GREED

For the good of us all?

JESPER
ROINE

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Foreword:
The deadly sins in our time

Envy, gluttony, greed, pride, lust, sloth and wrath – what is the importance of the seven deadly sins, organised 1,500 years ago by Pope Gregory the Great, in contemporary Sweden? Is devoting seven essays to them really justifiable? After all, we live in one of the most secular societies in the world, a society where hell seems more likely to be the name of a nightclub than a place for sinners. Living out your lusts is not just permitted, it is considered healthy. Letting go, feeling pride, earning money and eating well are also things we value – we treat ourselves, and of course we're worth it!

At the same time, there are indications of a return of morals. The climate crisis and the lifestyle changes that must result from it, increased inequality and people with unimaginable wealth, combined with refugee flows and wars close to Sweden, are contemporary phenomena. They have led to us increasingly talking in terms of morals, at least if we are to judge by the daily press. A simple search of Swedish newspapers shows that the use of the word "morals" has increased tenfold since 2014.

Another sign of the reappearance of morality in public debate is the role played by shame in what is called cancel or call-out culture. There has been an increase in public humiliation, shaming, through the emergence of a new, internet-generated social control. Moreover, online humiliation has become a strategy for various groups to effect change, as a form of modern, shame-driven consumer power. Although most people see dangers in allowing shame to drive public discourse, there are those who argue that it can be a good thing, an effective way of changing people's morals and behaviour.

Good and evil are increasingly referenced in politics, but what some people perceive as good is perceived by others as virtue signalling – and what is that if not pride? Regarding some people as completely shameless can, on the other hand, be seen as part of the same trend. Incidentally, the word shameless was hardly used at all in the early 2000s, but has occurred more frequently since 2014. There are people who argue that we are living in a post-post-political world, a hyper-political era, in which everything is politics and can thus be categorised as good or bad. Involvement is just a click away, but is just as fleeting as love on Tinder. Mass movements die as quickly as they form, and the result is a type of overheated discussion that covers everything but has no depth, which quickly states whether something is right or wrong or good or bad, and where anyone who ends up on the wrong side of the line can suffer the keelhauling of public opinion.

From this perspective, there is reason to return to the mortal sins and their moral claims. Also, sins and vices are individual; the aim of refraining from sin is personal salvation, not collective change. This emphasis on our own behaviour and our personal morality is symptomatic of the individualism of our time, and the focus on sins thus suits an era that celebrates the ego.

However, the deadly sins have always had an undeniably collective dimension. In 2008, when the Vatican launched seven additional deadly sins, the aim was to adapt them to contemporary global reality and to emphasise the people's social interactions: polluting the environment, morally dubious experiments, bioethical violations, drug abuse, creating poverty, excessive wealth, contributing to social inequality.

It is also worth remembering that the deadly sins are not really about the worst things humans can do, as even in the Middle Ages there were worse things than sloth and lust. Rape and murder were far more serious crimes, but the deadly sins were considered dangerous because they risked enslaving us to our own emotions, destroying our rationality and creating an addiction to the thrill of sin. The deadly sins threatened to consume us. And, like the modern, upgraded deadly sins, the old deadly sins have always referenced the sins and misdeeds that threaten to tear society apart, and those emotions that threaten to entice us away from the good and the just.

Doesn't this sound urgent? In this essay collection, seven scholars have used their research as a basis on which to tackle a deadly sin, to test the sins' relevance in our time and to discover what they can teach us – about ourselves and about society.

In this essay, economist Jesper Roine writes about greed. "Greed is good" exclaimed Gordon Gekko in the film *Wall Street* (1987). Why did what was once a deadly sin become a virtue? Roine looks back at Machiavelli, Thomas Hobbes and, in particular, Adam Smith to answer this question, resulting in a deep discussion that is not only about greed, but also about goodness.

The editors

Greed in the service of society

For me, and for many others who were teenagers in the 1980s, the word "greed" has a face: Gordon Gekko in Oliver Stone's film *Wall Street* from 1987. Thanks to his most famous line from the film – "Greed is good" – Gekko, as portrayed by Michael Douglas, has become a "cultural symbol for greed".[1] For those unfamiliar with the quote, it appears in the following speech:

> The point is, ladies and gentlemen, that 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, knowledge has marked the upward surge of mankind. And greed, you mark my words, will not only save Teldar Paper, but that other malfunctioning corporation called the USA. Thank you very much.[2]

This optimistic view of greed is not just a fictional creation. The stock market crashed spectacularly in the year *Wall Street* was released, in what was then the biggest decline since the 1930s. As is often the case, this crash was followed by a flurry of articles about all that was wrong with markets in general and with greed in particular, portrayed as the root of all evil. However, a leader in the *New York Times* with the headline "Ban Greed? No: Harness It" provided another perspective:

> Perhaps the most important idea here is to distinguish between motive and consequence. Derivative securities attract the greedy the way raw meat attracts piranhas. But so what? Private greed can lead to public good. The sensible goal for securities regulation is to channel selfish behavior, not thwart it.[3]

This view of greed is thus that it is, or at least can be, a force for good in society. The idea is that greed can be what drives our collective prosperity, which is an idea with deep historical roots. This essay is an attempt to describe how a deadly sin became a virtue, the extent to which the economy really does require greed, and whether we can really do "without morality" as long as we have the "correct incentives".

I should perhaps, from the outset, state that this will be a somewhat caricatured history for the purpose of making specific points, rather than doing justice to the thinkers whose ideas I have reduced to contextless quotes. Sensitive readers are hereby warned.

Greed in the service of God: Weber and Protestantism

In the beginning of his essay *The Protestant Ethic and the Spirit of Capitalism*, Max Weber asks why economic activities that were once barely tolerated by the church have been transformed into the meaning of life, a decisive sign of God's favour. This is an excellent question, given what the Bible has to say about it:

> And again I say to you, it is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God. (Matthew 19:24)

Or why not this verse:

> No servant can serve two masters; for either he will hate the one and love the other, or else he will be loyal to the one and despise the other. You cannot serve God and mammon. (Luke 16:13)

Or the First Epistle to Timothy, where you can read:

> But those who desire to be rich fall into temptation and a snare, and *into* many foolish and harmful lusts which drown men in destruction and perdition. For the love of money is a root of all *kinds of* evil, for which some have strayed from the faith in their greediness, and pierced themselves through with many sorrows. (Timothy 6:9–10; my italics)

In Dante's divine comedy, the greedy end up in the fourth circle of hell, as do some men of the church – Dante was well aware that the church did not always follow its own rules.

But, as Weber noted at the start of the twentieth century, at least some of Christianity appears to have, over time, changed its opinion about wealth and business; from once being a deadly sin, it became an activity that could actually be regarded as celebrating God. Weber quotes the seventeenth-century English Puritan Richard Baxter to illustrate the core of this gradual change: "you may labour to be rich for God, though not for the flesh and sin".[4] In brief, you may be greedy provided it is to honour God, not so you can live in sin. The desire for money has gradually been transformed into an admirable activity, to the extent that Max Weber believed he could explain financial success using special Protestant ethics. How did this happen?

Social contract for people "as they are"

This question – how opinions about greed have changed over time – is considerably broader than Weber's thoughts on the origins of Protestant ethics. Economist Albert Hirschman's essay "The Passions and the Interests" explores the fascinating idea that the economy could not only curb people's destructive urges and desire for money, but channel them to work towards a better society.[5] Hirschman's point of departure is the Renaissance idea of starting with people "as they are". Whereas earlier thinkers saw society's role as educating people to be good citizens by teaching virtue and honour, and appealing to chivalry and goodness, people now increasingly believed that humanity should be accepted for what it is.

One of the earliest and most famous expressions of this more "realistic" approach to humanity can be found in *The Prince,* Niccolò Machiavelli's handbook for rulers, published in 1532. In it, he criticises previous advisers for relying too much on idealised images of what they *wanted* society to look like, rather than sticking to "the real truth". Machiavelli believed that providing advice based on people's desired behaviour was doomed to failure. As he expresses it:

> [...] many have pictured republics and principalities which in fact have never been known or seen, because how one lives is so far distant from how one ought to live, that he who neglects what is done for what ought to be done, sooner effects his ruin than his preservation [...][6]

The same idea appears a little later, in the preface to Baruch Spinoza's *Tractatus Politicus* from 1675. Spinoza, too, argues that the typical thinkers of older times made the mistake of "conceiving men not as they are but as they would like for them to be". Around the same time, but a few decades earlier, Thomas Hobbes devotes the first ten chapters of *Leviathan* (1651) to human nature – noting how it is not beautiful – as justification for why a state must have the power to forcibly restrain people from their destructive impulses.

In the eighteenth century, Montesquieu and David Hume also emphasised the importance of starting from how people *actually are* when thinking about how best to organise society. Even Jean-Jacques Rousseau, whose view of humanity is otherwise often contrasted with others, begins his 1762 book *The Social Contract* with a description of what he intends to do:

> Taking men as they are and the laws as they might be, I wish to investigate whether a legitimate and certain government can be encountered.[7]

This insistence on studying people "as they are" implies a distinction that still has a strong (although, in my opinion, often slightly misunderstood) position in economic research, namely the distinction between positive economics, which is the study of how the economy actually works, and normative questions about how something should be.[8]

Giambattista Vico's opinion, stated in *Scienza Nuova* (1725) summarises the change that can be regarded as beginning with Machiavelli's *The Prince,* while also foreshadowing the division found in approaches to the study of society:

> Philosophy considers man as he ought to be and is therefore useful only to the very few who want to live in Plato's Republic and do not throw themselves into the dregs of Romulus. Legislation considers man as he is and attempts to put him to good uses in human society.[9]

Nowadays, many economists would probably join the latter group, defining themselves as those who study "people as they are", thinking about how to create incentives that make people act in ways that benefit society.

Channelling destructive urges into societally beneficial activities

The next step, once Renaissance and Enlightenment thinkers realised that "by nature", humanity tends to succumb destructive impulses, selfishness and greed, was to ponder what to do about it. Pretending that these inclinations did not exist was precisely the kind of wishful thinking they wanted to move away from. Thomas Hobbes' solution, creating a state power that forced people to obey, had its points, but both his contemporaries and later critics have pointed out that this simply moved the problem up a level. As long as people were involved, with their flawed and faulty natures, the solution was actually to encourage people to do things that corresponded both to their "true nature" *and* were good for society. The last part of the above Vico quote expresses exactly this: the necessary idea is the best way of creating a system in which human urges are transformed into something beneficial for society. A few pages further on in *Scienza Nuova,* Vico articulates his vision of how the social contract could harness these drives and create a better civilisation:

> Out of ferocity, avarice and ambition, the three vices which lead all mankind astray, [society] makes national defence, commerce and politics and thereby causes the strength, the wealth and the wisdom of the republics; out of these three vices which would certainly destroy man on earth, society thus causes the civil happiness to emerge. [T]hrough its intelligent laws the passions of men who are entirely occupied by the pursuit of their private utility are transformed into a civil order which permits men to live in human society.[10]

There are many ideas about how exactly this should be done. David Hume writes several passages in which he suggests that the best (and perhaps only) way to control one vice is "by another".[11] The idea was that greed and the lust for money are better for society than slothfulness and waste. Perhaps it is simply better to *accept* some less bad deadly sins in order to restrain others.

Related ideas are found in Montesquieu, who reasons around the economy's civilising and calming effect on people. The idea – and the empirical statement – of *doux commerce*, which is the link between trade and peace, is highlighted as being preferable to more destructive sins. Montesquieu notes that "it is almost a general rule that wherever the ways of man are gentle [*oú il y a des mœurs douces*] there is commerce; and wherever there is commerce, there the ways of men are gentle".[12] Much later, such disparate thinkers as John Maynard Keynes, Joseph Schumpeter and Ayn Rand will return to these ideas in different ways. In *The General Theory of Employment of Interest and Money* (1936), Keynes writes:

> Dangerous human proclivities can be canalized into comparatively harmless channels by the existence of opportunity of money-making and private wealth [. . .]. It is better that a man should tyrannize over his bank balance than over his fellow-citizens [. . .].[13]

Schumpeter, on the other hand, argued that colonialism and activities involving the violent acquisition of wealth were not an inevitable consequence of the capitalist system, but an unfortunate remnant of a pre-capitalist period. Capitalism itself, he argued, encouraged rational calculation and therefore shied away from the inherent uncertainty and chaos that came with war.[14] Ayn Rand's *Atlas Shrugged* (1957) – perhaps the book most often associated with Gordon Gekko's views on greed – also notes that the pursuit of money is far better than the alternative:

> Until and unless you discover that money is the root of all good, you ask for your own destruction. When money ceases to become the means by which men deal with one another, then men become the tools of other men. Blood, whips and guns or dollars. Take your choice – there is no other.[15]

To summarise, throughout history there have been many thinkers who have seen greed and hunger for money as a deadly sin, but that this sin is the least bad of multiple evils. However, as modern thinking has emerged and replaced a divine mediaeval order, the idea of greed as a force which, properly harnessed, can benefit society as a whole – as long as it is channelled in the right way – has become increasingly dominant.

Adam Smith and the invisible hand: the final metamorphosis of greed?

In the evolving history of ideas, one can sense, if not Gordon Gekko's celebration of greed, then certainly the wording in the *New York Times* associated with the 1987 stock market crash that "private greed can lead to public good" and that the goal should not be to combat greed, but to exploit it: "the sensible goal [. . .] is to channel selfish behavior, not thwart it".

However, more than anything else, Vico, Hume and the others quoted above can be read as precursors to Adam Smith's classic invisible hand, perhaps the image most often invoked by admirers and detractors alike to defend or reject the magic of the market. Smith's famous passage in the *Wealth of Nations* (1776), on what motivates economic actors, postulates that self-interest is all that is required for people, through trade, to achieve outcomes that are mutually beneficial and thus good for society as a whole:

> He intends only his own gain, and he is in this, as in many other cases led by an invisible hand to promote an end

> which was in no part of his intention. Nor is it always worse for society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it.[16]

Here, the observant reader may note that the focus has shifted, from how constitutions and laws should keep people and their destructive urges in check, to the human desire to improve one's own situation. Humanity's self-interest is not something that should be prevented; instead it is a positive force. However, in this context, Smith was also aware of the important role of government. Back in 1755, in his studies for *Wealth of Nations*, he writes:

> Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things.[17]

This idea is the basis of the analysis which, in the tradition of economists Francis Edgeworth and Vilfredo Pareto, also forms the foundation for contemporary teaching in economic theory, known as the first welfare theorem. The simple message is that if individuals are only allowed to trade with each other, without interference from anyone else, the market will achieve "Pareto efficiency", a situation in which all opportunities for mutually beneficial improvements are exploited – no one can have a better situation, without someone else being worse off. As long as the distribution is such that both (or all) parties prefer a different distribution to the prevailing one, people will trade voluntarily, thereby achieving mutual improvements in their situations. This continues until there are no more ways to achieve mutually preferable alternative distributions.

Naturally, certain conditions are necessary for the Pareto efficiency to work. As well as clearly defined property rights and a legal system that can enforce contracts, it requires, for example, full information about who owns what, that the "meeting of supply and demand" can take place without cost, and some other conditions that are not usually fulfilled in practice.[18] Nonetheless, the basic idea – that people's self-interest is enough to achieve outcomes that benefit society as a whole, through specialisation and free trade – has been around since Smith.

Thereby, the metamorphosis is almost complete. Sinful greed and the focus on making money has been transformed into an activity that is not only defensible, but even seems preferable to feeble attempts to "do good".

Are greed and the free markets really enough?

At this point, anyone familiar with the thinkers whose ideas have been briefly quoted above may wish to protest. Rightfully so. It is true that all the quotes are taken from their work, and it is also true that a partial reading of Adam Smith may result in Gordon Gekko's conclusion that greed is actually good for society. But is this really the correct conclusion? Is it true that the view of the market and the economy advocated by these thinkers is that, as long as the incentives are right, there is no need for morals? Are greed and well-designed regulation enough?

No, I do not think that is the correct conclusion. David Hume, Adam Smith and Francis Edgeworth probably didn't either. The isolated phrases above are a very selective reading of their writings, one I conducted to illustrate how one *might imagine* that greed is the only driving force required for a good society. However, their works contain a great deal to suggest that the authors were sceptical about the market alone solving everything.

For example, Adam Smith was very concerned that market interaction could possibly result in indefensibly uneven outcomes. He believed that there were many important things that the market should not be expected to deliver (such as education and support for the poor) and which should therefore be managed by the government. In short, he was in favour of the market economy and against regulating it, but he did not believe that the market solved all social problems.

Smith also paid a great deal of attention to the virtues' generally positive impact on society. His second major work, *The Theory of Moral Sentiments* (1759), highlights prudence as the most important virtue for the individual, while humanity, justice, generosity and public spirit are the virtues that are most important for others and for society. Later, in *Wealth of Nations*, when he defends self-interest, it is not because the virtues are bad, but because he emphasises that nothing else is *necessary* for mutually beneficial transactions to take place. The butcher, brewer or baker do not have to care about you, or you about them, for you to achieve a mutually beneficial outcome through trade.[19]

Both Hume and Smith emphasised the importance of interpersonal trust in the smooth functioning of trade and cooperation. They believed that, in practice, trusting that others would abide by the rules hugely benefitted the smooth running of the economy. Smith believed that certain virtues, such as punctuality and honesty, were also fostered by trade. However, he also worried that an overly one-sided focus on commerce would cause people to forget other important values. In *Lectures* (1763), he summarises his concerns:

> These are the disadvantages of a commercial spirit. The minds of men are concentrated, and rendered incapable of elevation. Education is despised, or at least neglected, and the heroic spirit is almost utterly extinguished. To remedy these defects would be an object worthy of serious attention.[20]

And then there is the question of the true nature of man; if you read other parts of the texts than those usually quoted, you can see that the idea of studying "humans as they are" was probably not at all about accepting humanity as "evil". Well, okay, perhaps Machiavelli (and a few others) emphasised the negative aspects of humanity, but many others emphasised how people are complex, with both virtuous and sinful drives.

A more reasonable reading is that these thinkers instead regarded the assumption that people were selfish and greedy as a *precautionary measure*. If you imagine that the rules we construct function so that *even those* who are selfish act in a way that benefits everyone, then of course those who are not selfish will also act in a "societally beneficial" way.[21] In one of the most famous passages from David Hume's *Essays: Moral, Political and Literary* he encourages us to create rules that assume that people are selfish, but also notes this may seem a bit odd because, as he puts it, we know that people are *de facto not selfish*:

> [I]n contriving any system of government [...] every man ought to be supposed to be a knave and to have no other end, in all his actions, than his private interest. [...] It is, therefore, a just political maxim, that every man must be supposed to be a knave: Though at the same time, it appears somewhat strange, that a maxim should be true in politics, which is false in fact.[22]

Hume thereby emphasises what most of us would probably agree with: people are not always selfish, let alone greedy.[23] However, his basis seems to be that by *assuming* that selfishness prevails, we can insure ourselves against situations in which people actually are selfish .

The question is whether this truly is a good insurance policy or whether the assumption that people are selfish can itself create problems. A great deal of modern research indicates that this may sometimes be the case.

The market's potential displacement of morals

In his famous study *The Gift Relationship* (1970), the social scientist Richard Titmuss compared the blood donation systems in Great Britain and the US. In the 1960s, in the American system, they had introduced reforms in which people were paid more for donating blood, the idea being simply that people would donate more blood if they were paid. The British system was built entirely upon volunteering, with no payments. Titmuss established that the latter system appeared to work better and that the US reforms actually led to less blood donation. He speculated that it was perhaps the introduction of a monetary incentive that was the problem; that by bringing money into it, the authorities changed people's perspectives on the transaction. It is one thing to give blood in a context of doing a good deed, it is quite another to get paid for it. In a study from 2007, economists Magnus Johannesson and Carl Mellström conducted an experiment with Swedish blood donors and showed that this effect is real. Interestingly, they also found differences between men and women in this respect; when a financial incentive is introduced, women donate significantly less blood than otherwise, but for men this experiment showed virtually no effect.[24]

Another well-publicised study looked at what happens when a cost is imposed for breaking a rule that was previously enforced by social norms about what constitutes good behaviour. At one Israeli preschool, staff had a problem with parents often collecting their children late. The parents were certainly remorseful and apologetic, but still, they were frequently late, so the staff thought that introducing a penalty fee could get the parents to be more punctual. However, the results were striking. Not only did the parents now arrive late more often, but they also felt they had the right to do so, as they were paying for the right to be late and therefore had nothing to be ashamed of.[25]

Another interesting example of how incentives can have undesirable consequences is found in the business management literature. In his memoirs, David Packard, one of the founders of the Hewlett-Packard IT company, writes about how, during his previous employment at General Electric, he noticed that the strict rules on how employees could use the company's tools had less than desirable consequences. The company's apparent distrust of its employees seemed to make them want to steal things from work. Packard concluded that acting as if employees were stealing tools from work was not a good idea, so when he founded HP, he chose to do the opposite:

> Keeping storerooms and parts bins open was advantageous to HP in two important ways. From a practical standpoint, the easy access to parts and tools helped product designers and others who wanted to work out new ideas at home or on weekends. A second reason, less tangible but important, is that the open bins and storerooms were a symbol of trust, a trust that is central to the way HP does business.[26]

Numerous subsequent studies have shown both (financially) negative effects from trying to control employees and positive effects from trusting people.[27]

All these examples illustrate potential problems with David Hume's maxim that we can assume everyone is driven by self-interest and money, thereby creating a system that provides maximum insurance against greedy behaviour. Instead, these examples demonstrate the risk of trying to use monetary incentives to control people's behaviour. It may well be that the introduction of money in the form of rewards or punishments, or stricter monitoring, squeezes out good behaviour that was previously maintained, if not perfectly then more effectively and cheaply, by ideas about the nature of acceptable behaviour. Regulations based on a perception of people as incapable of moral behaviour are thus not always a good idea. Or, as economist Bruno Frey expressed it in the title of an article on this subject: "A Constitution for Knaves Crowds out Civic Virtues".[28]

On the balance between incentives and morals

So, what should we conclude from all this? If we started from the premise that humans cannot be assumed to be good, and then moved through a series of ideas about how bad, or at least less good, behaviours can be limited, to the point where they can perhaps even be utilised for achieving socially desirable goals, we have now arrived at the conclusion that too single-minded a focus on accepting, or assuming, that people are selfish and money-hungry can squeeze out people's good sides. In relation to Gordon Gekko's assertion that "greed is good", we can perhaps conclude that he is wrong in an ethical sense, but right in that there are contexts where greed itself is sufficient for us to achieve mutually beneficial outcomes. We *do not need* to care about each other to achieve outcomes through trade that are better than if we did not trade at all.

However, it is not true that markets, let alone society as a whole, function without morals. Assuming that people are selfish and respond solely to external incentives is also a poor foundation for everything from legislation and employment contracts to mechanisms for getting people to donate blood or collect their children on time. We have every reason to be sceptical about Gordon Gekko's statement that greed will not only save Teldar Paper but the US too.

But what should we do? There is nothing wrong with the premise of "accepting people as they are". The flaw lies partly in the assumption that people are only driven by greed, and partly in the belief that regulations based on this assumption could function as an insurance policy that minimises selfish behaviour. In his book *The Moral Economy: Why Good Incentives are No Substitute for Good Citizens* (2016), the economist Samuel Bowles proposes an extension to Hume's maxim on the design of the social contract:

> [G]ood policies and constitutions are those that support socially valued ends not only by harnessing self-interest but also by evoking, cultivating, and empowering public spirited motives.[29]

Perhaps not the catchiest of slogans, but far better than relying on greed alone to do the job.

Can the market have a *telos*?

Another approach is to consider whether virtues can be formulated based upon the market's ultimate, or inherent, purpose. How could this be done?

One starting point is to ask what the market is actually for.

According to Aristotle, goodness can be formulated based upon each field possessing an ultimate purpose, a *telos*. The *telos* of medicine, to take one example, is good health, so the nature of a good deed in this field is determined by how it contributes to achieving good health. In an equivalent manner, can we define something "good" that can be said to be the ultimate purpose of the market?

A potential answer is that the good of the market is the possibility of a *mutually beneficial outcome*. When Adam Smith explains how self-interest results in a socially desirable outcome without the parties striving for it, the *good* that results from the market is precisely that they are both better off. The more contemporary defenders of a free market economy, economists James Buchanan and Gordon Tullock, also articulate the ultimate purpose of the market in just this way: "The *raison d'être* of market exchange is the expectation of mutual gains."[30]

If the market's *telos* is to enable people to voluntarily improve their situation through trade, compared to the outcome if the market did not exist, what virtues could be found that contribute to this ultimate purpose? What values could be said to be important in helping to achieve such a *telos*?

Honesty is one example. If the market's purpose is a mutually beneficial exchange, financially defrauding someone is unacceptable. Fraud may of course be profitable for an individual, but it cannot be defended as part of the market's *telos*.

Acceptance and inclusion are other potential virtues that correspond well to the purpose of maximising the number of mutual relationships. Favouritism, discrimination or monopolisation do not benefit the creation of mutual value, so such behaviours are not good (although of course they may maximise individual profits).

What is interesting about this approach is that behaviours can be condemned as unethical, not based on an idea of goodness separate from the market, but because they are contrary to the ultimate purpose of the economy itself.[31]

In relation to greed, it is conceivable that this reasoning cannot be used to condemn all striving for wealth (nor very different outcomes), but it can certainly provide a basis for criticising many types of behaviour that now escape with the vague intimations that “the market requires we do this”.

Do we need a "new economy"?

At regular intervals, there are discussions about the need for a "new type of economics", or a "new capitalism" (or sometimes "a new world without capitalism").[32] It is not always clear how the people who want a new economy regard the "old type of economics", or how they envision the new one. But I imagine they perhaps see a figure like Gordon Gekko as representing the economy, and draw the conclusion that "we need to come up with something different".

However, I do not believe we need a "new economy". What I do believe is that both the economy and anyone thinking about its future and the way it works would benefit from going back and rediscovering (or in many cases, discovering) what David Hume and Adam Smith and others actually wrote. This would hopefully result in their perspective not being quite so one-sidedly focused on the benevolent powers of self-interest – the benefits of greed. More people would also find it easier to point out what is wrong with Gordon Gekko's reasoning on how greed is good, so regarding it as the original deadly sin.

Also, the people who currently dismiss all economic reasoning and capitalism as a thinly veiled defence of greed, may see there is much in the markets that is genuinely good, and perhaps even virtuous.

Notes

1. *Investopedia* website, under the heading "Gordon Gekko: Wall Street's Most Famous Fictional Character?", 26 October 2021, https://www.investopedia.com/terms/g/gordon-gekko.asp.

2. "Gordon Gekko, Quotes", IMDB, https://www.imdb.com/title/tt0094291/characters/nm0000140.

3. Leader in *New York Times* 1988, https://www.nytimes.com/1988/01/20/opinion/ban-greed-no-harness-it.html.

4. Baxter quoted in chapter 5 of Weber's *Die protestantische Ethik und der Geist des Kapitalismus* (here quoted from an edition in English).

5. Albert O. Hirschman, *The Passions and the Interests: Political Arguments for Capitalism before Its Triumph*, Princeton: Princeton University Press, 1977.

6. Niccolò Machiavelli, *The Prince* (1532), https://www.gutenberg.org/files/1232/1232-h/1232-h.htm#chap15.

7. This point of departure appears in the very first sentence of book 1 of *The Social Contract*: Jean-Jacques Rousseau, *The Social Contract* [1762], translation to English Maurice Cranston, Harmondsworth: Penguin, 1968, p. 49.

8. The misunderstanding, I believe, primarily lies in that many people appear to believe that the difference between questions about how something *is* and questions about how something *should* be means that the latter type of question cannot be analysed in a logical and structured manner. Economist Paul Samuelson expresses this very well: "Ethical conclusions cannot be derived in the same way that scientific hypotheses

are inferred or verified. But it is not valid to conclude from this that there is no room for 'welfare economics'. It is a legitimate exercise of economic analysis to examine the consequences of various value judgements" (Paul Samuelson, *Foundations of Economic Analysis*, Cambridge, MA: Harvard University Press, 1947, p. 220). Meanwhile, economics literature is full of analyses about what is "optimal" or the "best results in terms of societal economics". Of course, such statements are impossible if you do not possess implicit values – and many economists seem simply to assume that there is consensus about what these values are. If you want to understand how society "is" or how it "works", you must sometimes consider that the people who populate it have an opinion about how it "should be". How can you otherwise understand how they "are"?

9. Quoted in Hirschman 1977, p. 14.

10. Quoted in Hirschman 1977, pp. 16–17.

11. "Very often he can only cure one vice by another, and in that case, he ought to prefer what is less least pernicious to society." David Hume, "Of Refinement in the Arts", in *Writings on Economics,* ed. Eugene Rotwein, Madison: University of Wisconsin Press, 1955, pp. 31–32.

12. From *Esprit des lois*, quoted in Hirschman 1977, p. 60.

13. John Maynard Keynes, *The General Theory of Employment of Interest and Money*, London: Macmillan, 1936, p. 374.

14. An argument that Schumpeter develops in *The Sociology of Imperialisms*, 1918.

15. Ayn Rand, *Atlas Shrugged*, New York: Random House, 1957, p. 387.

16. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), electronic resource, Net Library 2000, Book IV, chap. 2.

17. This wording is not included in the final *Wealth of Nations* but is mentioned by Edwin Cannan in the foreword to the version edited by him in 1904 (and which is now the one most widely read).

18. Reproaching economics for being unrealistic based on assumptions about what is required for "perfect markets" is, however, incorrect.

Much of the research after Edgeworth and Pareto, particularly in the last fifty years, has been dedicated to understanding what happens when these different conditions are not fulfilled and how markets work when various "market imperfections" are considered.

19. "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." Smith 1776/2000, Book I, chap. 2.

20. Adam Smith, "§ 17: Of the Influence of Commerce on Manners," *Lectures on Justice, Police, Revenue and Arms*, ed. Edwin Cannan, Oxford: Clarendon Press, 1896.

21. Of course, this presupposes that you believe that consideration and generosity in themselves are not bad for society as a whole. This appears to have been the opinion of philosopher Bernard de Mandeville. He went a step further than Smith, in that he not only thought that self-interest was not necessarily a problem, but that all attempts to care about others ended with poorer outcomes. It is ironic, in the light of what biologists now know about how social bees are that, in *The Fable of the Bees* (1714) he used a beehive as a setting to illustrate not only how good everything would be if were all selfish, but also how bad it would be if we weren't(!).

22. The quote is from Part I, Essay VI, "Of The Independency of Parliament", in the first volume of *Essays: Moral, Political and Literary* which was first published in 1742 (the second volume was published in 1758, so the collected work sometimes has 1758 as the year of publication). In this context, *knave* means a fraudster or dishonest person.

23. In this context, it may be worth pointing out that Francis Edgeworth, in his *Mathematical Psychics: An Essay on the Application of Mathematics to the Moral Sciences* (1881), states that selfishness is a special case in which all emphasis is placed on your own benefit, but that one could naturally formulate a utility function that balances personal benefit with concern for others' wellbeing.

24. Carl Mellström & Magnus Johannesson, "Crowding Out in

Blood Donation: Was Titmuss Right?", *Journal of the European Economic Association*, vol. 6, no. 4, 2008, pp. 845–863.

25. Uri Gneezy & Aldo Rustichini, "Pay Enough or Don't Pay at All", *Quarterly Journal of Economics*, vol. 115, no. 3, 2000, pp. 791–798.

26. David Packard, *The HP Way: How Bill Hewlett and I Built Our Company*, New York: Harper Business, 1995, p. 135.

27. Tore Ellingsen and Magnus Johannesson develop a general theory for this in their article "Pride and Prejudice: The Human Side of Incentive Theory", *American Economic Review,* vol. 98, no. 3, 2008, pp. 990–1008.

28. The article was published in *The Economic Journal*, vol. 107, no. 443, 1997, pp. 1043–1053. The title is a play on David Hume's maxim on the foundation for designing a constitution, which he presents in *Essays: Moral, Political and Literary*, see note 22 above.

29. Samuel Bowles, *The Moral Economy: Why Good Incentives are No Substitute for Good Citizens*, New Haven: Yale University Press, 2016, p. 222.

30. James M. Buchanan & Gordon Tullock, *The Calculus of Consent: Logical Foundations of Constitutional Democracy*, Ann Arbor: University of Michigan Press, 1962, p. 103.

31. This type of reasoning is developed by Luigi Bruni and Robert Sugden in the article "Reclaiming Virtue Ethics for Economics", *Journal of Economic Perspectives*, vol. 27, no. 4, 2013, pp. 141–163.

32. During the financial crisis of 2008/2009, a symposium titled "New World, New Capitalism" was held, hosted by both the then French president Nicolas Sarkozy and former British prime minister Tony Blair. They both talked of the importance of a "new economy".

Riksbankens Jubileumsfond: promotes, inspires and participates

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RJ 2023

The Deadly Sins in Our Time

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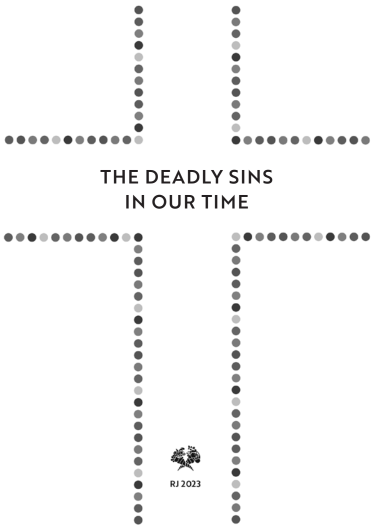

"Greed is good" exclaimed the character of Gordon Gekko in the film *Wall Street,* from 1987. Indeed, many thinkers have disputed the idea that greed is a deadly sin. Quite the opposite, the belief that it could be a force that promotes society's collective prosperity appears in various guises throughout history. This is intimately associated with the idea of "accepting people as they are" and utilising the desire for personal gain. But is it really true that people are driven by greed and self-interest – and is it good for society to use this as its foundation?

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