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An Answer to Her Majesty's question at the London School of Economics: "Why did nobody notice?"

27th November 2008

Your Majesty,

I have the honour to remain, Madam, Your Majesty's most humble and obedient subject.

I note, with much interest, Your Majesty's recent visit to the London School of Economics. Given the current financial calamity, Your Majesty asked a very pertinent and important question: "Why did nobody notice?"

I firmly believe that the director of research, Professor Luis Garicano, and his colleagues present there, should have provided Your Majesty with truthful and honest answers. However, given what I have read in the press, I do not believe this was the case. Their failure to do so, clearly goes a long way to prove the detachment of economists and the modern neo-liberal economics from the real world. They have turned our profession and subject into a comedy of errors, a dismal science of irrelevance.

This is very sad indeed Ma'am. An entire profession now appears to have suffered a collapse. Trust and confidence in my profession has all but been demolished, the "dismal science" at its worst.

Many mistakes have been made. Many economists have compromised themselves and their profession by remaing silent, not criticising the extremism and the neo-liberal funamentalism present in their profession. Lessons should be learnt, someone should be held accountable. Otherwise the same mistakes will be repeated and nobody will believe what an economist says again. In other words, Your Majesty deserves a proper and honest answer.

I hope Your Majesty will allow me to attempt to provide some explanation of what, in my opinion, went wrong, why nobody noticed and how this might be remedied.

However, in order for this explanation to be more meaningful, I have to ask Your Majesty to read a summary of my journey from a type of economist that I was to what I have become.

It has been an intellectual, emotional and spiritual journey; it has involved wrestling with a diverse range of concepts, ideas concerning the relationship between economics, theology, spirituality, and a dialogue amongst civilizations, cultures and religions, as well as a dialogue between different academic disciplines and subjects.

How it All Began: My Story and Journey

I was born in Tehran, Iran in 1952. In 1971, after finishing high school, I came to England to further my education. In 1974 I married my English wife, Annie, and two years later we emigrated to Canada. I received my BA and MA in Economics from the University of Windsor in 1980 and 1982 respectively. We returned to England in 1982, and in 1986 I was awarded my PhD in Economics from the University of Birmingham.

From 1980 onwards, for the next twenty years, I taught economics in universities, enthusiastically demonstrating how economic theories provided answers to problems of all sorts. I got quite carried away by the beauty, the sophisticated elegance, of complicated mathematical models and theories. But gradually I started to have an empty feeling.

I began to ask fundamental questions of myself. Why did I never talk to my students about compassion, dignity, comradeship, solidarity, happiness, spirituality – about the meaning of life? We never debated the biggest questions. Who are we? Where have we come from? Where are we going to?

I told them to create wealth, but I did not tell them for what reason. I told them about scarcity and competition, but not about abundance and co-operation. I told them about free trade, but not about fair trade; about GNP – Gross National Product – but not about GNH – Gross National Happiness. I told them about profit maximisation and cost minimisation, about the highest returns to the shareholders, but not about social consciousness, accountability to the community, sustainability and respect for creation and the creator. I did not tell them that, without humanity, economics is a house of cards built on shifting sands.

These conflicts caused me much frustration and alienation, leading to heartache and despair. I needed to rediscover myself and a real-life economics. After a proud twenty-year or so academic career, I became a student all over again. I would study theology and philosophy, disciplines nobody had taught me when I was a student of economics and I did not teach my own students when I became a teacher of economics.

It was at this difficult time that I came to understand that I needed to bring spirituality, compassion, ethics and morality back into economics itself, to make this dismal science once again relevant to and concerned with the common good. It was now that I made the following discoveries:

* Living happily is “the desire of us all, but our minds is blinded to a clear vision of just what it is that makes life happy”. The root of happiness is ethical behaviour, and thus the ancient idea of moral education and cultivation, is essential to ideal of joyfulness.

* Economics, from the time of Plato right through to Adam Smith and John Stuart Mill, was as deeply concerned with issues of social justice, ethics and morality as it was with economic analysis. Most economics students today learn that Adam Smith was the ‘father of modern economics’ but not that he was also a moral philosopher. In 1759, sixteen years before his famous Wealth of Nations, he published The Theory of Moral Sentiments, which explored the self-interested nature of man and his ability nevertheless to make moral decisions based on factors other than selfishness. In The Wealth

of Nations, Smith laid the early groundwork for economic analysis, but he embedded it in a broader discussion of social justice and the role of government. Students today know only of his analogy of the 'invisible hand' and refer to him as defending free markets. They ignore his insight that the pursuit of wealth should not take precedence over social and moral obligations, and his belief that a 'divine Being' gives us 'the greatest quantity of happiness'. They are taught that the free market as a 'way of life' appealed to Adam Smith but not that he distrusted the morality of the market as a morality for society at large. He neither envisioned nor prescribed a capitalist society, but rather a 'capitalist economy within society, a society held together by communities of non-capitalist and non-market morality'. As it has been noted, morality for Smith included neighbourly love, an obligation to practice justice, a norm of financial support for the government 'in proportion to [one's] revenue', and a tendency in human nature to derive pleasure from the good fortune and happiness of other people.

* The focus of economics should be on the benefit and the bounty that the economy produces, on how to let this bounty increase, and how to share the benefits justly among the people for the common good, removing the evils that hinder this process. Moreover, economic investigation should be accompanied by research into subjects such as anthropology, philosophy, politics and most importantly, theology, to give insight into our own mystery, as no economic theory or no economist can say who we are, where have we come from or where we are going to. Humankind must be respected as the centre of creation and not relegated by more short term economic interests.

*'Economic rationality' in the shape of neo-liberal globalisation is socially and politically suicidal. Justice and democracy are sacrificed on the altar of a mythical market as forces outside society rather than creations of it. However, free markets do not exist in a vacuum. They require a set of impartiality in government, honesty, justice, and public spiritedness in business. The best safeguard against fraud, theft, and injustice in markets are the cardinal virtues of justice, temperance, fortitude, and prudence, and the theological virtues of faith, hope, and charity.

*Every apparently economic choice is, in reality, a social choice. We can choose a society of basic rights – education, health, housing, child support and a dignified pension – or greed, pandemic inequality, ecological vandalism, civic chaos and social despair. Modern neo-liberal economics ignores the first and promotes the second path as the way to achieve economic efficiency and growth.

*The moral crises of global economic injustice today are integrally spiritual: they signal something terribly amiss in the relationship between human beings and God.

*Where the moral life and the mystery of God's presence are held in one breath – because the moral life is the same as the mystical life – the moral agency may be found for establishing paths towards a more just, compassionate and sustainable way of living. 'Moral agency' is the active love of creation (for oneself as well as for other people and for the non-human creation); it is the will to orient life around the ongoing well-being of communities and of the global community, prioritising the needs of the most vulnerable; it is the will to create social structures and policies that ensure social justice and ecological sustainability.

*In contrast to this sensibility, which weds spirituality and morality, stands modern economics' persistent tendency to divorce the two, in particular to dissociate the intimate personal experience of a close relationship with God from public moral power.

*It is the belief in collective responsibility and collective endeavour that allows individual freedom to flourish. This can only be realised when we commit ourselves to the common good and begin to serve it.

*There are three justifications for the common good which are not commonly discussed in economics:

1 Human beings need human contact, or sociability. The quality of that interaction is important, quite apart from any material benefits it may bring.

2 Human beings are formed in the community – their education and training in virtue (their preferences) are elements of the common good.

3 A healthy love for the common good is a necessary component of a fully developed personality.

*The marketplace is not just an economic sphere, 'it is a region of the human spirit'. Profound economic questions are divine in nature; in contrast to what is assumed today, they should be concerned with the world of the heart and spirit. Although self-interest is an important source of human motivation, driving the decisions we make in the marketplace every day, those decisions nevertheless have a moral, ethical and spiritual content, because each decision we make affects not only ourselves but others too. We must combine the need for economic efficiency with the need for social justice and environmental sustainability.

*The greatest achievement of modern globalisation will eventually come to be seen as the opening up of possibilities to build a humane and spiritually enriched globalised world through the universalising and globalising of compassion. But for 'others' to become 'us', for the world to become intimate with itself, we have to get to know each other better than we do now. Prejudices have to disappear: we have to see that the cultural, religious and ethnic differences reflect an ultimate creative principle. For this to happen, the great cultures and religions need to enter into genuine dialogue with each other.

At this point, I wish to invite Your Majesty to read the Chapter 4 of a book, which I co-authored with Rev. Dr. Marcus Braybrooke (*Promoting the Common Good*). The topic under study in this Chapter is all about the answer to the question which Your Majesty had asked: *"The Roots of Economics and why it has gone so wrong".*

Paul Ormerod, former Director of Economics at the Henley Centre for Forecasting, in his book The Death of Economics notes that:

> Good economists know, from work carried out within their discipline, that the foundations of their subject are virtually non-existent… Conventional economics offer prescriptions for the problems of inflation and unemployment which are at best misleading and at worst dangerously wrong… Despite its powerful influence on public life, its achievements are as limited as those of

> pre-Newtonian physics … It is to argue that conventional economics offers a very misleading view of how the world actually operates, and it needs to be replaced.

An equally accomplished economist, Mark Lutz, in his book Economics for the Common Good observes that:

> Modern economics is the science of self-interest, of how to best accommodate individual behavior by means of markets and the commodification of human relations… In this economic world view, the traditional human faculty of reason gets short-changed and degraded to act as the servant of sensory desires. There is no room for logic of human values and rationally founded ethics. Human aspirations are watered down to skilful shopping behavior and channelled into a stale consumerism. One would think that there must be an alternative way to conceptualise the economy.

So what is economics? What are its roots? And why has it gone so wrong? In what follows I shall attempt to shed some light on these questions.

Economics has its origins in ancient Greece and its roots in ethics. Amartya Sen, in his significant study, *On Ethics and Economics*, demonstrates that, in its recent development, a serious distancing between economics and ethics has brought about one of the major deficiencies in contemporary economic theory. Sen argues that modern economics could become more productive by paying greater and more explicit attention to the ethical considerations that shape human behaviour and judgement. He observes a surprising contrast between the self-consciously non-ethical character of modern economics and its historical evolution as an offshoot of ethics.

The ethics-related tradition of economics goes back at least as far as Aristotle. It has been argued that Aristotle deserves recognition as the first economist, two thousand years before Adam Smith. Aristotle distinguished between two different aspects of economics: oikonomikos or household trading, which he approved of and thought essential to the working of any even modestly complex society, and chrematisike, which is trade for profit. He declared the latter activity wholly devoid of virtue and called those who engaged in such purely selfish practices 'parasites'. His attack on the unsavoury and unproductive practice of usury held force virtually until the fifteenth century, when John Calvin's writings started greatly to influence the study of economics.

The extension of Calvinism to all spheres of human activity was extremely important to a world emerging from an agrarian mediaeval economy into a commercial industrial era. Calvin accepted the newborn capitalism and encouraged trade and production, while, most importantly, opposing the abuses of exploitation and self-indulgence. Industrialisation was stimulated by the concepts of thrift, industry, sobriety and responsibility that Calvin promoted as being essential to the achievement of the reign of God on earth.

However, in the eighteenth century, with the publication of Adam Smith's masterwork, The Wealth of Nations, there was a quantum leap in many aspects of economics. Now chrematisike became the driving force and primary virtue of modern society – a point to which I shall return later.

As Sen points out, at the very beginning of The Nicomachean Ethics Aristotle relates the subject of economics to human ends, referring to its concern with wealth. He sees politics as 'the master art' which must direct 'the rest of the sciences', including economics, and 'since, again, it legislates as to what we are to abstain from, the end of science must include those of the others, so that this end must be the good for man.'

Furthermore, according to Sen, the study of economics, though directly related to the pursuit of wealth, is at a deeper level linked to other studies which involve the assessment and enhancement of more basic goals. Quoting Aristotle, Sen notes that, 'the life of money-making is one undertaken under compulsion, and wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else.' Economics relates ultimately to the studies of ethics and politics, a point of view further developed in Aristotle's Politics.

The Penguin History of Economics defines economics as 'a science which studies human behaviour as a relationship between ends and scarce means with alternative uses'. I have collected some further definitions from the Web:

The branch of social science that deals with the production and distribution and consumption of goods and services and their management…

www.cogsci.princeton.edu

The science that deals with the production, distribution, and consumption of the worlds resources and the management of state income and expenditures in terms of money.

www.sba.gov

Economics is the study of how men and society end up choosing, with or without the use of money, to employ scarce productive resources that could have alternative uses, to produce various commodities and distribute them for consumption, now or in the future, among various people and groups in society. It analyzes the costs and benefits of improving patterns of resource allocation. Economics is the study of the use of scarce resources to satisfy unlimited human wants.

hta.uvic.ca

The study of how individuals and societies choose to allocate scarce productive resources among competing alternative uses and to distribute the products from these uses among the members of the society.

www.worldbank.org

The study of choice and decision-making in a world with limited resources.

pittsford.monroe.edu

The science that deals with the production, distribution, and consumption of wealth, and with the various related problems of labour, finance, taxation, etc. [Webster's New World]

www.worldtrans.org

The study of how people use scarce resources to satisfy unlimited wants.

www.fiscalagents.com

The study of how scarce resources are allocated among competing uses.

www.lobsterconservation.com

The science of the allocation of limited resources for the satisfaction of human wants.

www.ptvincivilsociety.org

Study of how individuals, businesses and governments use their limited resources to satisfy unlimited wants.

www.turnerlearning.com

Economics is the study of ways in which people make a living; it considers the social organisation by means of which people satisfy their wants for scarce goods and services.

www.lcsc.edu

Study of how people choose to use scarce resources to satisfy their needs and wants; a study of choice.

www.radford.edu

The science that deals with the production, distribution, and consumption of commodities

www.fhsu.edu

The study of how persons and society choose resources which have alternative uses, to produce various commodities over time and distribute them for consumption now and in the future, among various people and groups in society.

www.remaxescarpment.com

The social science that studies how individuals, firms, governments, and other organizations make choices, and how those choices determine the way the resources of society are used.

wellspring.isinj.com

Economics provides the language, principles and a way of thinking to help people unravel why they have to make choices.

www.cba.uc.edu

The study of supply and demand in markets and how they allocate scarce resources.

www.freebuck.com

The study of how resources are distributed for the production of goods and services within a social system.

www.mhhe.com

The study of how to distribute scarce resources among alternative ends.

highered.mcgraw-hill.com

The study of how limited resources, goods, and services are allocated among competing uses.

www.fs.fed.us

Your Majesty, given the observation above, it is clear that economics is perceived as a science concerned with scarcity, competition, production, consumption and the satisfying of unlimited desires. There is no reference to abundance, co-operation, sustainability, justice, compassion, humanity, morality or spirituality. No wonder it has brought us such a bitter harvest!

Economics defines ends and means primarily in material terms – essentially in monetary terms. Non-material, non- monetary values are considered subjective and therefore outside its scope. By stating that economic means are finite and scarce, economic theory accepts a natural element of competition for these resources. The textbooks tell us that man naturally competes for scarce and limited material resources. Happy are those who are able to consume these resources, unhappy are those who are not.

There is more in the chapter or indeed in the book itself, that Your Majesty might find of interest and relevant to the original question. For further reading Your Majesty may access the link below:

http://lass.calumet.purdue.edu/cca/jgcg/downloads/PromotingTheCommonGood.pdf

Finally, it is my honour to present Your Majesty with Globalisation for the Common Good, as an alternative to the neo-liberal, disaster capitalism and globalisation:

Globalisation for the Common Good Initiative: An Inter-faith Perspective
A Path to Heal Our Broken World

The Globalisation for the Common Good Initiative began in 2002 at a conference in Oxford, UK. Since then, the GCG International Conference has become an annual event, traveling across the globe to Saint Petersburg, Dubai, Nairobi & Kericho, Honolulu, Istanbul and Melbourne; while the 2009 conference is scheduled to take place at Loyola University, Chicago. These multi-disciplinary conferences have been lively and productive affairs, in which scholars, politicians, theologians, journalists, peace activists, and students from many diverse faiths and cultural backgrounds have come together to discuss the ways in which the world's religious and social communities can help promote peace and justice. They have given rise to numerous collaborations, many books and academic papers, as well as the establishment of the online *Journal of Globalisation for the Common Good*.

We believe that the rich heritage of the world's religions have much to offer in promoting global peace, justice, and human well-being. While globalisation is often conceived in terms of impersonal economic and market forces, we believe that in breaking down the barriers between cultures it also provides the possibility for productive inter-religious and inter-cultural encounters. We seek to celebrate religious diversity while seeking to overcome ideological divisions to harness the wealth of the world's diverse spiritual and ethical traditions to create a sense of common purpose that can enable us to build social and economic policies that are truly humane and life-enhancing. We look forward to being able to play a part in what we hope is a fruitful period of inter-religious dialogue which will see peace, justice, and human well-being realized across the world.

We live in difficult and troubling times, facing unprecedented global challenges in the areas of climate change and ecology, banking, credit and subprime mortgage lending, soaring cost of energy and food, hunger and infectious disease, international relations and cooperation, peace and justice, terrorism and war, armaments and unprecedented violence, crime and insecurity. It is precisely in times like these – unstable and confusing though they may be – that people everywhere need to keep their eyes on the better side of human nature, the side of love and compassion, rather than hatred and injustice; the side of the common good, rather than selfishness, individualism and greed. How well we succeed in changing our world for the better, so that we can build a world that is just, free and prosperous for all, will depend on our collective capacities to mobilise interest and master enthusiasm around our common vision and collective action. This call to action should be heard loud and clear by people everywhere.

Yours sincerely,

Kamran Mofid PhD (ECON)

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