuable in offering an alternative 'picture'. They interpret 'human satisfaction' in a much wider sense than 'utility' (generally interpreted by economists as satisfaction derived from purchased goods and services). Some incorporate sample survey evidence of *reported* satisfaction and give weight to distributional issues (in the case of the HPI not only between people currently alive but also between present and future generations).

Might attempts to measure national happiness prove totalitarian?

4.18 At least one philosopher finds something potentially sinister in government attempts to measure national well-being or happiness. In conversation with economist Richard Layard (see *The Guardian*, 20 July 2012), philosopher Julian Baggini voices his suspicions about a 'national wellbeing index' arguing: "It is not credible that there could be a single understanding of well-being that all people at all times would settle on. There are ways of measuring whether societies have in place things that are necessary for their citizens to flourish. But the moment you try to create this single well-being index, you're trying to nail down well-being to one conception, and I think that is in a way totalitarian." Layard argues, however, that what makes people flourish is essentially for *them* to decide. "I'm saying that in the end I accept the individual's own judgment about what is good for them, and that seems to me the most democratic way." He further argues that the scientific measurement of 'happiness', although at an early stage, is possible. "My belief is that the best state of society is the one where there is the most happiness and the least misery. And if we think

[38] Blackpool's lowly position belies its description in Marriot Edgar's comic poem *The Lion and Albert* (made famous by Stanley Holloway) as "a famous seaside place …noted for fresh air and fun"!

happiness is what policymakers should aim for, it is critical to measure it. If you go back 30 or 40 years, people said you couldn't measure depression. But eventually the measurement of depression became uncontroversial. I think the same will happen with happiness." Baggini's main concern seems to be with the potential for simplistic interpretations of correlations between reported 'happiness' and features of the social and institutional world. He points out that "happiness research shows people are happier if they are married and if they are religious" and questions whether "a government with a particular agenda might latch on to findings such as these as a means of promoting certain ideas"[39].

5. THE MEANING OF 'WEALTH'

'Personal wealth' is different from 'national wealth'.

5.1 The term 'wealth' has a 'good' feel about it and appears to have some connection with 'well-being' or 'welfare'. However, it tends to be used in different ways by different people (including economists) and rarely with any precision or consistency. Much confusion arises from a failure to distinguish *persona*l from *national* (and *global*) wealth. An individual's personal wealth can be defined as the value of assets owned (e.g. money, company shares, government bonds, property interests and saleable goods such as jewellery and works of art) minus any liabilities (e.g. outstanding debts including mortgages on property). Putting a money value on all this (even if some assets are not instantly 'cashable') provides a rough indicator of a person's 'net worth'. This changes all the time as income is received and money spent. Regardless of income and expenditure, net worth changes simply as a result of changes in the value of assets owned. The price of commercial and residential property rises and falls as does the price of commodities such as gold and silver. Changes in tastes alter the value of antiques and works of art. Confidence in the economy affects the value of company shares (the 1929 Wall Street Crash wiping out the entire net worth of many investors overnight). Money is worth only what it will buy and inflation (i.e. a general increase in prices) reduces its purchasing power and thus the net worth of those who hold it. Conversely, deflation (a general fall in prices) will increase the purchasing power of money and the net worth of its holders. In spite of difficulties (e.g. choice of what to include or exclude, problems of measurement and the fact that it presents a moving target) personal wealth is nevertheless a meaningful concept and particularly important in terms of its *distribution* in society (generally being much more unequal that the distribution of income).

'National wealth' can be defined in terms of *real* assets and does *not* include money.

5.2 It might be thought that *national* wealth can be measured simply by totalling the personal wealth (as already defined) of individual citizens. This is not the case. At any time a nation of people will own, individually or collectively, a *stock* of *real* assets. Four main types can be distinguished.

- Durable consumer goods (such as cars, furniture and TV sets), their value depending primarily upon their remaining useful life.
- 'Productive capital' i.e. things (such as factories, offices, power stations, machinery and commercial vehicles) used to produce goods and services. The value of productive capital derives from the value of the future output that it makes possible.
- 'Social capital' i.e. things (such as houses, schools and hospitals) that are not *directly* involved in the productive process but that contribute to meeting human needs and wants[40].

[39] They might be used, for example, to justify the yet further use of public money to fund schools that practice direct religious discrimination (and indirect racial discrimination) in their admissions policies and that mix education with religious indoctrination.

[40] 'Social capital' also includes things such as prisons, warships and nuclear missiles which are meant to serve the human need for 'security' and which certainly have 'resale' value (e.g. the USS *Phoenix* was sold to Argentina and became the ARA *General Belgrano*).

- 'Natural resources' including land (for farming, building, recreation, etc.), forests, minerals, fisheries, rivers and lakes.

A nation's stock of such assets at any given time can be regarded as its *real* wealth (the money value of which is measured by the prices for which the assets could be sold)[41]. Money and other 'financial instruments' represent *claims* on such real assets and on the future output of goods and services. They are not real assets themselves. "Money is a claim to wealth. From the standpoint of the community as a whole, money is not wealth, since we cannot count both the value of real assets *and* the value of money claims to those assets. From the point of view of the individual citizen, money represents part of his *personal* wealth since he sees it as a claim on the assets held by other people. We must be quite clear, however, that money is not part of the *national* wealth." "A society cannot make itself richer by creating more claims to wealth (i.e. money) if the quantity of things on which that money can be spent is not increasing" (Stanlake, 1983). The same considerations obviously apply to *global* as to national wealth.

Other uses of the term 'wealth' generally lack clarity or coherence.

5.3 The definitions of *personal* and *national* wealth given above are reasonably precise and can be applied consistently. The word 'wealth', however, is often used without any clear definition and can suggest different things to different people. For some it conjures up the image of money and 'precious things' such as gold, silver and jewels. For others it brings to mind consumer goods (e.g. houses, cars and TV sets) but not social capital (e.g. sewers and mortuaries). Consumer goods are usually counted only if they are *durable* (on which basis things such as food and drink are excluded). Most people probably think of wealth as something that can be increased or decreased but of which a given *stock* exists at any one time. On this basis services must be *excluded* (although these, as we have seen, are included in the *flows* of production measured by National Income). Thus Kingston's Rose Theatre might be counted as 'wealth' but not the performances that take place within it. In *The Wealth of Nations*, in spite of its title, Adam Smith provides no *explicit* definition of 'wealth' but appears to exclude services on the basis that they are ephemeral, producing nothing tangible and lasting that can be used to 'procure' something else in the future. He regards the monarch, the armed forces and servants all as "unproductive labourers". "In the same class must be ranked … churchmen, lawyers, physicians, men of letters of all kind, players, buffoons, musicians, opera singers, etc. … Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production" (Smith, 1776). If services don't count as wealth then a major part of the UK economy is 'non wealth-creating'. This applies at least as much to the private as to the public sector. Karl Marx, it should be noted, adopted Adam Smith's distinction between 'productive' and 'unproductive' labour and put commerce (a major area of UK private sector activity) into the latter category.

Whether something is *produced* by the private or public sector is irrelevant to its 'wealth' status.

5.4 Some people distinguish between a 'wealth-creating' and a 'non wealth-creating' sector of the economy, equating these respectively with the private and public sectors. Such a distinction is unsustainable. Those who try to sustain it must explain, for example, why coal produced in a privately owned coalmine instantly ceases to count as 'wealth' if the mine is nationalised or why private but not public education boosts the nation's 'wealth'. It does not make sense to judge whether something is or is not 'wealth' by the *ownership status* of the organisation that happens to produce it. From the point of view of National Income, of course, such status is irrelevant. All that matters for inclusion in National Income is that payments to factors of production, whether in the private or public sector, should be involved.

[41] 'Human capital' (comprising the knowledge, skills and aptitudes of citizens) might also be counted as part of 'national wealth' but giving it a current monetary value presents major difficulties.

Whether something results from private or public sector *spending* is equally irrelevant.

5.5 Spending comes from:

- *private consumers* (e.g. personal/household spending on food, clothes and cinema visits);
- *private producers* (e.g. spending by firms on buildings and equipment);
- *public bodies* (e.g. government spending on defence, roads, parks and health services).

Whether spending comes from individuals or organisations, whether the organisations are private or public and whether what is bought is intended for private or public use, however, provides no basis for distinguishing 'wealth' from 'non wealth'. From the point of view of 'wealth', for example, what difference can there be between a new hospital paid for by a private company and one paid for by the NHS? In passing, it is worth noting that a significant amount of *private* household spending is on things provided by *public* bodies (e.g. rent paid for council housing and payments for local authority home help services). In the days of nationalisation, much private sector spending in the UK was on things such as coal, gas and electricity produced by public corporations. Conversely much *public* spending is on goods and services produced by *private* firms (e.g. military equipment, most hospital cleaning, some prison services and virtually all construction work). The balance to be struck between private and public spending (i.e. between *individual* and *collective* spending) is an important issue but quite separate from questions about 'wealth' and 'non-wealth'.

'Wealth', for some people, is an obscure metaphysical 'something'.

5.6 'Wealth' seems to be viewed by some people as an indefinable 'something' that is created by certain types of production and which then enables other types of production to take place. There are those, for example, who talk of the private sector 'creating the wealth' which makes possible the provision of public sector services. By first producing things such as cars, cigarettes and clothing, it appears to be suggested, we create something called 'wealth' which then enables us to produce things such as public roads and health services. This is plain nonsense. Car production, for example, creates nothing else but cars and, indeed, diverts scarce resources away from the production of other things. *Money* spent on cars, of course, does end up as taxes for the government and disposable incomes for the factors of production involved. Such tax revenue and factor income can then be spent on other things. This applies, however, to the production of *all* goods and services regardless of whether they involve private or public sector factors of production (e.g. teachers and nurses just as much as car workers and shop assistants). Once again, there are real issues about the balance to be struck between different areas of production (including the production of goods and services for export to pay for those we import) but their consideration is not enlightened by ideological and metaphysical twaddle about 'wealth' and its 'creation'.

6. WHERE DO WE GO FROM HERE? 'ECONOMIC POSSIBILITIES FOR OUR GRANDCHILDREN'

For how long do we have to pretend that 'fair is foul and foul is fair'?

6.1 Although a keen investor on the financial markets, Keynes was at the same time a 'Bloomsbury Set' aesthete who viewed with distaste the love of money for its own sake. Writing in 1930 during the Great Depression, he looked forward to a society, in the distant future, freed from pecuniary obsessions. "When the accumulation of wealth is no longer of high social importance, there will be great changes in the code of morals. We shall be able to rid ourselves of many of the pseudo-moral principles which have hag-ridden us for two hundred years, by which we have exalted some of the most distasteful of human qualities into the position of the highest virtues. We shall be able to afford to dare to assess the money-motive at its true value. The love of money as a possession - as distinguished from the love of money as a means to the enjoyments and realities of life - will be recognised for what it is, a somewhat disgusting morbidity, one of those semi-criminal, semi-pathological propensities which one hands over with a shudder to the specialists in mental disease ... But beware! The time for all this is not yet. For at least another hundred years we must pretend to ourselves and to everyone that fair is foul and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight" (Keynes, 1930).

'Elephants in the room' are population growth and resource depletion.

6.2 Keynes' hundred years will soon be up. Are we nearing the end of his 'tunnel of economic necessity' and into what sort of 'daylight' might we emerge? In spite of increasing awareness (see 4.16 & 4.17) that 'well-being' and 'happiness' cannot be equated with 'economic output' there is little sign of any slackening in the world-wide drive for 'growth'. This is understandable for the many people in the world who suffer extreme levels of deprivation. Many countries, moreover, are now in recession (as they were in 1930) and the focus of attention is inevitably upon bringing unemployed factors of production back into use. Better understanding (to which Keynes contributed immensely) of the workings of capitalist economies puts us in a better position to take corrective action. There are two crucial respects, however, in which our position is far more precarious than it was in 1930. The 'elephants in the room' are population growth and resource depletion. In 1930 the world's population was about 2 billion (having doubled over about 130 years). By 1980, 50 years later, it had doubled to 4 billion. By 2030, after a further 50 years, it is projected to double to 8 billion. It currently stands at 7 billion. At the same time major proportions of the world's non-renewal resources (including fuel reserves and a wide range of key metals and other materials) have been used up. Economic manipulation (along Keynesian or other lines) can help stimulate the use of available resources. No amount of economic or financial sleight of hand, however, can conjure up resources that simply aren't there. Behind the 'money illusion' there is the inescapable world of 'brute reality'.

Science might not 'find a way'. Radical change in human behaviour is likely to be needed.

6.3 It is, of course, possible that 'science will find a way' (much hope being placed in the development of renewable sources of energy and of alternative materials). The expansion of world food production over recent decades through the application of scientific methods has certainly been impressive. The danger, however, is that faith in science and technology may prove to be blind and unjustified. Much, in any case, needs to be achieved by radical change in human behaviour including our energy consumption and eating habits.[42] Even then there must be major doubts about our ability to achieve a soft, or at worst bumpy, landing on the 'runway' of sustainable living. Although the world cannot contain more people that it is able to feed, the danger is that more and more of these will be living in destitution and on the verge of starvation (the 'Malthusian' nightmare). A further danger is that, in a world of increasing resource scarcity, financial and military means will be used, even more than at present, to 'grab' the resources required to support unequal and wasteful patterns of consumption.

Inequalities must be reduced.

6.4 It is hard to escape the conclusion that a major reduction in inequality both within and between countries is imperative. In many countries (e.g. the UK and USA), unfortunately, inequalities of income and personal wealth have *widened* over recent decades to levels which many would regard as obscene. Whether required change will happen peacefully or otherwise is unknown. Within many countries, including the UK, the institutional *means* to achieve change clearly exist. As already pointed out (3.24) the taxation of income, expenditure and personal wealth (and the redistribution thereby made possible) has long been accepted. What appears lacking is the *will* to make really effective use of those means. The 'massive onslaught of circumstance' (see 4.2) now seems likely to force major change. Although fiscal and monetary manipulation may allow the engine of growth to splutter on for several decades more it will eventually, and literally, 'run out of fuel'. Sheer resource

[42] The low position of some countries on the Happy Planet Index (see 4.17) is partly down to the propensity of their increasingly obese citizens to consume vast quantities of meat (a very 'land hungry' source of food).

scarcity will expose the lie that the only way to improve the position of the poor is for everybody (and disproportionately the rich) to get 'better off'. In the absence of 'growth', much greater re-distribution of income and personal wealth will become necessary. This (see 4.8) will result in substantial change in patterns of production and consumption. How such patterns translate into factor incomes will determine the on-going need for further re-distribution. The fewer inequalities 'thrown up' by an economic system (see 4.14) the less the need, or indeed scope, for re-distribution.

Reducing inequality may make it easier to reduce production and consumption.

6.5 Greater equality of income should reduce overall consumption by weakening the 'emulation' effect i.e. the desire to ape the extravagant lifestyles of the 'rich and famous'. In so far as feelings of deprivation are *relative* (see 4.9), greater equality may also result in greater satisfaction with economic position. People may consider themselves on a higher 'rung' of the 'ladder of life' (see footnote 36) although consuming less. What matters, however, is not just *how much* is consumed but *what* is consumed. Crucial are the resource implications of different lifestyles and how *quality of life* can be sustainably improved. This, as already suggested (4.15-4.17), cannot be equated with the output of goods and services and must take into account values that cannot be measured in terms of money.

Significant 'evolutionary' change is possible within the existing 'system'.

6.6 Some important changes (apart from greater redistribution of income and personal wealth) are feasible within existing institutional structures.

- The London Olympics has been used by some politicians to promote the ideology of 'competition'.[43] Sport, however, is an example of a highly *regulated* activity with clear rules enforced by referees, umpires and judges to ensure 'fair play'. In the economic and financial world there appears to be a need for *more*, not less, regulation and enforcement. The behaviour of some banks over recent years might have called not just for yellow but *red* cards to be shown.
- Economic activity involves intense *co-operation* within organisations (the members of which are expected to work together as 'team players', just as in team sports). Top executives, however, have a tendency to overestimate their own contribution, to reward themselves excessively and to forget that they are nothing without 'the team'. Co-operative structures (e.g. as adopted by the John Lewis Partnership) allow collective decisions to be made concerning pay relativities. The growth of co-operatives would certainly help to reduce income inequalities.
- Organisations exist (e.g. housing associations[44] and building societies) that have no asset-owning shareholders so that all surpluses can be ploughed back into the business to the benefit of customers. Their wider use would help reduce inequalities of income and personal wealth (which can be partly attributed to the very unequal personal ownership of assets including land and physical capital).

If evolutionary change proves ineffective, revolutionary alternatives may be sought.

6.7 The changes outlined above, whilst helpful, may have only marginal effect. Of particular concern is the extent to which fundamental changes in attitudes and behaviour can be achieved within the framework of broadly democratic and accountable forms of government. Extreme circumstances may encourage the acceptance of extreme 'solutions' (viz. the rise of Hitler). Even where the cause (e.g. 'liberty, equality and fraternity' in the case of the French Revolution) might

[43] Some have argued for more 'competitive sport' in schools (as opposed, presumably, to 'non-competitive sport', whatever that might be). For most people, of course, sport is, and always will be, *irrelevant* to providing the *regular exercise* (along with a sensible diet) needed to stay healthy. To a large extent such exercise can be incorporated into daily routines (e.g. *walking or cycling* to workplace, school or shop). The 'commercialisation' of exercise (a classic example of Galbraith's 'created consumer wants'), however, means that many people *drive* to an expensive gym in order to then walk/run on a 'walking/running machine'.

[44] Most housing associations are registered as 'Industrial and Provident Societies'.

seem laudable, history has shown how rapidly good intentions can set us on 'the road to hell'. The totalitarian regime of Stalin (at least as murderous as that of Hitler), for example, proved a grotesque perversion of the communist ideals that underlay the Russian Revolution. Justified suspicion of proffered 'utopias', nevertheless, should not deter us from considering the possibility of radical change and where ideally we would 'like to go', recognising that where we are now (a world with 7 billion people and severely depleted resources) might not be the best place from which to start.

'Abolishing' money is not an option and in any case would not be helpful.
6.8 A tempting cure for the 'somewhat disgusting morbidity' described by Keynes is to excise its source i.e. money. Within the socialist movement, money has always been regarded as a vehicle for the exploitation of 'labour' by 'capital' and a minority have called for its abolition. The Socialist Party of Great Britain, for example, maintains that "the abolition of money follows logically from the abolition of the wages system with its exploitive buying and selling of labour power." The existence of money certainly provides the opportunity for manipulation and exploitation by self-interested individuals (see 3.22). However, to blame money for its misuse is rather like blaming steel because it can be made into swords as well as ploughshares. Money can be used for good or ill. Crucially, the existence of money provides a ready means, if we choose to use it, of redistributing income and personal wealth[45] (although an ideal system would not 'throw up' too much inequality in the first place). It is in any case difficult to see how any moderately complex society could operate without the use of money. Try imaging how you might 'barter' for all the goods and services you consume (including drinks at the Kingston Philosophy Café). We might, of course, devise a system whereby people are given 'tokens' that entitle them to given amounts of communally produced goods and services. Alternatively their entitlement might be recorded on updateable computer files. But then we have just re-invented money!

Key issues relate to the location, method and content of choice and control.
6.9 The inescapable fact is that, amongst any group of people, there has to be *some* system for deciding *how* resources are to be used to produce *what*, for the use and benefit of *whom* (see 3.24). Key issues include the following.

- The scope reserved for the exercise of *individual* choice, initiative and control.
- The way *collective* choices are made and how far they genuinely reflect individual wishes.
- The *content* of choices (whether individual or collective).

On the last point, we cannot assume that collective choices will necessarily be 'wise'. People might collectively decide to squander resources. This is less likely, however, if such choices reflect an egalitarian concern for others, including imagined members of *future generations*.

Does *'News from Nowhere'* offer a realistic vision of the future or an idle dream?
6.10 However unrealistic and sometimes unappealing they might seem, utopian visions can help us focus on key issues regarding the direction of possible future change. One such vision is offered by English writer, artist and designer William Morris (1834-96) who, in his novel *News from Nowhere* (1890), imagines a world which, after violent revolution and at least a century of struggle, has dispensed with nation states, governments and money. His 'time-traveller', William Guest, awakes to find London transformed into a type of 'garden city'[46] (with orchards in Trafalgar Square). The

[45] The direct expropriation and redistribution of physical property is liable to provoke extreme resistance. It is much more practicable to levy taxes (e.g. council tax, inheritance tax and the currently mooted 'mansion tax') based, in part at least, on the estimated money value of property.
[46] The concept of 'garden cities' was expounded by Ebenezer Howard (1850-1928) in his book *Tomorrow, A Peaceful Path to Real Reform* (1898), republished as *Garden Cities of Tomorrow* (1902). He envisaged towns, of about 30,000 people, surrounded and separated by open countryside and divided internally into separate zones for different land uses, residential areas being divided into distinct *neighbourhoods*. Polycentric

population at large live in scattered urban and rural 'villages', each 'community' owning property in common and making collective decisions in a 'Mote' (meeting of neighbours). Accompanied by new-found friends, William journeys up the Thames from Hammersmith to Hampton Court (now partly used as a people's 'guest hall') and onwards past Oxford to its upper reaches. Gone is "the hideous vulgarity of the cockney[47] villas of the well-to-do, stockbrokers and other such, which in older times marred the beauty of the bough-hung banks". Gone too are polluting factories. As people live a simpler life, the scale of production is much reduced, the manufacture of goods taking place in craft workshops or at home. Technology has not been eliminated but is focussed upon making work more congenial. According to their ability, all are expected to contribute their labour, the fruits of which are made available on a communal basis. As less is produced, fewer hours of work (about four a day) are required, much importance being attached to leisure time. Morris' vision is consistent with the type of 'communist' society envisaged by Karl Marx once an interim 'dictatorship of the proletariat' had removed all class divisions and enabled 'the state' to 'wither away'.[48]

What might be the 'shape of things to come'?

6.11 I am *not* suggesting that Morris' vision offers a realistic blueprint for the future, only that it serves to highlight key issues that *somehow* must be resolved. His 'utopia', it is important to remember, emerged only after many years of violent struggle. He is not specific about just how many people were killed in the process. The challenge is to identify a *peaceful* path to the radical changes required in attitudes and behaviour (i.e. in the content of our collective intentionality). My own thoughts concerning our future 'social and institutional world' (in the light of the issues discussed in this paper and of Morris' vision) include the following.

- Resource depletion makes inevitable a long-term reduction in the volume of physical output and a change in the nature of what is produced.
- In such circumstances it is vital to concentrate upon those things that contribute most to human well-being and that are least 'resource hungry'. The bottom line must be the universal provision of adequate food, shelter and healthcare.
- Inequalities of income and wealth both within and between countries must be drastically reduced. Extravagant lifestyles are unsustainable and encourage 'emulation' (see 6.5).
- We must purge from our minds the 'mental monsters' (see 3.21) that obstruct our view of individual reality. We must cut through the ideology that conceptualises 'the people', 'the state' or even 'the community' as unitary beings and instead focus on the reality of *individuals* (how many, for example, are starving, being tortured or denied basic freedoms).
- Individuals are mutually dependent. Humans, like many other species, are essentially *co-operative* animals. In the economic sphere, individual 'success' generally requires the support of others and is often achieved 'on the backs' of others.

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groupings of such towns, he suggested, could form 'Social Cities' covering populations of 250,000 or more. Howard's vision has been *partly* realised in the development of Letchworth (1903), Welwyn Garden City (1920) and the post-war new towns. Howard was strongly influenced by Alfred Marshall (see 4.5) who in 1884 had argued the economic case for planned model communities (as an alternative to haphazard urban cramming and sprawl with all its uneconomic 'negative externalities' and harmful social and environmental effects). Edward Bellamy (see footnote 48 below) was also a major influence.

[47] Morris uses the word 'cockney' to mean vulgar and materialistic.

[48] Morris was probably inspired to write *News from Nowhere* by reading Edward Bellamy's *Looking Backward* (1888). Second in popularity in the USA at the time only to *Uncle Tom's Cabin*, this describes how a resident of Boston awakes in the year 2000 after a cataleptic sleep to find the world transformed by technology into an egalitarian paradise freed from poverty and corruption. Morris disparaged Bellamy's utopia as 'state socialism' fixated, as much as capitalism, with material wealth rather than the transformation of 'people's ways of life and habits of thought'. He was equally disparaging about 'anarchism' which he associated with 'radical individualism'. *Group-based* authority over individual behaviour, he believed, was still needed. "Morris' own vision was of a commonwealth in which authority was collective and decentralised rather than non-existent." (Introduction by David Leopold to Oxford World Classics edition of *News from Nowhere*).

- Co-operation and competition can, within limits, *co-exist*. Organisations are *internally* co-operative (see 6.6) but are liable to compete *externally* with each other (e.g. for business or membership). This can apply as much to co-operatives as to 'conventional' enterprises.
- Competition can be a useful 'game to play', especially if linked to the provision of consumer choice and the incentive for individuals and organisations to improve what they do. Nevertheless it needs to be carefully regulated to ensure 'fair play' and the income differentials 'thrown up' should be limited to a narrower range.
- The use of 'money', in some form or another, seems an inevitable feature of complex economies. It provides a useful tool not only for the exchange of goods and services but also for the redistribution of income and personal wealth (see 6.8). Stronger regulation is needed, however, to prevent its use for irresponsible 'gambling' by, amongst others, banks and to encourage its use for investment in *sustainable* productive and social capital.
- As envisaged by Morris, science and technology must be directed to improving the *quality* of life (including the nature of work) rather than maximising 'output' and 'employment' for their own sake. There could be more sharing of work, with individuals working shorter hours. We might then make a reality of the 'leisure society' (as long as the leisure activities involved are not commercialised and resource-hungry) that was so much talked about back in the 1960s.
- There is scope for more empowerment of individuals through involvement in co-operatives. There is also scope for greater decentralisation of the exercise of collective intentionality e.g. down to the level of 'neighbourhoods' (even if their boundaries are fairly arbitrarily defined).
- *However*, internal to each of us are many and sometimes *conflicting* interests and desires arising, in part, from our membership of many different groups (see 3.26). 'Nimby-like', we may oppose new housing in our neighbourhood whilst at the same time bemoaning the shortage of affordable housing for our children and others. There has to be *some* system for making and reconciling collective choices that embrace different groups of people and that operate at different spatial levels. This is perhaps the weakest aspect of Morris' vision. It is unclear how his 'communes' work together to achieve 'higher-level' common objectives (e.g. to build interconnecting roads or to redistribute resources from more to less well-favoured areas).
- Morris seems to have in mind largely self-sufficient communes. Although there is scope for more local self-sufficiency, it appears to be strictly limited. Even in a simpler world, goods and services will be exchanged over wide areas and people residing in any given locality will be involved in a multiplicity of groups with very different spheres of operation. Communications technology, in particular, facilitates the existence of 'aspatial' as well as spatial groups (apart from playing a vital role in combating the tyranny of those who would rule through propaganda and the control of information).
- The brute reality is a world of *interdependent* individuals who largely rely upon each other for their survival and who, even if they don't always like each other very much, have to find *some* way of 'getting along' without undue friction (and certainly without killing each other). A key problem is how to reconcile differences and achieve co-operation. Morris glosses over this. His 'obstinate refusers' are a pretty mild lot who just insist on carrying on with their wood-carving rather than help with the hay-making!
- As far as systems for the making of collective decisions are concerned, there is much to be said for some sort of spatial hierarchy of democratically accountable institutions[49]. The challenge is to make them *more* democratically accountable and to spread them to the many parts of the world where they barely, if at all, exist. The mistake made by 'anarchists' (including the extreme 'libertarians' of the far right) is to suppose that the absence of 'government' spells individual freedom. As already suggested (see 3.25), rule by unaccountable 'mafias' is a much more likely

[49] Winston Churchill argued that democracy appears the worst system of government in the world until we compare it with the alternatives. He also said that the strongest argument *against* democracy is a five-minute conversation with a voter!

consequence. We should not, of course, be naïve. The institutions of government can be, and very often *are*, high-jacked by self-interested minorities for their own purposes. That is an argument, however, for *changing* and *improving* those institutions, not abandoning them.

- Although, with John Lennon, we may find it possible to "imagine there's no countries" we cannot imagine them away. We have to start from the reality of substantially autonomous groupings of people called nation states (which, although fundamentally arbitrary, are sustained by some very powerful mental monsters). The challenge is to strengthen the institutions of international co-operation in order to exercise collective intentionality at its highest possible (i.e. global) level.
- The future content of different levels and spheres of collective intentionality, suitably jolted by the 'massive onslaught of circumstance', will determine whether the means at our disposal (including economic and financial means) are used to achieve a *sustainable* future where individuals are genuinely "sharing all the world". We owe it to our children, grandchildren and subsequent generations to at least try. The keys are imagination, communication and determination. Our imaginations must embrace future as well present generations. We need everyone to promise, in the words of Bob Dylan, "I'll let you be in my dream if I can be in yours".[50]

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***** This book summarises and synthesises a wide range of topics covered in Searle's earlier work including:
Searle, John R. (1995) *The Construction of Social Reality*. Penguin Books

[50] The line is taken from his song '*Talkin' World War III Blues*' (1963). Only the philosophically pedantic need worry about its potential 'circularity' (see 3.8). The important thing is the message intended and conveyed and its underlying moral standpoint.