

# ON MORALITY, HUMAN BEHAVIOUR AND ECONOMICS

EDITED BY JUAN CASTAÑEDA AND SYED KAMALL



**iea**  
Institute of  
Economic Affairs



# **On Morality, Human Behaviour and Economics**

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Vinson Centre Series 1

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Founded in 1955, the Institute of Economic Affairs is Britain's oldest free market think tank. Its mission is to improve understanding of the fundamental institutions of a free society by analysing and expounding the role of markets in solving economic and social problems.

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# ON MORALITY, HUMAN BEHAVIOUR AND ECONOMICS

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EDITED BY JUAN CASTAÑEDA AND SYED KAMALL

with contributions from

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## PREFACE

Every human project has a history, and this one is no exception. On 29 November 2023 for the opening of the Vinson Room at the headquarters of the Institute of Economic Affairs in London, Lord Vinson addressed the audience invited to the event with his personal experience as an entrepreneur and business owner, as well as his views about the market economy in the context of the wider society. Wealth creation is key for a prosperous but also a compassionate society, one that cares for the improvement in the standards of living of hard-working people following well-established ethical principles. In a well-functioning and harmonious society, in the pursuit of profit in the market economy not all means used and behaviour should be applauded. His words certainly resonated with the audience. We have a rich history of scholars in the eighteenth and nineteenth centuries in the UK and abroad who explained that the expansion of trade, a well-functioning market economy and higher living standards can be achieved in line with economic, institutional and moral and ethical principles. As earlier authors taught us, the market economy is rooted in morality, and this is precisely an approach classical political economists explored.

Both the Institute of Economic Affairs and the Vinson Centre at the University of Buckingham are rooted in the classical liberal tradition, and for this very reason these two institutions are well placed to take on the task of reminding ourselves and others of the moral component of market societies. This idea materialised in a joint conference hosted by the Vinson Centre at the University of Buckingham in November 2024, which is now followed by the publication of what essentially are the proceedings of the conference in this volume. This is at the core of what the Vinson Centre does and was established to do, and we would like to express our gratitude for Lord Vinson's continued support and guidance, as well as to everyone who has contributed to this project.

JUAN CASTAÑEDA AND SYED KAMALL  
November 2025

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# 1 INTRODUCTION

Juan Castañeda and Syed Kamall

If old truths are to retain their hold on men's minds, they must be restated in the language and concepts of successive generations. What at one time are their most effective expressions gradually become so worn with use that they cease to carry a definite meaning. The underlying ideas may be as valid as ever, but the words, even when they refer to problems that are still with us, no longer convey the same conviction; the arguments do not move in a context familiar to us; and they rarely give us direct answers to the questions we are asking. This may be inevitable because no statement of an ideal that is likely to sway men's minds can be complete: it must be adapted to a given climate of opinion, presuppose much that is accepted by all men of the time, and illustrate general principles in terms of issues with which they are concerned.

Friedrich Hayek in *The Constitution of Liberty*, 1960

Thinkers and politicians who subscribe to collectivist ideologies often criticise capitalism as being immoral since it does not deliver a form of equality of outcome that they

desire. They often also claim that capitalism is driven by selfish interests and egoism, which manifests in the lack of cooperation among market players and necessarily leads to undesirable outcomes. However, there are also criticisms of capitalism, particularly of so-called crony capitalism from many classical liberals and free-market thinkers who worry about governments cosyng up to business at the expense of open markets and competition, which in turn leads to less choice and higher prices for consumers.

After the fall of the Berlin Wall in 1989, many believed that free-market capitalism had triumphed over socialism, yet in recent years many people (particularly younger generations) seem to have lost faith in markets partly due to fears that they will not experience the quality of life that their parents enjoyed in the 1980s and 1990s. Many who see buying a house as out of their reach feel that they have no stake in the system. In addition, tales of the ‘winter of discontent’ in the late 1970s in the UK or the realities of communism back in the day are just history for many young people. Therefore, it is no surprise that some young people want to smash the system and are attracted by rose-tinted views of socialism and communism.

Given this disillusionment with free markets, Hayek’s warning in the quote above – that classical liberals should restate the ‘old truths’ of market economics for the current generation – has become increasingly apposite. In November 2024, heeding Hayek’s advice, the Vinson Centre for the Public Understanding of Economics and

Entrepreneurship at the University of Buckingham held a one-day conference on morality, human behaviour and economics. This volume is a collection of papers from those who spoke at the conference, with others we invited to contribute to the volume after the conference.

The book begins with a chapter from the Revd Dr Richard Turnbull, who sadly passed away in the time between the conference and publication of this book. In his chapter, the Revd Dr Turnbull laments that those seeking to make the case for the market are failing to do so. He then addresses this apparent failure with an intellectual defence of market principles and by advocating that the market is the best mechanism to ensure human flourishing. In addition, he goes further in making the moral case for the market. He argues that those who believe in the power of free markets must not and cannot concede the territory of the morality of markets to anti-market forces.

In the next chapter Professor Mikko Arevuo examines how Adam Smith's moral philosophy intersects with his economic theories in addressing inequality. While Smith saw economic inequality as an inevitable outcome of commercial society which should incentivise productivity, he also believed that a society's prosperity hinges on the welfare of its poorest members, advocating that those who contribute to the nation's wealth should share its benefits. Professor Arevuo considers what he sees as Smith's implicit theory of distributive justice and how a market economy could be designed to preclude steep inequalities while increasing society's overall welfare.

Staying with Adam Smith, the next chapter by Professor Pedro Schwartz discusses Smith's references to Bernard Mandeville's famous *The Fable of the Bees* in his *Theory of Moral Sentiments*. Two centuries later, F. A. Hayek praised two contributions of Mandeville's *Fable* to social science: the productive effect of the division of labour, and the spontaneous order in a society. In his 1966 lecture, Hayek suggests that Mandeville's thoughts on the latter directly influenced Scottish philosophers, including Smith.

The next chapter by Dr Elena Leontjeva challenges those who criticise and accuse capitalism of creating scarcity, arguing that capitalism should be understood through the deeper lens of universal *lack*. Dr Leontjeva suggests that *lack* is not a flaw but a force that drives creativity and cooperation, fostering synergy in human relationships and economic exchange. She suggests that recognising the role of *lack* empowers individuals to focus on moral dilemmas and exercise moral choices both in the economic domain and across all aspects of human interaction.

Those considering the concept of morality often turn to the writings of various faiths. So, the next three chapters discuss faith perspectives on capitalism. In the first of these, Dr Benedikt Koehler reminds readers that long before economics was considered an academic discipline, matters concerning today's economists were seen to fall within the purview of religion. Dr Koehler then discusses how, in the three Abrahamic faiths, economics was predicated on theology.

Next, Professor Philip Booth looks at the economics of Pope Francis and suggests that while many people think of Pope Francis as a man of the left, his main themes transcend left-leaning and classical liberal economic thinking. Professor Booth argues that whatever Pope Francis said about economics, politics or business, his main concern was for the poor, focusing on fraternity and purposeful economic action at all levels in society. He should perhaps be remembered for wanting a fraternal society at the service of the poor.

While Professor Booth gives readers a Catholic perspective, the following chapter by Dr Billy Christmas offers an Eastern Orthodox Church view. Dr Christmas argues that while the economic teachings of the early Church Fathers unequivocally encourage and command the rich to give their wealth to poor, modern readers should not take them to imply that divine justice requires the redistribution of wealth across society. He argues that they take for granted a legal system of property rights and make commands upon individuals based upon how they fare within that system.

While morals are often considered at a societal or group level as standards for right and wrong, values can be seen as an individual's beliefs and their principles. In the next chapter, Professor Paul Dragos Aligica encourages readers to view Hayek's concept of *catallaxy* not only as explaining how a decentralised, spontaneous social order where individual exchanges, governed by a common set of rules, leads to a mutually beneficial allocation of resources. He suggests that *catallaxy* also offers a solution

to the problem of value pluralism by promoting decentralised decision-making, focusing on shared means rather than specific ends and thereby accommodating the diversity of values and goals in modern societies.

The final three chapters deal with contemporary perspectives. Martin Vander Weyer seeks to explain why many have lost faith in capitalism. After presenting a brief history of capitalism, he suggests that faith in capitalism has, in fact, never been strong in the UK. He suggests that there is possibly more faith in technology and in what he terms 'the mysterious power of the Internet' which he observes engenders new sets of fears and perils. He encourages readers to never lose sight of the beneficial impacts of 'good capitalism' which he explains by quoting Nigel Vinson, after whom the Vinson Centre at the University of Buckingham is named.

The following chapter turns to contemporary views of business. Lord (Matthew) Elliott reviews how business is currently viewed and discusses why there is not more praise of business. He then explains how this negative sentiment has affected the UK's prosperity. He ends by suggesting how a positive case for business can be developed.

One way of judging morality is to consider how we treat the poorest in society. While the welfare state after World War II was intended to help those in need, Dr Chris O'Leary examines moral questions about the current system, such as how it incentivises rent seeking, damages the physical and mental health of recipients, and traps some in poverty. He suggests that despite successive governments proposing welfare reforms, the UK's benefits bill

continues to grow to an unsustainable level. In response, Dr O'Leary proposes a limited welfare state based on a negative income tax and a vibrant network of voluntary mutual aid associations, consistent with classical liberal principles. However, he also sets out why such reform would be far from easy.

While this collection of chapters covers a range of disciplines including philosophy, theology, sociology, political science and economics, hopefully it will remind readers that there is a strong argument for the morality of free-market capitalism.

## **2 THE MORAL CASE FOR THE MARKET**

Richard Turnbull

### **Introduction**

The task, both intellectual and policy-orientated, to make the case for the market, is an argument that must be made afresh in every generation. The responsibility is shared between academics, practitioners and policy researchers. We live in an age where academic discussions are compartmentalised and the idea of philosophical or historical thought providing any form of framework for intellectual reflection has given way to mathematical formulas and models. Complacency is the enemy of rigorous thought, and the lack of intellectual precision is the enemy of a coherent philosophy of the market.

The institutions of our national life are riddled with lazy assumptions about the nature and role of markets and, indeed, perhaps consequentially, also about the role of government. These often intellectually incoherent assumptions are made on both the so-called left and right of the political spectrum. The consequence of this is that we find an almost inexplicable disconnect even among those groups or institutions that we might think would favour the market and advocate the very mechanisms

that produce national wealth. The most shocking example of this, which will be dealt with later, is the loss of confidence in the business enterprise among much of the business community itself.

The financial crisis of late 2007 onwards was not the first such crisis, but the impact was significant not least because it was seen that some combination of greed, abuse of power and trust all contributed to the collapse. The underlying assumption is that the market has failed to deliver and, therefore, itself lies at the root of the crisis of capitalism. Nothing could be further from the truth, but the lack of a reasoned intellectual response has left a vacuum.

One outcome has been the production of a plethora of books by academics offering their analysis of the crisis. These writers come with impressive credentials, from Harvard, Oxford and elsewhere. There are two characteristics of this output: first, it is driven by a particular set of statist assumptions; second, the books are universally appalling. It seems that there is an inverse relationship between the status of the academic institution involved and the quality of the economic and intellectual analysis. Yet these volumes have been allowed to fill the vacuum. The paucity of the economic analysis itself is quite shocking. A notable example is *Doughnut Economics* (Raworth 2018), which was described by Lilico (n.d.) as making ‘assertion after assertion about economics that is simply false’. Another example is *Christianity and the Spirit of Capitalism* by a Yale theologian who explicitly seeks to argue for a Protestant anti-work ethic, concluding with the hope that

she has 'shown the coherence of a whole new world to be entertained as an imaginative counter to the whole world of capitalism as it presently exists' (Tanner 2019: 219), with a degree of pietistic righteousness that rather belies one reviewer's comment that many 'of Tanner's statements are absurdly extreme' (Godden n.d.).

Those seeking to make the case for the market are failing to do so. This chapter aims not only to address this failure with an intellectual defence of market principles and an argument that that the market is the best mechanism to ensure human flourishing, but to go further, making the moral case for the market. Those who believe in the power of free markets must not and cannot concede the territory of the morality of markets to anti-market forces.

This moral case requires some form of intellectual framework for understanding the nature, origin and purpose of markets. For some this will involve a religious commitment or faith. More particularly, the morality of the market is grounded in some idea of the natural order, or, for the person of faith, the creation order. Suffice to say that those arguing for moral markets need to give some thought to the sources of their moral thinking. As a Christian theological thinker, I argue that the Christian faith teaches moral markets and moral participation in markets, but, whether the reader shares that faith position or not, it can at least be said that the great Abrahamic faiths of Judaism, Christianity and Islam share some convictions about order, ethics, markets and government.

The implication of this type of framework is that the market itself leads to human flourishing and the common

good. The late Catholic theologian, Michael Novak summarised this approach when he wrote (Novak 1990: 13):

Of all the systems of political economy which have shaped our history, none has so revolutionized ordinary expectations of human life – lengthened the life span, made the elimination of poverty and famine thinkable, enlarged the range of human choice – as democratic capitalism.

A final introductory comment is to note the relationship between market mechanisms and market players. Perhaps the traditional approach to this sort of question has been to argue that the market itself is neutral and that ethical behaviour comes from moral players and actors operating within the market. Well, there is certainly a central role for moral actors in the market, but a proper intellectual argument for the morality of the market should also aim to argue that the market itself produces moral outcomes and moral solutions, and perhaps a truly moral argument for the market combines the morality *of* the market and morality *in* the market.

This chapter considers three propositions on the morality of markets:

- market mechanisms deliver moral solutions;
- work, wealth and entrepreneurship are central to market morality;
- moral markets force questions about the proper role of government.

But, before doing this, it is important to examine the loss of confidence in the market within the business community, which was referred to earlier.

### **Making the case afresh: loss of confidence in the market**

In 2021 the Centre for Enterprise, Markets and Ethics (which I founded) undertook extensive polling across the general public, business leaders, church leaders and people of faith on attitudes to issues such as markets, business and taxation (Turnbull 2022).

The polling showed that our national elites have lost their conviction in the market economy and the power of business to produce economic well-being. They have lost confidence in the nation as a place to do business and in the role of profit, competition, incentive and innovation. When we look at business leaders as a group, we find that the business community seem less supportive of the market than the general public on just about every metric. Perhaps business leaders are actually out of touch with the public, the people who actually buy the goods and services they produce?

By way of example Table 1 compares the attitudes of the general public and business leaders across some key metrics. The results are nothing short of startling and reflect the failure to make the case for the market afresh in every generation.

The polling revealed a lack of confidence in the market and an overconfidence in government. It also exposed a

basic failure of businesspeople to believe in what they do. The fact that 70 per cent of business leaders think they are paid too much is not really a question of remuneration and compensation but represents a fundamental loss of confidence in the creation of wealth, incentives and, indeed, the real purpose of business. Our business leaders – the vanguard one might say of economic growth and wealth creation – are disproportionately supportive of higher levels of taxation and their efficacy.

**Table 1 Attitudes of the general public and business leaders towards enterprise**

|  | <i>General public (%)</i> | <i>Business leaders (%)</i> |
|--|---------------------------|-----------------------------|
| Business should be taxed more                                      | 49                        | 60                          |
| Business leaders are paid too much                                 | 64                        | 70                          |
| UK is attractive to business                                       | 55                        | 73                          |
| Profitable businesses are not compatible with happiness in society | 37                        | 60                          |
| Higher tax leads to an economically fairer society                 | 33                        | 41                          |
| UBI as best way to reduce poverty                                  | 40                        | 46                          |
| Reduced tax to support entrepreneurs                               | 29                        | 41                          |
| Publish pay ratios   | 62                        | 68                          |
| Business lobbying on political issues                              | 38                        | 67                          |

Source: Turnbull (2022: 11).

The polling found that the larger the company for which the leader worked, the more likely they believed that businesses should get involved in political issues. For example, some 67 per cent of business leaders thought business should lobby or express views on political issues, compared to just 38 per cent of the general population. However, among leaders in companies with more than

1,000 employees, 79 per cent supported businesses lobbying and expressing views on political issues (Turnbull 2022: 30–31). Perhaps business has lost its way and big business even more so.

The Fundsmith Equity Fund is one of the largest shareholders in Unilever, a company with a long-time passion for non-business distractions. In his January 2022 newsletter to investors, the fund manager, Terry Smith, excoriated the company for its failure to concentrate on the fundamentals of business. As he put it (Smith 2022: 3):

A company which feels it has to define the purpose of Hellmann’s mayonnaise has in our view clearly lost the plot. The Hellmann’s brand has existed since 1913 so we would guess that by now consumers have figured out its purpose (spoiler alert – salads and sandwiches).

In other words, just give us the mayo.

Overall, businesspeople themselves have lost confidence in the basic purposes of business, the ability of the market to deliver and the attractiveness of the UK as a place for business, while exhibiting an overconfidence in government and redistributive taxation.

## **Understanding the morality of the market**

Returning to the three propositions on the inherent morality of the market, the first proposition is that market mechanisms deliver moral solutions. If the market is in any way linked to the natural order of the universe, then

it is axiomatic that its mechanisms will deliver just and moral solutions. In a competitive market economy, the price mechanism achieves two basic objectives:

- a price system that reflects aggregate demand and supply;
- a more efficient allocation of resources.

Arguably, a price mechanism that matches supply and demand, and ensures that the amount of goods produced avoids both gluts and shortages, should be considered fair and moral. Such a price mechanism and efficient allocation are two sides of the same coin, leading to a flourishing society.

The consequence of establishing a price which fails to match supply and demand could be argued to be unjust. Too low a price and an individual is tempted to buy products that are suboptimal, that is, they contribute less in marginal utility than other products but are purchased because the price is distorted. This is neither just for the individual, nor in the aggregate for society. Conversely, if a price is artificially high, perhaps due to taxation or import tariffs or because the producer prices the end product too high, potential buyers might refrain from purchasing goods which would have provided greater marginal utility.

Where a business sees a price signal to increase supply of a product or service for which there is no matching demand, this leads to a glut. For example, consider the 'milk lakes' and 'butter mountains' which were created when

the European Union set artificially high prices to protect producers' incomes, resulting in overproduction. The result was neither efficient, nor fair, nor just.

A further example might be electric vehicles. An artificially low price, perhaps due to government subsidy in order to incentivise purchase, might result in individuals taking on liabilities they are unable to manage, or costs of maintenance such as extra tyre or battery replacements disguised by a lower up-front cost.

The allocation mechanism mirrors the price mechanism. To take the electric vehicle example further, a distortion of price might lead to an unwillingness to supply at the market price, leading to shortages and indeed the frustration of government objectives. Or the additional costs and liabilities might lead to a collapse in demand, causing further distortion. The point is that any attempt to artificially set prices at anything other than the market equilibrium of supply and demand leads to market chaos and is unjust to both consumer and producer, and in the aggregate also to society.

What about the allocation of capital? Capital markets and asset management ensure the efficient allocation of capital, such that capital is in the right place, invested in companies which are producing the goods and services required or generating entrepreneurial ideas for the future. The principal consequence of an inefficient or misallocation of capital on a small scale is poor investment returns damaging economic growth, and, on a larger scale, is stagnation and unemployment. Correcting large-scale misallocations of capital is painful. Take the example of

steel. The steel works in Consett, County Durham, closed in 1980. At that point somewhere around 4,000 people lost their jobs, and the unemployment rate rose to 35 per cent in the area. The works, which employed around 12,000 people at their peak, were nationalised into British Steel in 1967 under the Wilson government. While many jobs were saved under nationalisation, production was inefficient, demand continued to fall and capital was allocated in the wrong place. However, this also demonstrated the subjective nature of what is considered *just* and *moral*. Those in favour of nationalisation would argue that saving jobs in 1967 and delaying the demise of the steelworks was just and moral, while it could be argued that using taxpayers' money to keep an unviable factory open to add to the glut in the market was not only a misallocation, but unfair and unjust for taxpayers and to more efficient competitors.

The determining features, then, of establishing a just and fair price and allocation of resources are autonomous choice – of the supplier to supply and the consumer to consume – and free, voluntary exchange free of interference or distortion. There are, of course, alternative mechanisms, but these would usually involve bureaucratic interventions, which may lead to outcomes that are neither just nor free. The negative outcome of this would be poor economic growth, potentially damaging the poorest in society, who are denied both choice and the ability to add to their utility.

To the contrary, the price mechanism of a well-functioning market economy will result in a flourishing

economy and, consequently, a flourishing society. This is a deeply moral outcome. It should be recognised that to achieve such an outcome without distortion requires a competitive market economy, but most markets are not perfect, leading to the oligopolistic, monopolistic and monopsonistic markets found in most economic textbooks, all with barriers to market entry. However, competition in a free and open market, autonomous choice and exchange resulting in a just price and a flourishing nation are matters of principle that need to be advocated, and defended intellectually.

The second proposition in relation to the morality of markets is that work, wealth and entrepreneurship are central to market morality, since:

- work is part of the natural order;
- work prevents poverty;
- work implies both property rights and responsibility;
- work is an imperative of wealth creation;
- entrepreneurship is a gift.

In one sense a view that work belongs to the natural order leads by derivation to each of the other points. However, standing back for a moment, if the argument is that work, wealth, property and innovation are part of a natural order, intrinsic to what it means to be human, this then endows both the *principle of work* and the *responsibility to work* as parts of that natural order. That has fundamental implications for how we reward, tax and incentivise work, and indeed for programmes of government welfare and

intervention. Whether the source of that natural order is theological, or philosophical and mediated through different traditions, a natural order it remains. Work matters then because it is one of the most profound expressions of humanity.

Hence work has purpose and workers have dignity in their work. But consider the consequences of the Marxist critique that work remains drudgery and wages are a reflection of subjection. In these circumstances the attraction of welfare will be significant. This is a reminder of the importance of the design and nature of work in society. As McCloskey (2010: 424) points out, work prevents poverty: ‘wages make people better off than the even more terrible alternatives.’ McCloskey adds that the regulation of wages and excessively protective policies, by preserving old jobs and preventing the creation of new jobs, has the effect of preserving poverty. Perhaps there is a message here for those attracted by the current penchant for trade tariffs.

Humanity is also called to participate in industrious and creative work, to exercise the gift of entrepreneurship, and to uncover the treasures and secrets of nature. Pope Paul VI (1967) refers to humanity as gradually uncovering ‘the hidden laws of nature’ and suggests that humanity ‘is stimulated to undertake new investigations and fresh discoveries, to take prudent risks and launch new ventures.’ The pope’s reference to the laws of nature links this idea of entrepreneurship as innovative discovery all the way back to the creation order.

The consequence of all this is that there is an imperative to wealth creation. Without wealth creation, reinforced

by both personal responsibility and property rights, we cannot create a flourishing economy and society for all.

The responsibility to work requires an understanding of work. In *The Pleasures and the Sorrows of Work*, de Botton (2010: 30) describes a group of ship-spotters observing a ship from the end of a pier:

I was inspired by the men at the pier to attempt a hymn to the intelligence, peculiarity, beauty and horror of the modern workplace and, not least, its extraordinary claim to be able to provide us, alongside love, with the principal source of life's meaning.

The creation order means that work is a fundamental element of human existence and part of the natural order, giving dignity to both the creation of wealth and to the worker. The rights and responsibilities endowed in the production of goods and services include the right to initiative, innovation, economic freedom and private property.

All of these points are long-term principles and often missed in the short-termism of much government policy and announcements. In articulating the case for the market, indeed the moral case for the market, we need to place both policy prescriptions and medium-term economic policy objectives within the framework of longer-term philosophical and moral perspectives.

The third proposition around moral markets involves the role of government. Politically, a good deal of time is spent arguing about increases in or reductions in

government expenditure at the margins. This obscures a more fundamental debate about the proper role of government, in terms of both its responsibilities and its limits, considering:

- the inexorable rise of government;
- government failure;
- the principle of limited government;
- the central importance of the voluntary principle.

These questions are moral ones. An increase in taxation producing an extra £1 for the government revenue makes a moral statement about that £1 and its destination. It makes the assumption that £1 extra for the government is morally superior to £1 retained by an individual, and/or spent in support of a family or in a local community, or given to and spent by the charitable institutions of civil society. And that is before you even ask the question whether the £1 increase for government actually reduces, through crowding out, the £1 available through the private or charitable sector. In addition, both high taxation and government debt are moral issues. Excess government indebtedness today shifts the burden of servicing and repayments onto future generations. We spend now, you pay later.

There is sometimes an assumption that the growth of government is inevitable. Pope Benedict XVI (2009) observed that ‘the State’s role seems destined to grow.’ Actually, the Christian principle in both Catholic and Protestant traditions is that of limited government, its

principal role being the protection of the citizen and the maintenance of order.

This is not to argue that there is no role for government, but to understand the proper and limited role of the state. Bureaucracy, centralisation, complexity and the impersonal nature of government all contribute to the failure of government to achieve its objectives, laudable as they perhaps are. This reminds us of the central importance of the voluntary principle and of the intermediate institutions of civil society which encourage locality, personal relationships and, indeed, personal responsibility: not 'big society', but more 'local society'.

The idea of the voluntary principle is that the intermediate institutions of civil society – the clubs, associations, friendly societies, schools, religious congregations and so on – are a fundamental aspect of our national life which operate in the space between the market and the government. In doing so they enable citizens to express social concern through care for fellow citizens, encourage education and training, build character and encourage the virtues of prudence and self-help.

The voluntary principle operates on the idea of moral responsibility and self-responsibility. The origins really lie with Smith (1759) in his *Theory of Moral Sentiments* and with Chalmers (1836–42) and his notion of planting in our hearts compassion for others, alongside the moral principle that the individual has the capacity and responsibility to work and to provide.

These intermediate institutions act as a bulwark against the inexorable growth of government, as well

as providing an outlet for community-led, non-state solutions to social problems. Excessive taxation or government spending crowds out both the possibility and the power of these voluntary institutions of civil society. Scruton (2020) warned that the state ‘should not be permitted to confiscate the work of civil society’. In the nineteenth century, as the professor, minister and social reformer Thomas Chalmers (1836–42: 128) argued, ‘we cannot translate beneficence into the statute-book of law, without expunging it from the statute-book of the heart.’ The essence lies in recognising the vitality and centrality of family, voluntary associations and societies in the achievement of social good through locality and personal relationships.

## Conclusion

This chapter ends where we began. The moral case for the market must be made afresh in each generation. This requires intellectual effort as well as practical policy. Of course, the market needs moral actors and players, and ethical failure by individuals in the market will have negative consequences for society. Nevertheless, the contention is that, at least in part: the market itself produces moral solutions in the form of just and fair pricing and allocation; that work and wealth creation are central to a market system; and that the flourishing of society depends on limited government, personal responsibility and a set of active and lively institutions of civil society. The moral debate must be restored to the centre of the

stage, and that means a moral debate about poverty and its causes, work, welfare, incentives, taxation, personal and family responsibility and both the role and limits of government.

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### **3 ADAM SMITH'S MORAL COMPASS: NAVIGATING WEALTH AND INEQUALITY**

Mikko Arevuo

#### **Introduction**

This chapter examines how Adam Smith's moral philosophy intersects with his economic theories in addressing inequality. Smith acknowledged economic inequality as an inevitable outcome of commercial society but believed it could also incentivise productivity. However, he emphasised that a society's prosperity hinges on the welfare of its poorest members, advocating that those who contribute to the nation's wealth should share in its benefits. While Smith is often interpreted through conflicting ideological lenses, ranging from a champion of laissez-faire capitalism to a proponent of redistributive justice, this chapter contextualises his views within Enlightenment thought, including influences from Locke, Hume and Rousseau. Smith's stadial theory of societal development offers insights into how economic and social inequality evolve alongside civilisation's progression from primitive to commercial states.

One of the most significant topics in modern political and economic discourse is how capitalist societies should

address growing economic and social inequality. Recent prominent contributions considering the ill effects of inequality have focused on stunted economic growth, reduced social mobility and impaired democratic processes (Stiglitz 2012; Piketty 2020; Wolf 2023). Others have focused on how inequality violates some standard of justice or fairness (Rawls 1971; Tomasi 2012; Chandler 2023). One of the consequences of being a leading Scottish Enlightenment thinker and being considered as a founder of modern economics is that politicians, public intellectuals and economists have attempted to find inspiration from Adam Smith's work to support their own, often ideologically driven, worldview (Arevuo 2023). Smith has had the misfortune of either being claimed as a fervent friend of the poor<sup>1</sup> and the intellectual grandfather of modern-day redistributive programmes (Rothchild 1992; Fleischacker 2004), a radical egalitarian (MacLean 2006), while others suggest that Smith's true legacy lies in the libertarian economics of *laissez-faire* capitalism (Smith 2013).

Smith saw economic inequality as an inevitable result of a thriving commercial society. He considered a certain degree of it as a motivating factor in encouraging economic productivity: 'An augmentation of fortune is the means by which the greater part of men propose and wish to better their condition' (Smith 1776: 200). Moreover, Smith considered that civil government was a helpful by-product of inequality to maintain social and political

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1 Smith referred to 'the poor' as all those who live mainly by their labour and who lack significant property or social position, not only the destitute.

order: 'The acquisition of valuable and extensive property, therefore necessarily requires the establishment of civil government ... Civil government supposes a certain subordination' (ibid.: 298). On the other hand, Smith placed the welfare of the poor at the centre of his political economy (ibid.: 181):

No society can surely be flourishing and happy, of which the far greater part of the members is poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged.

Breaking from the mercantilist position, which assumed that all that mattered was the wealth of the ruling classes and the state, Smith argued that a country's wealth was indistinguishable from the living conditions of its largest class, the workers; the best indicator of a country's success was the prosperity of the workers that was achieved through economic development and growth (ibid.: 172):

It is not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labour. It is not, accordingly, in the richest countries, but in the most thriving, or in those which are growing rich the fastest, that the wages of labour are the highest.

Some scholars have pointed out that although Smith can be considered an egalitarian in natural talents and

a supporter of equality under the law and civil rights (Fleischacker 2016), he expressed contradictory views on economic equality and distributive justice (Niimura 2016). To better understand Smith's conflicting views, this chapter places Smith's perspective on equality in the context of his moral philosophy and the social, political and economic thought of his era. Smith's views on equality and distributive justice were influenced by other Enlightenment thinkers, including John Locke, David Hume, Jean-Jacques Rousseau<sup>2</sup> and his teacher Frances Hutcheson. Smith's thinking evolved when he considered equality in the context of the stadial theory of civilisation, namely the idea that the degree of inequality was a function of the stages of economic and social development from a primitive state to a pastoral and then to an agricultural or feudal state, and eventually to a commercial state. Smith looked back to history to construct a theory of the progression of civilisation built upon his understanding of humanity. His stadial theory explored topics including property rights, explained and created maxims on the development of government administration and state revenue systems, and developed an implicit theory of distributive justice that resulted from the society's movement towards greater political, social and economic equality.

This chapter is structured in three parts. The first section establishes Smith's moral ideal of human equality

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<sup>2</sup> There has been a surge of interest in the influence of Rousseau on Smith to argue that he was not a naive advocate of laissez-faire capitalism or possessive individualism. For fuller discussion, see Sagar (2018) and Hont (2015).

based on ‘sympathy’ and ‘impartial observer’ as the framework of a moral community of independent and equal people. The second section considers the conundrum of Smith’s ideal of human equality with his acceptance of wage inequality between labourers and non-labourers and absolute inequality between social classes. The chapter concludes by presenting Smith’s implicit theory of distributive justice and how a system of political economy could be designed to preclude steep inequalities and increase society’s overall welfare.

### **Equality as a moral construct**

The danger for any modern scholar is to read Adam Smith in a way that applies our present-day understanding of equality and distributive justice, most commonly associated with John Rawls’s (1971) justice as fairness, especially the difference principle that governs the distribution of income and wealth, positions of responsibility and power, and the social bases of self-respect. Rawls posits that inequalities in the distribution of these goods and social structures are permissible only if they benefit the least well-off in society. However, it has been pointed out that social justice theories can be diverse, including equal liberty, equal income or equal treatment of everyone’s rights or needs, but they all have the common characteristic of wanting equality of something (Sen 2009). This chapter argues that human equality formed the core of Smith’s thought, and he expanded on Hutcheson and Hume’s account of moral philosophy by developing the concepts

of 'sympathy' and of the 'impartial spectator' that culminated in a formulation of virtue ethics anchored in prudence, temperance, justice, benevolence, and self-command in commercial society (Arevuo 2023).

'Sympathy' was the cornerstone of Smith's system of moral philosophy. The opening paragraph of *The Theory of Moral Sentiments* illustrates the centrality of sympathetic imagination in Smith's moral construct (Smith 1759: 15):

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of other and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. Of this kind is pity or compassion, the emotion which we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner. That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require any instances to prove it.

Robertson (2022) points out that Smith placed the emphasis on sympathy, not benevolence or compassion, but a 'fellow-feeling' that requires imagination that enables us to place ourselves in the shoes of the other, imagining how we would feel in our 'fellow man's' situation. Smith's 'sympathy' operates in a complex way and is perhaps best described as a cognitive capability. First, sympathy has nothing to do with selfishness. We would only act selfishly if we were to think how we would feel should we be in the position of the other person experiencing a misfortune.

Instead, we should not only change the circumstances with the suffering person but also change our character and imagine ourselves in the character of that person. Second, sympathy should not be confused with emotion. We are emotionally vested in people closest to us, which makes it difficult to feel concern towards those who are spatially remote from us. Hence, we should develop in ourselves a deep sense of justice. Without this virtue we would be ruled by a passive emotion of feeling unhappy and sorry by imagining the unhappiness of the people closest to us. The principle of justice allows us to elevate ourselves from emotion to a general ‘fellow-feeling’, a far stronger force, that of conscience, without which society would collapse into anarchy (Robertson 2022).

From the qualities of ‘sympathy’ and ‘fellow-feeling’ and the virtue of justice, Smith developed a framework of equality as a moral community among independent and equal persons. Therefore, judgements involve ‘an implicit intersubjectivity, a projection into the standpoints of independent individuals that is disciplined by a standard of one among equals’ (Darwall 2004: 132) so that when we make judgements, each person’s perspective is of equal value. Smith also emphasised that impartiality enabled us to see other people’s interests and views as of equal value to our own by actively adopting the perspective of each individual involved in a given situation (Smith 1759: 158):

Before we can make any proper comparison of those opposite interests, we must change our position. We must view them, neither from our own place nor yet from his ...

but from the place and the eyes of a third person ... who judges with impartiality between us ... and it requires, in this case too, some degree of reflection, and even of philosophy, to convince us, how little interest we should take in the greatest concerns of our neighbour, how little we should be affected by whatever relates to him, if the sense of propriety and justice did not correct the natural inequality of our sentiments.

Although Adam Smith is widely accepted as a moral egalitarian, he did not think that all people were equal in virtue, although everyone was capable of developing virtuous qualities. Smith saw the differing social status among people primarily as a function of their environments rather than individual, innate characteristics (Smith 1776: 120):

The difference of natural talents in different men is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not upon many occasions so much the cause as the effect of the division of labour. The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature as from habit, custom, and education. When they came into the world, and for the first six or eight years of their existence, they were perhaps very much alike, and neither their parents nor play-fellows could perceive any remarkable difference.

Thus, Smith viewed human equality as a normative principle from the moral perspective and the point of view of what he referred to as the 'impartial spectator'. However, this emphasis did not preclude that all people were equal in virtue, intelligence, wealth, political and social status, or happiness. Smith was concerned that the development of the division of labour was an alienating force in the rapidly industrialised British economy. Although he advocated for the division of labour as the means of gaining greater economic efficiencies and growth, resulting in improved overall welfare, Smith witnessed the adverse consequences of the new industrial production methods on workers' mental and moral state (Smith 1776: 368).

In the progress of the division of labour ... [T]he man whose life is spent in performing a few simple operations, of which the effects are perhaps always the same, or very nearly the same, has no occasion to exert his understanding or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become.

To address worker alienation, Smith promoted widespread state-provided elementary education for all, both for skills development and as a civilising institution. He argued that public education was critical for developing people's sense of morality and the ability to make ethical judgments. Moreover, Smith held that education, including education

of women, was needed to make people better and well-informed citizens that would ensure social order and stability (Rasmussen 2013). Smith's emphasis on education was probably rooted in Scottish Calvinism that required, unlike in England, that all boys and girls had to be able to read. On the other hand, Smith seemed comfortable with the idea that there can be unequal economic outcomes by endorsing income inequality between industrious and idle workers as a motivating mechanism for prudence, diligence, economic efficiency and productivity. Additionally, Smith preferred an unequal but 'opulent' society to a primitive society where everyone was equal but poor because even the poorest were materially better off in an 'opulent' society than those at the very top of a primitive society. We will consider these two states of inequality in turn.

### **Relative labour income and absolute class inequality**

Smith's views on labour income inequality were based on his theory of stadial development of society from hunting, pasturage and farming to commerce (Smith 1763: 69). His concepts of property ownership and labour income inequality, or 'work principle', were based on Locke's doctrine of self-ownership and the labour theory of property. According to Locke, who laid the foundations of empiricism upon which social scientific questions can be formulated (Morell et al. 2015), people developed ownership relations by combining their labour with things in the world. Property resulted from the exertion of individual

labour upon natural resources. These resources were transformed into objects and artefacts that became the labourer's property, thus giving the person a right to that property.

As a result of the different degrees of labour applied to natural resources, income inequality was justified: 'different degrees of industry were apt to give men possessions in different proportions' (Locke 1790: 301). Locke also saw people as self-owning in the sense they were the owners of their labour. Hume adopted Locke's proposition and justification of inequality and further stated that a forceful equal distribution of wealth and property would cause idleness and general poverty (Hume 1751: 50):

[H]owever specious these ideas of perfect equality may seem, they are really, at the bottom, impracticable; and were they not so, would be extremely pernicious to human Society. Render the possessions of men ever so equal, their different degrees of art, care, and industry will immediately break that equality. Or if you check these virtues, you reduce society to the most extreme indigence; and instead of preventing want and beggary in a few, render it unavoidable to the whole community.

Even Rousseau accepted that in the early stages of society, property rights and inequality resulted from different degrees of labour and ability (Rousseau 1751: 118):

[I]t is impossible to conceive of the idea of property arising from anything other than manual labour, for

one cannot see what besides his own labour a man can add to things he has not actually made in order to appropriate them. It is his labour alone which, in giving the cultivator the right to the product of the land he has tilled, gives him in consequences the right to the land itself, at least until the harvest, which, being repeated from year to year, brings about a continued occupation, easily transformed into property.

The influence of these thinkers is evident where Smith writes confirms the origins of the 'work principle' and property rights (Smith 1776: 167):

The produce of labour constitutes the natural recompense or wages of labour. In that original state of things, which proceeds both the appropriation of land and accumulation of stock, the whole produce of labour belongs to the labourer.

He then proceeds to justify proportional labour income by endorsing an economic ideal of an independent worker as an economic motivator (ibid.: 187):

Nothing can be more absurd, however, than to imagine that men in general should work less when they work for themselves, than when they work for other people. A poor, independent workman will generally be more industrious than even a journeyman who works by piece. The one enjoys the whole produce of his own industry; the other shares it with his master ... The superiority of

the independent workman over those servants who are hired by the month or by the year, and whose wages and maintenance are the same whether they do much or do little, is likely to be still greater.

However, the invention of money and the process of property acquisition from occupation, accession, prescription and succession to the voluntary transference of property amplified the degree of societal inequality (Smith 1763: 69–83). In contrast to the labour income inequality between working and non-working labour that Smith, Hume and Rousseau accepted, they also recognised the growing inequality in a ‘civilised society’ between the rich (employers, owners of capital and landowners) and the poor (such as labourers). Hume did not endorse complete equality between working and non-working labourers as this would have been against the ‘work principle’, but he was critical of the inequality between labourers and non-labourers (Niimura 2016). He suggested that equality could be achieved by raising the wages for labour as a kind of income transfer that would result in a more equal distribution of wealth and greater happiness for society. This could be achieved by a commercial and political system that protected free exchange that would lead to a virtuous chain of industry, knowledge and humanity so that there was an interdependent relationship between material prosperity and moral progress. Rousseau provided a more pessimistic assessment of a ‘civilised society’ where the exploitation of the poor would lead to either dominion and servitude, or violence or robbery (Rousseau 1751: 119–20):

But when estates become so multiplied in number and extent as to cover the whole of land ... no estate could be enlarged except at the expense of its neighbour; and the landless supernumeraries, whom weakness or indolence had prevented from acquiring an estate for themselves, became poor without having lost anything, because while everything around them changed they alone remained unchanged, and so they were obliged to receive their subsistence – or to steal it – from the rich; and out of this situation there was born, according to the different characters of the rich and the poor, either dominion and servitude, or violence and robbery.

Unlike Hume and Rousseau, Smith justified inequality between labourers and non-labourers in a ‘civilised society’ by comparing their relative position in a ‘primitive society’. Although more advanced societies were more unequal than primitive ones, from Smith’s perspective, the poor fell beneath the others only in terms of their material living standards, and the poorest in advanced societies were, in absolute terms, better off than those at the top of ‘primitive societies’. Although less well-off than the wealthy, Smith didn’t think the poor were innately less worthy or deserving of respect than the rich. In Smith’s view, it was not wealth that deserved respect and admiration but one’s wisdom and virtue that was in everyone’s reach through social and economic progress.

Smith was highly critical of the morally corrupting nature of wealth and thought that society did not adequately recognise the positive qualities of the poor and

humble who, by their work, ‘supports the whole frame of society ... he bears on his shoulders the whole of mankind’ (Martin 2021: 843). Hence, the dilemma society faced was how to organise a form of government appropriate to the condition of freedom, equality and need in which people find themselves (Tomasi 2012). Locke had proposed that the only legitimate function of the government was the protection of natural rights to life, liberty and property, while Rousseau insisted that such a political system would lead to little more than inequality, dependence and corruption (Rasmussen 2017: 135). Smith’s position on the civilising effects of commerce was less rose-coloured than Hume’s. Although Smith called for a system of ‘natural liberty’ where the function of the government should be limited to three spheres – national defence, the provision of a limited set of public goods and the administration of justice, including property rights – he thought that social institutions should be arranged to provide all people the opportunity to better their position. He was convinced that the best way to achieve this was by creating favourable conditions for free markets where productive material, technological and human resources could be combined to achieve economic efficiency through the division of labour and growth to create national ‘opulence’ for all. Smith’s market economy would thrive on the operation of self-interest in a moral environment where people’s basic rights were respected and the distribution of opportunities for consumption was provided by growth in economic welfare among social classes.

## Implicit theory of redistribution

Smith's concern for the welfare of the poor included abhorrence of extreme poverty and the morally corrupting nature of wealth. He described how (Smith 1759: 63)

[t]he poor man ... is ashamed of his poverty. He feels that it either places him out of the sight of mankind, or, if they take any notice of him, they have, however, scarce any fellow-feeling with the misery and distress which he suffers.

Smith also describes the vanity of the wealthy who gain more pleasure from the attention of the less well-off than the pleasure afforded by their material holdings (ibid.: 63):

But vanity is always founded upon the belief of our being the object of attention and approbation. The rich man glories in his riches, because he feels that they naturally draw upon him the attention of the world, and that mankind are disposed to go along with him in all those agreeable emotions with which the advantages of his situation so readily inspire him.

Nevertheless, Smith was intellectually wedded to the structure of the class society, partly because such a structure maintained social order and stability. He also believed that a certain amount of inequality would encourage productivity resulting from the universal desire for admiration that motivates us to strive, driven by the baser characteristics

of human nature. To understand Smith's theory of distributive justice, we must place it in the social and, in particular, the economic context of his time.

The population of England in 1759 was made up of six social classes with corresponding annual per-capita income: workers (56.4 per cent, £14 per annum); farmers (18.9 per cent, £22 per annum); shop owners (9.4 per cent, £27 per annum); capital owners (4.2 per cent, £145 per annum); landed aristocrats (1.5 per cent, £450 per annum); and paupers (9.6 per cent, less than £3 per annum) (Milanovic 2023). England and Scotland were more advanced than other European countries, save Holland, and comparative prosperity extended far down the social scale. The average working-class member consumed over three baskets of subsistence goods annually compared to the workers in the rest of the world, who consumed a little more than one basket. Only paupers in England had incomes that low (Allen 2019). Smith's focus on the absolute wealth of the 'civilized society' compared to the 'primitive society' is understandable in the context of the 'opulence' of Britain at the time. On the other hand, the country was highly unequal. Milanovic (2023) and Allen (2019) acknowledge that some studies on interpersonal inequality measured by the Gini coefficient<sup>3</sup> have produced conflicting results based on the same set of social tables for the same period. However, there seems to be a consensus that the changes in the size and incomes of the social classes indicate that, in 1688

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3 The Gini coefficient is the most commonly used measure of inequality. It measures inequality on a scale from 0 to 1, where higher values indicate higher inequality.

and 1759, the Gini coefficient was about 0.54 but jumped to about 0.6 in 1798 as incomes became concentrated among the landed classes and capital owners. It was not until the middle of the nineteenth century that the Gini coefficient declined to 0.48, indicating that the benefits of economic growth began trickling down to the working classes.<sup>4</sup>

While Smith accepted inequality and its benefits in creating political stability and as a motivating force for economic efficiency and growth, he didn't accept the ethical validity of social hierarchies. Although the rich may be at the top of the social pyramid, Smith thought that they were not always deserving of their wealth as high income was often the product of collusion, monopoly power at home and abroad, plunder of colonies or use of political influence (Smith 1776). Smith's criticism extended beyond merchants and capital owners to the landed gentry. He was critical of old feudal institutions that allowed the consolidation of property, including inheritance laws, primogeniture and entails, which were used to tie up land for generations and increase inequality (*ibid.*: 486):

Entails are thought necessary for maintaining this exclusive privilege of the nobility to the great offices and honours of their country; and that order having usurped one unjust advantage over the rest of their fellow-citizens, lest their poverty should render it ridiculous, it is thought reasonable that they should have another.

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4 For comparison purposes, three twenty-first-century Gini coefficients are 0.39 (US, 2021) 0.63 (South Africa, 2014) and 0.23 (Norway, 2019). World Bank data (<https://worldpopulationreview.com/country-rankings/gini-coefficient-by-country>).

Smith denied the moral superiority of the rich, as the origins of their wealth were morally questionable. Therefore, he saw the wealth gap as a product of an unfair social order, or a product of an unfair commercial society.

Smith addressed inequality indirectly, not through what one would today consider a social democratic redistributive policy, but by envisioning an economic and political system that, if fully implemented, would preclude steep inequalities. This was not out of a normative concern with equality, however distasteful Smith found it, but by virtue of institutional frameworks that aimed to maximise national wealth (Boucoyannis 2013). Smith praised Holland as the most advanced economy of his time and as an example for Britain (Smith 1776: 194):

The province of Holland ... in proportion to the extent of its territory and the number of people, is a richer country than England ... The wages of labour are said to be higher in Holland than in England, and the Dutch, it is well known, trade upon lower profits than any other people in Europe ... the ordinary rate of profit would be very small, so that usual market rate of interest which could be afforded out if it, would be so low as to render it impossible for any but the very wealthiest people to live upon the interest of their money.

Smith envisioned a political economy that would provide greater consumption opportunities for all, achieved by competitive markets and economic efficiency, based on the division of labour and low barriers to market

entry that would keep profits low and labour wages high. Such an economic system would prevent the emergence of a social class living off interest alone, a form of Smith's unproductive labour. Hence, wages should rise with increased national wealth and do so naturally, not only as a result of the simple factor of supply and demand. The key principles of Smith's legislation and taxation of unproductive wealth, such as unproductive land holdings, formed a system against the concentration of wealth, freeing capital for productive purposes. In a structurally sound and competitive economy, wealth concentration should not occur. Smith thought that profit rates were tied to capital availability: the scarcer the capital, the worse off the economy and the higher the interest rate. When capital is abundant, by contrast, it is cheap, so interest rates are low, and the economy prospers (Boucoyannis 2013). When capital is scarce, lowering wages while increasing the price of goods makes everyone worse off, except manufacturers.

Smith illustrated this relationship by citing the case of France, where interest rates and profits were high, much higher than in Britain. Yet in France, living standards were lower despite the country's richer natural resources. For Smith, high profits denoted economic pathology, i.e. a dysfunctional economy (Boucoyannis 2013). The rate of profit, he said, was 'always highest in the countries which are going fastest to ruin' (Smith 1776: 148). This pathology resulted from the incentives for the economic groups living by profit alone. Smith believed the interests of profit-seekers were structurally and (ibid.: 148)

directly opposite to that of the great body of the people because the rate of profit does not, like rent and wages, rise with the prosperity, and fall with the declension of the society. On the contrary, it is naturally low in rich, and high in poor countries.

It is only through government intervention and lobbying by special interest groups (a precursor to public choice theory)<sup>5</sup> that wage growth could be suppressed. Wages are only lowered artificially, through state intervention, because of the sophistry of merchants and manufacturers, who are much more adroit in manipulating legislatures to pass laws in their favour. Moreover, employers enjoy a bargaining advantage over workers and can coerce them to accept worse terms, because they need individual workers less than individual workers need employment (Boucoyannis 2013).

Smith believed that land should be distributed widely and evenly, inheritance laws should partition fortunes, taxation could incentivise the productive use of capital, and legislation was necessary to thwart rent-seekers and manipulators. Smith envisioned a corrective system that would ensure abundant capital availability with low rates of interest and competitive markets providing both an economic and moral logic for increasing national wealth. For Smith such a system would prevent a rise in steep inequalities and result in improved living standards, especially for the working poor.

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5 See the seminal work by Buchanan and Tullock (1962).

## Conclusion

Adam Smith's implicit theory of wealth distribution is a complex and multifaceted concept that stems from his broader ideas on the natural liberty of self-ownership, economic development and growth. Although Smith did not explicitly develop a theory of what many modern thinkers refer to as 'distributive justice', his works provide a framework for understanding how a commercial society can lead to prosperity and economic growth for workers, owners of capital and landlords alike.

Although Smith emphasised freedom from constraints and freedom of autonomy in a commercial society, he was not a naive laissez-faire advocate. He justified commercial society for its contribution to overall societal prosperity, including the poor and the powerless, but was critical of the shortcomings of mercantilist society. Smith criticised the moral failings of merchants and landowners and advocated institutional measures to restrict their worst motives and divisive influences.

Smith's ideas on economic inequality may seem contradictory at first glance, but they can be reconciled through his moral philosophy and the state of the British economy at his time. While Smith recognised the motivating power of economic inequality, he also placed the welfare of the poor at the centre of his political economy, arguing that a flourishing and happy society requires that a 'far greater part of its members be well-fed, clothed, and lodged' (Smith 1776: 181). Smith also recognised the role of civil government in maintaining social and political

order, but he saw it as a helpful by-product of inequality and not as an end in itself.

Moreover, Smith's theory of economic growth and efficiency demonstrates how rents and wages increase as society develops economically, while profit and interest rates fall in competitive markets, resulting in an overall fall in inequality. This idea is grounded in Smith's moral philosophy that places human equality as its core value, and it provides a way to reconcile his seemingly contradictory views on economic inequality.

Smith's ideas on wealth distribution are still relevant today, especially in the context of growing economic and social inequality. His work provides a basis for understanding how a capitalist society can promote economic growth and prosperity while also ensuring that the welfare of the poor is not overlooked. This is an important consideration for policymakers and economists as they seek to address the challenges of inequality in the modern world (Boucoyannis 2013).

However, it is important to note that Smith's ideas on wealth distribution are not without their limitations and criticisms. For example, some scholars have argued that Smith's focus on economic growth and efficiency may neglect the impact of social and environmental costs (Chandler 2023). Others have criticised his views on property rights and the role of the state in regulating economic activity (Wolf 2023), and Rawls has questioned Smith's social system based on the concept of the 'impartial spectator' as it 'makes no assumptions from which the principles of right and justice may be derived' (Rawls 1971: 185).

Despite these criticisms, Smith's thoughts on wealth distribution remain an important contribution to political and economic philosophy. His work has influenced generations of thinkers and policymakers, and his ideas continue to shape our thinking about the role of the market, the state and 'distributive justice' in modern society. His ideas on economic inequality, civil government, economic growth and efficiency demonstrate the complexity of his moral and economic theories, and they provide a basis for policymakers and economists to address the challenges of inequality in the modern world. While his ideas are not without their limitations and criticisms, they remain an important contribution to the field of political and economic philosophy and continue to shape the way we think about wealth distribution, economic growth and the role of the state in modern society, as well as the morality of markets.

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## 4 MANDEVILLE: PRIVATE MORALITY AND SOCIAL ETHICS

Pedro Schwartz

The publication of the *The Fable of the Bees; or, Private Vices Publick Benefits* by Bernard Mandeville (1714) caused a scandal that arguably has lasted to this day. The second edition of the book in 1723 even led to an attempt to arraign the author before the Grand Jury of Middlesex. The book reproduced and explained the sheets of satiric verses that Mandeville had published anonymously in 1705 under the title *The Grumbling Hive, or Knaves Turn'd Honest*. The general opinion was (and is) that his view of economic morality in a mercantile society is an unacceptable portrayal (or shocking revelation) of the true character of capitalism.

The doggerel verses broadcast by Mandeville were an ingenious satire of the moral justification of the bourgeois morality current at the time – a morality extolled in the present century by McCloskey (2006, 2010, 2016) in learned books on bourgeois virtues, dignity and equality. The prosperity of the beehive was based on the ‘vices’ of the individual bees, the vices of selfishness, hypocrisy and vanity. This is what Mandeville called his paradox. The

society in which the bees lived was graced with the virtues of harmony, wealth and power, in contrast with the vices of its inhabitants. The hive was even graced with a good constitution. The bees were not slaves under a tyranny (Mandeville 1732: 17),

nor rul'd by wild democracy;  
But [by] kings, that could not wrong,  
because their power was circumscrib'd by laws.

The hive even counted as 'the great Nursery of Sciences and Industry' (ibid.):

Vast numbers throng'd the fruitful hive;  
Yet those vast numbers made 'em thrive;  
Some with vast flocks, and little pains,  
Jump'd into business of great gains;  
And some were damn'd to scythes and spades,  
And all those hard laborious trades;  
Where willing wretches daily sweat,  
And wear out strength and limbs to eat.

As will be discussed, Hayek stressed two contributions of Mandeville's to social science. One was the productive effect of the division of labour, just described. The other, the spontaneous order in a society that was riven by the clash of individual interests. This second feature Hayek (1966) considers Mandeville's crucial idea that bore fruit in the sociology of the Scottish Historical School, starting with Hume, which will be discussed below.

To proceed with the more scandalous *traits* of the *Fable*, it should be recalled that for Mandeville (1732: 24) ‘their crimes conspir’d to make them great’; the source of this prosperity and power were not the virtues of the individual bees but their selfishness and vanity (ibid.: 19):

As sharpers, parasites, pimps, players,  
 Pickpockets, coiners, quacks, soothsayers,  
 And all those, that in enmity,  
 With downright working, cunningly  
 Convert to their own use the labour  
 Of their good-natur’d heedless neighbour.

(Ibid.: 17):

They were not slaves to tyranny.  
 Nor rul’d by wild democracy  
 But kings, that could not wrong,  
 because their power was circumscrib’d by laws.

(Ibid.: 24):

Thus every part was full of vice,  
 Yet the whole mass a paradise.

But all this prosperity did not stop the bees from grumbling, as the title of the sheets denounced, and from complaining about the corruption of their hive. They lamented the vices in their hive and prayed Jupiter for a return to virtue (ibid.: 27–28):

But all the rogues cry'd brazenly,  
Good gods, had we but honesty! [...]  
But Jove with indignation mov'd,  
At last in anger swore, he'd rid  
The bawling hive of fraud; and did [...]  
But, O ye gods! what consternation,  
How vast and sudden [...] was th' alteration!

Suddenly, honesty and trade agreed. Prices would fall, everything would be cheap but plain. Debts were repaid. Justice hanged some, set others free and retired with all her underlings, her presence no more required. Only physics of skill would prescribe. The clergy would be roused from laziness. The king's ministers would live on their salaries. No armed forces would be kept abroad and would slowly retire from the seas (ibid.: 35):

However,  
So few in the vast hive remain,  
The hundredth part they can't maintain.

(Ibid.: 32):

For 'twas not only that they went,  
By whom vast sums were yearly spent;  
But multitudes that liv'd on them,  
Were daily forc'd to do the same.  
In vain to other trades they'd fly;  
All were o'er-stock'd accordingly.

Such were the blessings and drawbacks of that new virtuous state (ibid.: 37):

Bare virtue can't make nations live  
In splendour; they, that would revive  
A golden age, must be as free,  
For acorns as for honesty.

A rather lame ending, the Golden Age of acorns and sheep! Mandeville was turning a conventional literary device into a mockery of what could attract the bees of the *Fable*. If less extreme passions (in the Humean sense) are assumed that are not exclusively selfish and vicious, then there could be a prosperous hive based on honesty, the performance of contracts and the respect of possession. In fact, societies based on vice, dishonesty and the abuse of power seem to have difficulty in prospering, to say the least.

## Adam Smith and Mandeville

In his *Theory of Moral Sentiments*, Adam Smith (1759) gave Mandeville special attention. True, his aim was very different from Mandeville's. They both had a great deal to say on how humans and human societies formed their ethics: Smith throughout his whole book, Mandeville in one of his explanations he added to later editions of the *Fable*. But it is worth considering the fundamental differences between the two authors.

Smith (1759) classified Mandeville's ethics among 'Systems of Moral Philosophy' but one of the 'Licentious' systems. In two of them, those of Epicurus and Seneca, he found redeeming features, either for their encouragement of benevolence or of fortitude (ibid.: 451):

There is another [...] system which seems to take away altogether the distinction between vice and virtue. I mean the system of Dr. Mandeville. Though the notions of this author are in almost every respect erroneous, [...] there are some appearances in human nature [...] which seem at first sight to favour them.

Dr Mandeville, says Smith, considers whatever is done from a regard to what is commendable as being done from vanity (ibid.: 452):

Man [ , he observes,] is naturally much more interested in his own happiness than in that of others, and it is impossible that in his heart he can ever really prefer their prosperity to his own.

These notions exaggerated 'by his lively and humorous, though coarse and rustic, eloquence' impose themselves 'on the unskilful' (ibid.: 458):

It is the great fallacy of Dr. Mandeville's book to represent every passion as wholly vicious [...]. It is thus that he treats every thing as vanity which has any reference, either to what are, or to what ought to be the sentiments

of others: and it is by means of this sophistry, that he establishes his favourite conclusion, that private vices are public benefits.

Smith should have reminded readers that, in his system of natural liberty, public benefits do mostly flow from private choices, be these vicious or not. Schwartz (2024) suggests that among the reasons why liberalism is being shunned by the better part of Conservative opinion is that it does not enjoin individuals to cultivate any other virtue but at most mere toleration. In the case of Mandeville, it seems that for the market system to function there is no need for individual bees to cultivate any virtue at all, in fact it is better that they do not.

## Hayek and Mandeville

In 1966, Hayek surprised liberal opinion when in a lecture at the British Academy he made an *eulogium* of Bernard Mandeville. Hayek (1966) argued that Mandeville should not be seen as a philosopher of ethics but as an analyst of spontaneous order in society. Hayek conceded that most of his contemporaries must have turned in their graves when he presented the doctor as a master philosopher. Even today, many economists consider Mandeville as a not very respectable figure. His contributions to the social sciences are at most granted a place in psychology and rather *outré* social philosophy. However, if one actually reads his *Fable of the Bees* and also the many other writings he published in defence of *The Grumbling Hive* in

its many forms and editions, and also his proposals in the matters of mental disorders, prostitution, education, capital punishment and Christianity, one begins to see him as a serious essayist. To fully understand his methodological achievement, one has to read not only his *Fable*, as most people are content to do, but also his serious writings in prose (Mandeville 1720, 1724, 1730, 1732). Hayek (1966) noted that it was as late as 1728 (when Mandeville was 58) and in a volume under the general title of the *Fable*, and even later, that he gave form to his ideas on the evolutionary explanation of the growth of social institutions. There are traces earlier in the *Fable* where he writes (Mandeville 1732: 24):

And virtue, who from politics  
Has learn'd a thousand cunning tricks,  
Was, by their happy influence,  
Made friends with vice: And ever since,  
The worst of all the multitude  
Did something for the common good.  
This was the state's craft, that maintain'd  
The whole of which each part complain'd:  
This, as in music harmony  
Made jarrings in the main agree,  
And assist each other, as 'twere for spite.

In his last years, Mandeville proposed almost unknowingly the idea that human institutions, such as language, law, morals, the market and money, develop with nobody designing or planning them. This all-important idea was

then taken up by the Scottish philosophers as was famously summarised in Adam Ferguson's dictum (1782: 205):

Nations stumble upon establishments, which are indeed the result of human action, but not the execution of any human design.

This idea of spontaneous order in human societies goes much further than Mandeville said, and the Scots took up. It changed the view of the formation of social values. As Hayek (1979) maintained, the sources of human values are not two (nature and reason) but three (nature, reason and cultural evolution), as Mandeville started to see. One need only read the Epilogue to Hayek's volume III of *Law, Legislation and Liberty* (Hayek 1979) to begin to understand Mandeville's contribution to social philosophy.

Thus was political economy freed from the aspersions of wicked Mandeville.

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## **5 HOW UNDERSTANDING LACK UNCOVERS THE MORAL FOUNDATIONS OF CAPITALISM**

Elena Leontjeva

### **Introduction**

When the morality of capitalism is debated, it is criticised on the grounds of a common belief that capitalism creates scarcity. Such critics perceive scarcity to be a result of human greed, ruthless competition, unfair redistribution and, more generally, immoral behaviour encouraged by market economies. They perceive capitalism as a social order that thrives on the scarcities and amplifies flaws of human nature in the pursuit of self-interest.

Yet, what if this assumption misinterprets the real relationship between capitalism and scarcity? What if scarcity is not a consequence of this social order but a fundamental condition of existence itself? Instead, has capitalism evolved organically as humanity's unsurpassed response to scarcity?

This chapter starts with literature on scarcity in economics and other disciplines. It then proposes and discusses a deeper existential principle of *lack* as a universal element that permeates both the natural world and the human experience (Leontjeva et al. 2018). *Lack* is found

to lie at the core of any becoming and change and at the heart of human action and moral choice. Through this lens, we can revisit capitalism's moral foundation and its relation to scarcity and *lack*. We will enquire how scarcity manifests itself in the economic domain and how it relates to productive action and economic institutions.

I then compare capitalism to other social systems with regards to liberty, agency and human fallibility, and whether it allows genuine moral decisions in the face of inevitable limitations. By addressing these questions, we will move beyond conventional critiques of capitalism towards a deeper understanding of its role in responding to the fundamental condition of *lack*.

## **The principle of lack in the structure of being**

The principle of *lack* is common among a farmer cultivating land, the atoms of sodium and chlorine combining to create what we know as salt, and the vast movements of cosmic objects. It is the same underlying drive that exists everywhere across the universe: lack, incompleteness, insufficiency, scarcity and imperfection. This universal condition propels both human action and the natural world towards fulfilment.

The incomplete valence shell in atoms explains why they are drawn to each other, forming new substances and creating bonds that result in stability. The same paradigm is mirrored in the cosmos. Much like atoms bonding to achieve stability, stars seek equilibrium between the outward radiation from fusion and the inward

gravitational pull. However, this balance is temporary; as a star burns through its fuel, it undergoes continuous transformation. In time, it may collapse into a neutron star or a black hole, or disperse its elements into space, contributing to the formation of new stars and planetary systems.

Returning to Earth, we know that a grain of wheat grows towards the sun because it lacks light, and its roots push deep into the soil to seek minerals and water. This principle is evident in all living things. Just as a butterfly emerges from a chrysalis lacking wings and strength, or a panther cub is born blind and fragile, both grow through *lack* into what they are meant to become. When a single grain is planted, it transforms into a strong plant, and at each stage of its growth, it lacks the features that will appear soon, features that have not yet emerged. *Lack* is something that is said to be ‘not here yet’ or ‘yet to be’. This process of growth, shaped by lack, is intrinsic to life itself. The primary and principal metaphor reflecting the essence of lack is found in the Bible in Genesis 2:5:

When no bush of the field was yet in the land and no small plant of the field had yet sprung up – for the LORD God had not caused it to rain on the land but later there was no man to work the ground, and a mist was going up from the land and was watering the whole face of the ground.<sup>1</sup>

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1 English Standard Version Bible (1995) (<https://www.esv.org/>).

And what does the Bible say about our grain? Matthew 13:8 declares that it will bring a harvest that can yield ‘thirty, sixty, or even a hundred times what was sown’ – a biblical metaphor that speaks of the power of *lack* to bring to life, to multiply and to abound.

Since this principle of *lack* is found everywhere as a driver of change and advancement, it is neither a flaw nor a mistake of the Creator but rather a purposeful principle of being. *Lack* is the catalyst of transformation propelling nature and humanity forwards, a force that compels everything towards a completion which is never fully achieved. *Lack* manifests itself in time, space and matter.

### **Lack in the human condition**

Humans are distinct in that we do not merely grow through *lack*; we are also conscious of it. We face it everywhere: we lack time (an easy example to understand!), we crave food, we all pine for love, and strive for meaning. It all has a common denominator in that this world is not complete. We experience a profound sense of lack, whether it be knowledge, social connection, beauty or love, and this drives much of our intellectual and existential pursuits.

*Lack* is not only around us, it is also within us. Human beings are temporary, finite, fallible and limited. We are able to advance ourselves precisely because of these insufficiencies. Such is our fundamental human nature. The essence of humanity is the openness to the infinite, the desire to surpass one’s limitations, to transcend and

thus actualise oneself.<sup>2</sup> At the same time, it is essential to realise the boundaries of one's potential and the limits to overcoming lack (Leontjeva et al. 2018: 24).

As Kardelis (2016: 17) writes: 'The ancient Greeks would say to themselves ... do not try to become gods but try to become the best people according to your capacity and capabilities.'

Our neurons are designed to notice insufficiencies around us, and to respond to them. Lack makes us uncomfortable. To relieve that discomfort, we must attain what we are lacking, we seek a reward. In his treatise on *Human Action*, Mises (1996) explains that we always act to remove some uneasiness. Uneasiness is an essential notion in understanding the drive behind human action. In other words, we always respond to what seems to us insufficient, what we lack. There are always some insufficiencies around us, and therefore a ground for human action.

## Scarcity in the economic domain

Awareness of *lack* as a universal principle leads to an insight that scarcity in the economic domain is not an isolated challenge but rather a manifestation of this principle. Consequently, economic reasoning and action – as a response to scarcity – has been present in all societies and social systems throughout history. Whenever we as

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2 The idea was systematically articulated by Thomas Aquinas (1274) in *Summa Theologica*.

humans have lacked the immediate resources for subsistence and procreation, we have compensated for this deficiency through productive effort and innovation.

Humankind has continuously toiled, cooperated, exchanged, invested and innovated to navigate the inherent limitations imposed by scarcity. From the earliest hunter-gatherers to modern technological societies, economic activity has always been an adaptive response to insufficiency. First, humans relied on gathering wild fruits and mushrooms, and hunting animals to sustain themselves. Over time, they discovered how to cultivate crops and recognised the potential of wheat to yield a harvest far exceeding the quantity initially sown. This shift from mere survival to active cultivation represents not only a technological advance but also a profound reflection of humanity's ability to multiply scarce resources.

Every form of productive effort – whether in agriculture, industry or technology – reflects this same principle. We do not merely consume what is available; we modify, improve, multiply. Humans reshape the natural world, amplifying its resources through ingenuity and labour.

*Lack* compels innovation and drives technological advancement. We lack time, strength and efficiency, and thus invent tools and develop technologies that extend human capabilities. It is this relentless drive to overcome *lack* that has shaped history, from fashioning a stick to extend our reach, to replacing horses with automobiles, to integrating Artificial Intelligence into everyday life.

Progress is an archetypal and universal response to *lack*, not only in the form of technological innovation,

but also in the continuous refinement of institutions. The necessity to manage and overcome scarcity has played a crucial role in the emergence of key economic institutions: property, money, exchange. They did not emerge arbitrarily but evolved as responses to scarcity. The mechanisms of labour and cooperation, investment and entrepreneurship, property rights, money and free exchange have emerged as institutional responses to the ever-present condition of *lack*.

These institutions enable societies to generate prosperity and order in response to scarcity. In essence, they represent the collective solutions of humanity to the problem of *lack*. We may conclude that scarcity does not merely prompt human activity, it defines the essence of economic life.

### **The moral dilemmas of scarcity**

It is only because there is *lack* that we pursue objectives, innovate and exercise liberty. If the world were already complete – if all life and beauty were fully manifested, every bridge already built, every truth fully known – there would be no need for human action. Humans might not feel the need to assume stewardship over the earth if nothing remained to be done. Liberty exists in a constant dialogue with incompleteness, and it is within this dynamic that the moral dimension of our choices emerges.

*Lack* necessitates not only economic action but also ethical choice. We may respond constructively by engaging in productive efforts, creating synergies and

cooperating with others, or we can use force or fraud, taking what belongs to others without their consent. In the latter case, alleviating *lack* becomes malicious and leads to destructive, harmful effects. Not only does it deprive others, it also destroys trust, which is essential for cooperation and free exchange. Every response to scarcity inherently involves a moral dimension.

Throughout history, we have seen both paths: voluntary cooperation through exchange or conflict and coercion, as well as manipulation and fraud. Fraud has existed in every society. In societies where slavery and feudalism were present, force was institutionalised. Whether it was one village raiding another for grain or livestock, or whole groups being denied their liberty, the use of power to secure what was lacking was commonplace.

Thus, the ability and readiness to provide for oneself without fraud or force is a cornerstone of a just society. The ethical responses to *lack* involve not only work, exchange and cooperation, but also self-responsibility, economisation and thrift. While the latter three concepts are familiar to everyone, they are often associated with greed. There may be double standards: when it comes to our own actions, we see thrift and prudence as virtuous, but when exhibited by others, they may be labelled as greedy and selfish.

A happy medium would be to avoid the flaws of extremes, recognising that self-responsibility and economisation, if unchecked, may lead to greed and selfishness while the opposite extreme results in wastefulness, irresponsible consumption and, eventually, a mindset where the irresponsible individual expects others to provide for them.

## **Capitalism: the system that removed institutionalised coercion**

What is often overlooked is that throughout history, the seizure of provisions, resources, property and attempts to curb human liberty by force have shaped economic and social structures. Repeated unethical choices gave rise to institutionalised coercion, in the form of slavery, feudal subjugation, tyranny and the concentration of political power.

Within the framework of property rights, personal responsibility and voluntary exchange between free individuals – the defining characteristics of free market capitalism – humanity has found its pathway to liberation from systemic oppression. In earlier social orders, the use of force was an entrenched economic tool, applied to subjugate individuals or entire groups for material gain. In smaller communities, power was frequently wielded to raid, plunder or seize essential resources, not merely out of hostility but as a means to acquire what was lacking. The abduction of people for forced labour or reproduction was a recurrent pattern in many pre-capitalist societies.

Capitalism has played a pivotal role in dismantling this historic reliance on force as a means of securing sustenance. By establishing a framework where liberty is safeguarded, property rights are enforced and value is generated through productive labour and mutually beneficial exchange, capitalism has replaced the ‘winner-takes-all’ paradigm of earlier systems, with a structure

that fosters cooperation over conflict. It has enabled individuals to serve one another through market interactions without resorting to deception or force.

The moral foundation of capitalism is more robust than that of earlier systems precisely because it eliminates systemic coercion. While capitalism does not preclude individuals from making poor moral choices, it ensures that institutionalised oppression is absent from its structure. Under capitalism, slavery is abolished, 'might over right' is replaced with an independent legal system, and property rights are upheld within a framework of justice.

If compared to socialism, capitalism removes the centralised control of state-run economies, returning the means of production and resource allocation to voluntary interactions. Unlike socialist states, where central planning stifled enterprise, capitalism fosters a decentralised process of economic cooperation. Liberty, private property, free enterprise and open markets provide an ethical mechanism for individuals to sustain themselves without coercion or fraud.

Although these institutions of a freer society have been challenged, and in some cases partly undermined, they continue to provide the necessary safeguards for ethical economic action. Capitalism, with all its institutional strength, does not eradicate individual moral responsibility, nor eliminate the possibility of personal failure. Its principal advantage is a framework in which individuals respond to scarcity with productiveness, creativity and voluntary collaboration, rather than through force.

## **Predatory and victim mentality: the imprint of the past**

Although capitalism has removed institutionalised coercion and the need to use force for survival, the ‘win-or-lose’ mentality persists in human minds and social attitudes. It stems from deep-seated historical patterns of predation and subjugation, imprinted so deeply in us that they resemble a genetic code of human history. The creative destruction of capitalism (Schumpeter 1942) often produces winners and losers, however temporarily. A victim mentality may emerge where individuals perceive themselves as powerless, or destined to always lose out, in a system beyond their control. Such a mindset may, in turn, fuel social conflict as if coded into the fabric of human behaviour, a genetic blueprint that still shapes how we interact today.

As a result, some individuals will opt for coercion and fraud, even if there are honest ways to improve their situation. Unfortunately, the widespread belief that capitalism is fundamentally immoral reinforces and amplifies such behaviour. In addition, the victim mentality leads to self-defeat and an unwarranted distrust of economic cooperation. Those who internalise such a perspective see economic exchange as a zero-sum game, believing that any gain made by another party, and especially by someone with more power and fewer immediate needs, must be a loss inflicted on others. Under this mindset, economic benefit can only stem from exploitation or deceit, rather than from mutual value creation.

For those caught in the victim mentality, the world appears fundamentally unjust, and they see themselves as inevitable, and perhaps eternal, losers within an exploitative system. Recognising *lack* as an inherent feature of human existence fosters a more positive commitment to economic exchange, even with its residual imperfections.

### The role of money and the morality question

The nineteenth-century thinker Thomas Carlyle famously coined the term ‘dismal science’ in reference to economics.<sup>3</sup> To this day, the economic domain is still widely perceived as dismal, pessimistic and inherently unjust. This perception is largely tied to economic institutions that reflect or embody the principle of *lack* – most of all, money.

Money evolves as an ultimate identification of scarcity, making it visible. Money exists to quantify, signal and manage the allocation and exchange of scarce resources. This is how money becomes a universal measure of value, a facilitator of exchange and a channel of sustenance. It is crucial to recognise that money does not impose limits on humanity; rather, it reveals, structures and helps navigate them.

Money itself remains a paradox: it is both indispensable and insufficient, for it is never truly enough. This is not due to a flaw of capitalism or indeed any other economic system; rather, it is intrinsic to the very nature

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3 First mentioned by Thomas Carlyle in the 1849 pamphlet, *Occasional Discourse on the Negro Question*.

of money. Money does not create scarcity; it signifies it. Hence, money's dominant role in the economic system creates tension within humankind, whose fate is to live under the constant pressure of *lack*.

Despite this fundamental role, money is rarely valued as an enabler of economic coordination and exchange. Instead, it is frequently portrayed as a cause of inequality, greed and moral corruption, as though the very existence of money generates scarcity when, in reality, money reveals, measures and, crucially, helps to manage scarcity.

It is a common belief that scarcity is artificially imposed on humanity by financiers, economists and capitalists – as if the very act of measuring, accounting and structuring economic life prevents society from achieving abundance. This misconception confuses the symbol with the substance and obscures the vital role money plays in creating prosperity. Money solves an omnipresent problem: how to measure what is lacking and how to address it. It helps to structure human cooperation in response to scarcity.

As a foundational thinker on the sociology of money, Georg Simmel observed: 'Money is the autonomous manifestation of the exchange relation which transforms desired objects into economic objects and establishes the substitutability of objects' (Simmel 2004: 117). This underscores the dual nature of money, not merely as a tool for exchange or as a store of value, but also as a structural necessity in human relationships, shaping how scarcity is perceived, negotiated and managed. Money does not dictate moral choices; it creates the conditions in which economic decisions are made.

Money's existence testifies to the ever-present gap between desire and availability, a gap that can be bridged ethically through cooperation, toil and free exchange or unethically through coercion and fraud. Money itself is neutral; its effects depend entirely on the way it is used. Accepting this distinction is crucial. Like any tool, money can be used for both constructive and destructive purposes. It is neither inherently virtuous nor evil – it simply enables economic action. The moral dimension of money, therefore, does not reside in money itself but in the hands of those who earn, spend, save, waste or hoard it. Recognising this distinction allows for a clearer perspective on capitalism, not as a system that creates scarcity, but as a framework for addressing it, with money as a key instrument.

### **Beyond zero-sum: lack and the creative power of exchange**

Although cooperation and free exchange generate vast synergy and enable many to attain sustenance without coercion, a significant share of society still believes that market exchange is a zero-sum game, where one person's gain is necessarily another person's loss.

How does the principle of *lack* help in explaining the phenomenon of exchange? Without *lack*, there would be no need for exchange: it is precisely because we are incomplete, because we differ from each other and lack something – whether it is a material resource, knowledge or skill – that we seek out others. In exchange, both parties fill each other's gaps. The result is not merely a

transfer of resources but the generation of new value. This fundamental pattern is systematically overlooked.

Think of an architect who designs buildings but lacks coding skills, and a software developer who builds applications but has no knowledge of architecture. They trade expertise: the architect gets a digital tool to streamline projects, while the developer receives a home blueprint. They don't just swap goods; they amplify each other's abilities, turning *lack* into opportunity. The result is more than a transaction; it multiplies value. Both parties give what they value less in exchange for what they value more. The value of design expertise and coding skills differs for them, since they lack different things, and only because of this difference does the exchange occur. The architect offers blueprints, which they perceive as of lesser value compared to the custom-built tool they receive. The developer, in turn, trades their coding expertise, which holds less immediate value for them than a professionally designed home plan. Both walk away better off, not because one outsmarts the other, but because their different needs and priorities create more value for each and for both. This is not a zero-sum transaction, where one gains at the other's expense; it is a positive sum game for both, since their differences lead to mutual benefit.

Value emerges not only from labour but from the very nature of exchange itself – a phenomenon usually overlooked, an invisible miracle. We may perceive it as a reward for peaceful reciprocity, since it liberates us from relying on force or deception to meet our needs. Value is created precisely when both parties exchange freely, without coercion.

Properly recognised, the phenomenon of free exchange liberates us from hostility towards the other.

It is precisely our differences, our incompleteness and needs that enable us to create mutual benefit and prosperity. If the world operated entirely on a zero-sum game, we would be trapped in an economic battleground, where one could only win at the expense of the other. This would be a scenario of perpetual conflict.

### **The roots of resistance to the positive-sum mentality**

A fundamental characteristic of human experience is that we perceive the world through our own subjective perspective. Therefore, we encounter what is lacking in terms of immediate needs, pressures and tensions rather than recognising it as a shared and fundamental condition. This is particularly evident in economic exchanges, where individuals often feel they pay too much and earn too little. This dissatisfaction arises because no matter what is produced and exchanged, *lack* persists – a lifelong condition that demands economisation, self-responsibility and thrift. Instead of seeing *lack* as a universal phenomenon, an individual experiences it in terms of what he or she lacks.

Moreover, value in exchange is inherently relative: people naturally give up what they value less to obtain what they value more. However, after an exchange, priorities change, new desires arise and past transactions are reassessed. This leads to disappointment, sometimes a sense of impoverishment, in not gaining as much as was

initially expected. It may also lead to a realisation that the product or service purchased does not inherently bring happiness or satisfy a need. These re-evaluations of scarcity fuels scepticism towards free-market capitalism.

Scepticism towards a positive-sum mentality also occurs where there is unethical behaviour in market interactions. While exchange is inherently on the basis of mutual benefit, trust and voluntary cooperation, everything can be distorted by dishonesty, fraud or coercion. When such distortions occur in the market, trust is eroded, leading individuals to conflate market behaviour with misconduct. Such unethical behaviour suggests two different types of *lack* – both named by the same term and experienced similarly. The first primordial *lack* serves as a positive and productive principle driving action, cooperation and progress, while the second human-made *lack* arises either from unethical action or is an unintended consequence of unchecked thrift, haste or short-sighted economisation.

The struggle between self-interest and fairness is not unique to capitalism; it is a challenge intrinsic to human nature and present in all social systems. No economic order entirely eliminates the ethical dilemmas posed by scarcity; rather, each provides different institutional and cultural frameworks within which individuals navigate these moral challenges.

Capitalism upholds liberty, which is essential for making moral choices, but liberty does not satisfy all desires; nor does it eliminate moral failings and negative experiences. Having encountered situations in which they felt shortchanged or misled, individuals may develop a habitual

expectation that every transaction will fail to eliminate uneasiness as they had hoped or even leave them worse off. In such instances, negative experiences will reinforce scepticism towards market exchanges, outweighing the benefit of positive experiences. In turn, a sense of powerlessness or perceived injustices can lead to further dishonesty, resentment and even coercion. These challenges reaffirm the importance of understanding the roots of the positive-sum exchange and capitalism's moral foundations. Viewing scarcity as an inherent part of existence, and market exchange as a way to manage rather than exacerbate *lack*, can help individuals develop a clearer perspective on the ethical dimensions of capitalism and, most importantly, on their own preferences and determination.

### **Mission invisible: navigating, not causing, scarcity**

Understanding the role of *lack* may help us to recognise the essential role of the entrepreneur in mitigating a multitude of scarcities for the benefit of individuals as both employees and consumers. The entrepreneur's mission is largely hidden from view because people observe only the results of production and services, but not the intricate process behind them. When workers toil, their effort is visible: their sweat, their labour and ultimately the product or service they deliver. But when an entrepreneur toils, sometimes the only visible signs may be the deepening lines on their forehead. While the worker's contribution is tangible, the entrepreneur's labour – coordinating and mitigating thousands of scarce resources – remains

unseen. Their work is relentless, a responsibility that follows them 24/7. The risks they undertake are visible only when it leads to failure. When it leads to success, it is dismissed as mere luck or fortunate timing.

An entrepreneur must anticipate needs and coordinate scarce resources, managing a complex web of interdependent scarcities that are in constant flux. The Covid-19 pandemic was a pronounced example of the challenges entrepreneurs face – navigating volatile prices and disrupted logistics – to ensure that productive processes persist or to meet new demands. The entrepreneur must balance ever-changing costs, secure resources despite supply chain disruptions and shortages, manage the uneven availability of labour and, at the same time, navigate current and future markets.

While employees specialise in their roles, the entrepreneur bears the responsibility of balancing the entire system. According to Kirzner (1997: 6):

Entrepreneurial discovery is at the centre of the real-world market process. Knowledge is neither perfect nor is it available from some central pool which can be tapped: it is naturally dispersed and is uncovered by entrepreneurs competing one with another to find better ways of satisfying consumers.

While employees do not necessarily have to concern themselves with the intricate dynamics of competition, regulation or financial planning, they do face their own, challenges, e.g. deadlines, the pace of work and maintaining

quality while seeking a balance between work and leisure. Many of us perceive our salaries as being less than what we believe we deserve. This kind of insufficiency is omnipresent; it shapes our perceptions and creates distortions in how we view economic realities.

However, the entrepreneur is under simultaneous pressure from both employees and consumers. The consumer desires products and services to be cheaper, higher quality and delivered faster. We do not want to wait six months for a car; we need it next week. We as consumers set the terms of the game, indirectly determining wages and working conditions for others. The irony is that the consumer and the employee are often the same person, yet we fail to recognise this. Nor do we see how scarcity creates internal conflicts pulling us in opposing directions.

The entrepreneur seeks to resolve these opposing tensions, and in doing so may be perceived as the source of economic pressures experienced by fellow humans as consumers or employees. Yet the entrepreneur does not create scarcity; she or he only manages it. Rather than imposing scarcity, the entrepreneur turns it into opportunity, creating an ecosystem that allows others to unlock potential and generate prosperity. Their role in navigating and mitigating scarcities on behalf of society is enormous. If people recognised this, they might appreciate the entrepreneur's contribution each time they buy goods, go to work, receive a salary or benefit from even the simplest service. Yet, because the entrepreneur's mission is largely invisible, obscured by our struggles with scarcity, they instead become a scapegoat for capitalism itself.

If this tension were understood as a structural conflict between our dual roles as both producers and consumers, it could liberate us from misplaced resentment. Furthermore, it could even reveal how this uneasiness fuels productivity and innovation. But as long as we fail to recognise this underlying structure, hostility toward entrepreneurs and the entire capitalist system will persist.

What we perceive as economic struggle is, in truth, our perpetual confrontation with scarcity itself, a challenge that compels us to innovate, optimise and multiply whatever we lack. Marxism attempts to oversimplify these productive patterns, claiming that everything is rooted in exploitation and fraud. If this were true, the world would indeed be a miserable place. However, most of these criticisms stem from a misunderstanding of economic realities. Economics, more than any other discipline, exposes the fundamental role of scarcity, making it an easy target for those who see the world's constraints as injustices rather than natural conditions to be managed. This explains why the economic domain, and economics *per se*, are regarded by society as a 'dismal' realm.

### **From scarcity to abundance: the role of prices and profit**

Once we grasp how *lack* functions as a universal principle, we gain a deeper understanding of the role of a positive-sum exchange in economic activity. This brings us one step closer to viewing prices and profit not merely in terms of financial gain, but as playing essential

economic roles. If voluntary exchange can occur without systemic coercion and create gain for both parties – including that between labour and capital – then profit should be seen as the natural outcome of an entrepreneur’s mission.

Profit emerges when entrepreneurs successfully orchestrate a synergy between resources, labour and innovation to address unfulfilled needs. In this sense, charging a price that leads to profits is a reward for resolving scarcity, bridging the gap between what is lacking and what could be created.

The discourse of scarcity helps reveal that prices also have an ecological function, ensuring that resources are used for the benefit of society. By considering negative externalities, such as pollution, the pricing mechanism can ensure that resources are neither wasted nor overused. It acts as a self-regulatory force, guiding profit-seeking businesses to allocate resources responsibly and sustainably, essential in a world of finite supply.

Thus, profit – far from being an instrument of exploitation – serves as an indicator of how effectively scarcity is managed and resources are utilised. By harnessing economic mechanisms to produce more from less, profit is not merely a byproduct of capitalism, but an essential driver of broad-based prosperity and sustainability.

### **Final thoughts: the moral lessons of scarcity**

When the fundamental role of scarcity remains ignored, capitalism may be perceived as an immoral system and

every market exchange as a zero-sum game, where one must win at the expense of another. By participating in this system daily, individuals may judge themselves as acting immorally and believe that their moral choices are irrelevant in a compromised world. In turn, they may come to justify any means necessary to counteract a system they deem corrupt.

However, if capitalism is understood through the deeper lens of universal *lack* as a principle governing nature, economy and human existence alike, this false perception begins to dissolve. If *lack* is seen not as a flaw but as a force that drives creativity and cooperation, it can be credited with fostering synergy in human relationships and economic exchange. Money, market exchange, prices and profit are not inherent sources of moral corruption; rather, they are inherently neutral and allow individuals to respond to scarcity productively. The moral dimension lies in the ethical choices of those who operate within the capitalist society.

Recognising this empowers individuals to focus on true moral dilemmas and consciously exercise moral choices, not only in the economic domain but across all aspects of human interaction. When properly understood, *lack* becomes a force for moral action, enabling us to navigate the world with greater awareness, integrity and meaning.

Today, most of us live in capitalist societies as employees, entrepreneurs, business owners, investors and consumers. If capitalism is not inherently immoral, then every economic choice we make in trade, investment,

entrepreneurship and the stewardship of property has the potential to be moral and virtuous. A clearer understanding of the ethical foundations of capitalism enables individuals not only to embrace its mechanisms but to engage with them consciously and responsibly.

Just as free exchange expands wealth, uncovering the deeper moral foundations of capitalism can enable humanity to be aware of and better exercise our moral choices.

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## 6 PROFIT AND WEALTH IN ISLAM, CHRISTIANITY AND JUDAISM

Benedikt Koehler

### Introduction

At first blush, religions and economics seem poles apart. Religions look up to celestial spheres whereas economics look at the earthly here and now, so where could they possibly overlap? But this view is short-sighted, as is shown by the original Latin and Greek meaning of the terms for religion and economics. *Religio* was a Latin term for *conscientiousness, sense of right, moral obligation, duty*. *Religio* held Romans to observe obligations to gods as well as to their fellow humans. Romans thus understood the connotations of religion much as the Enlightenment understood those of moral sentiments. *Oikonomia* was a Greek term for *management of a household or of a family*, and for *husbandry and thrift*. Greeks applied *oikonomia* to encompass exchanges in settings outside of commerce merely. In fact, Stoics scaled up *oikonomia* to denote the manner by which the gods calibrated the harmony of the universe. In antiquity the connotations of *religio* and *oikonomia* linked concrete and spiritual dimensions. In the Middle Ages these links were still taken for granted.

In the modern world, however, their connotations have drifted apart. This contrast between ancient and modern understandings of economics and religion should be kept in mind when considering the economics of Abrahamic religions. In the West, our notions of economics and of religion derive from the thinkers of ancient Athens and Rome, whereas Abrahamic religions originated in Jerusalem and Mecca within a context of very different cultural dynamics.

### Islamic economics

Classical Greece gave us the term 'economics' to encompass business exchanges and their ramifications. We owe ancient Arabia for the term 'risk', which is at the core of entrepreneurship. *Rizq* is an Arabic term, the connotations of which encompass *livelihood* and *sustenance*. Arabs were familiar with the rewards and hazards of entrepreneurship, *rizq*, through the caravan trade, the mainstay of Arab prosperity. The term featured in many passages of the Koran revealed to the prophet of Islam, Muhammad, who descended from a dynasty of caravan merchants. Muhammad was brought up to follow in the footsteps of his ancestry. Before he found his vocation as a prophet, at the age of forty, Muhammad had for many years been exposed to the vagaries of the caravan trade and the unpredictability of outcomes from traversing inhospitable landscapes, in search of customers in distant lands. Some caravans might return bearing great bounty, but as Muhammad knew from personal experience, some

might not return at all. As a child, he had been orphaned when his father did not make it back from a caravan venture. Muhammad was reared in a world that honed instincts for risk, valued its rewards and feared its meanness. Later as a Prophet and as a leader, Muhammad at no point dissociated his faith from his native commercial culture. Islam not only tolerated business but blessed it.

After he had assumed political leadership of the early Muslims, Muhammad introduced three key pro-business measures.

The first was introduced soon after he and early Muslims migrated to Yathrib, later renamed Medina, after facing hostilities in Mecca. There he established a new community and commercial infrastructure, where merchants in Medina transacted business in four distinct markets. When Muhammad arrived, he opened a fifth market and used his awareness of fiscal incentives to give this new market a distinct competitive advantage in the form of tax exemption. He inaugurated the market by declaring, 'let this be your market, and no tax shall be levied on it' (Al-Baladhuri 1968).

The second was introduced during one of the famines, Medinans suffered in poor crop years, which led to an increase in food prices. At such times, it was common practice in the Middle East to ration food and to cap food prices. However, when the local population asked Muhammad to intervene in grain markets, he refused, pronouncing that 'prices are in the hand of God' (Koehler 2014: 11). Allowing markets, and not the government, to set the price was a break with economic orthodoxy at the time.

The third measure was introduced towards the end of his life. A settlement to the north of Medina, Khaybar, had become the first significant tributary of what became the Islamic empire. Following this conquest, Muhammad distributed spoils among his chief supporters, and specifically advised Umar ibn Chattab, his deputy, to spend his bounty on charity. Umar vested his endowment in a novel legal construct, a *waqf*. Philanthropy as such was not new, but the legal structure in which it was cast was novel. A legal document set out the terms of a *waqf*: they distinguished the donor, the administrator and the designated purpose of the endowment. Until then, charitable donations had been gifted to temples which managed them at their discretion. A *waqf* broke with tradition by ring-fencing an endowment. Modern observers have noticed that the tripartite arrangement of a *waqf* became a template for what in Common Law came to be known as a trust.

Early Islamic economics was a blueprint for reducing fiscal constraints on trade, blocking government interference in price formation, and promoting private provision of welfare. These three measures were catalysts for the emergence of capitalism in the Islamic empire, and historians have surmised that visiting Italian merchants brought back Islamic financial expertise to Europe. For example, medieval shipping ventures launched from Venice replicated the rewards for investors and hired staff that had applied to the trading caravans of the Middle East, while partnership contracts stipulated that underwriters were joined *ad risicum et fortunam*. Moreover, as

already mentioned, Common Law trusts may represent another instance of knowledge transfer from East to West. Trusts were pioneered by members of organisations that had had a presence in the Middle East, namely the Knights Templar and Franciscan friars.

### **Private property rights in early and medieval Christianity**

On the eve of the birth of Christianity, the right to own property was a divisive issue in Judaism. Christianity was at that time only one of several non-conformist sects in Judaism. Another was the Essenes, and with them Christians shared a decidedly radical stance on private property: Christians were critical of the right to private property. Christians and Essenes diverged in this respect from Judaic conventions that prevailed at the time. Instead, they adhered more closely to earlier conventions, such as were inspired by the Books of Moses.

Moses cast rules for property and for provision of welfare on the eve of the Israelite entry into Canaan. Moses made no provision for private ownership of land. Rules for the right to own land quoted the Book of Genesis: 'The land shall not be sold for ever: for the land is mine; for ye are strangers and sojourners with me.'<sup>1</sup> An Israelite farmer was to be a tenant rather than an owner. Consequently, he had no right to sell the farm and had to pass his estate to his sons in prescribed proportions. In scenarios

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1 Leviticus 25:23.

where control over a farm had passed from one farmer to another – for example, as might result from a default – a farm reverted to its original owner after a period of 49 years. Rules for provision of welfare also were inspired by the Book of Genesis: ‘Six days you shall work and you shall do your tasks, but the seventh day is a Sabbath to the Lord your God.’<sup>2</sup> As the Lord had rested on the seventh day of creation, Mosaic welfare afforded rest to all members of the Israelite community, including their slaves, even their animals, on the Sabbath. The reversion of land tenancy after 49 years was timed to coincide with a cycle of seven repeats of a seventh year.

Mosaic prescriptions for ownership of property and for dispensing of welfare were carried over into Christianity. The Jerusalem community emulated the Judaic tradition of providing social welfare, an approach to social policy that set Christianity apart from paganism, where welfare was unknown. Christians were ‘of one heart and one soul’<sup>3</sup> and provided regular welfare to members of the community in need. Within the community of Christians in Jerusalem the first fatalities, ensuing from an altercation, was over property. Two donors, Ananias and Saphira, had sold their property and gifted a contribution to the community, but they incurred the ire of St Peter when he discovered a portion of the sales proceeds had been withheld and not declared. So severe was his reprimand that they both collapsed and died on the spot. Two formative

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2 Exodus 20:9–10.

3 Book of Acts 4:32.

figures of early Christianity, St Peter and St Paul, were in agreement that welfare distribution was an integral practice of Christianity but seem to have held different views on private property and on how to apply it to funding welfare. One infers from St Peter's treatment of Ananias and Saphira that he inclined to communal ownership of property and to mandatory distribution of welfare, whereas St Paul's statement that 'God loves a cheerful giver'<sup>4</sup> suggests that he supported distribution of alms funded on a voluntary basis. This tension lay dormant for over a millennium but became a flashpoint in the wake of the teaching of St Francis of Assisi.

In its early history, Christianity was for several centuries a self-governing private community. Its approach to property and welfare took the form of guidance and recommendations, but with the transition to corporate status in the late Roman empire its guidance was transformed into policies. Bishop Ambrose of Milan (born c. 339, died 397) framed the first coherent Christian cast of property rights and welfare. Ambrose made use of his training in Roman law to draft a tract, *De officiis*, the very title of which asserted that he was superseding Cicero's classical exposition of the same title. While Cicero had offered no cogent explanation for private property, beyond surmising that once upon a time someone must have squatted on a plot of land and his tenure over time habituated everyone to think of his occupation as a property right, Ambrose displaced vagueness with specifics. He adduced

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4 II Corinthians 9:7.

that the Bible followed Moses, and took his cue from Mosaic property rights. God's creation was humanity's patrimony and as such was owned communally. But Ambrose added a Christian interpretation. Humanity had forfeited the state of innocence and therefore was sentenced to survive in a sinful world where greed spawned the desire for private property. God provided, however, for a route to salvation, through his covenant with the church. The rightful place for property was in the hands of the church, which would provide to those in need. In this way, donors could redeem their fallen state and restore property to its original stakeholders.

The Christian renunciation of property reached its apogee with St Francis of Assisi (born 1181, died 1226). Francis considered that Jesus had never owned property and thereby had set an example for Christians. Debates between supporters and critics of Franciscan economics began soon after Francis died in 1226, unfolding over several decades, and by 1318 escalated to the point where definitions of property rights were considered the subject of heresy. The Franciscan ideal of a life without ownership of property soon came into conflict with the practicalities of managing an order that had to provide for thousands of friars. Franciscan friars insisted their ideals could overcome the exigencies of the real world and that it was possible to live by using rather than by owning things. They developed a coherent economic system, the *oeconomia franciscana*, which proceeded from distinctions between *proprietas* and *usus* and elaborated fine distinctions between categories of ownership. Franciscans pored over

definitions – such as *possessio, usufructus, usus facti* – and out of these concepts emerged new approaches to law and economics.

Pope John XXII (pope from 1316 to 1334) reframed terms of the dispute over the compatibility of private property with Christianity. Citing the passage in the Book of Genesis that gave Adam the right to rule the earth, the pope rendered the term for ruling – *dominare* – which implied lordship as well as ownership.<sup>5</sup> With this determination, Pope John XXII overturned two axioms that hitherto had been invoked by Christian property rights: the putative renunciation of property by Jesus asserted by Francis of Assisi, and the primeval communality of property as hypothesised by Ambrose of Milan. Pope John XXII enshrined the right to private property in dogma. This did not, however, quell dissent among theologians. William of Ockham (born *c.* 1287, died 1347) was one of many later proponents of the Franciscan school of property rights.

For his approach to property rights Pope John XXII relied critically on Thomas Aquinas (born *c.* 1225, died 1274). The encyclopaedic range of the writings of Thomas Aquinas included two other aspects of economics. One of these, usury, is discussed below. The other, information asymmetry, was concerned with the duty of a seller not to withhold information that a buyer would need in order to make a fair decision on a purchase. This was a vexed question of long standing. Already in antiquity philosophers had tried to

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5 'Benedixitque illis Deus, et ait: Crescite et multiplicamini, et replete terram, et subjicite eam, et *dominamini* piscibus maris, et volatilibus caeli, et universis animantibus, quae moventur super terram.' Genesis 1:28.

demarcate the border between fair and unfair treatment of a seller that withholds information. Stoic philosophers illustrated this question with the dilemma of a fictional Merchant of Rhodes. In this scenario, a famine on the island of Rhodes has led to exorbitant prices for grain. Several grain shippers set sail to Rhodes, and one of them arrives a day before his competitors. Was it fair for him to exploit the ignorance of Rhodians or should he have alerted them to the imminent arrival of abundant supply? Depending on his choice, he stood to gain or forgo considerable profit. Stoics, and Cicero, inclined to expect the merchant to show empathy with the starving Rhodians. Thomas Aquinas, on the other hand, did not endorse this stance. For, since the merchant was not lying, he did not have a duty to disclose information that would diminish his profit. The contrary stance of Cicero and Aquinas became the subject of numerous commentaries in scholastic literature.

### **Judaism on usury and fairness**

Few examples of the impact that Judaism exerted on Christianity and Islam are more conspicuous than the Mosaic ban on lending at interest. Its most succinct statement is in Exodus 22:25: 'If thou lend money to any of my people that is poor by thee, thou shalt not be to him as an usurer, neither shalt thou lay upon him usury.'<sup>6</sup> This prohibition appeared in four passages in the Books of Moses and was carried over into Christianity and Islam. Thomas Aquinas wrote:

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6 See also Leviticus 25:35–37, Deuteronomy 23:19–20 and 24:13.

‘Hence it is by its very nature unlawful to take payment for the use of money lent, which payment is known as usury.’<sup>7</sup> The Koran declared: ‘Those who consume interest will stand on Judgment Day like those driven to madness by Satan’s touch.’<sup>8</sup> However, it should be noted that there is a debate among some contemporary Muslim scholars on whether the word *riba* refers to all interest or just to usury, i.e. exploitative levels of interest (Benazeer 2025). Christianity and Islam copied the Mosaic ban on usury to the letter. In Judaism, on the other hand, vigorous discussions of its rationale took place. Agreeing a definition of usury was a challenging task, and one at which Judaic scholars and jurists arrived through efforts that spanned several generations. The agreed definition has ramifications for distinguishing fair from unfair financial returns, especially when applied to today’s notion of consumer protection.

The equation of usury with lending at interest that circulates today has an ancient ancestry. Ancient Greeks and Romans too designated misgivings against bankers under the heading of usury.<sup>9</sup> In Judaism, the exegesis of the Books of Moses was set out in a repository of post-biblical sermons and jurisprudence, the Talmud. Written between 200 and 400 AD, the Babylonian Talmud questioned the equation of usury with lending at interest. One of the reservations against the ban was its obvious brake on opportunities for gain. The Talmud quoted one individual who

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7 *Summa Theologica*, II.II.78: De peccato usurae.

8 Koran 2:275/6.

9 Aristotle, *Politics* 1, 1258b; Cicero, *De Officiis* 2, 89.

felt aggrieved: ‘Had Moses our teacher known that there was a profit involved in the matter, he would not have written it as a prohibition.’<sup>10</sup> The observation was apt. For although Moses forbade usury, he did not forbid profit. By implication, the motivation for the ban on usury had to be found in an aspect unrelated to its profitability.

The Mosaic ban was an enigma. Mosaic guidance on property rights and welfare was derived from the Book of Genesis. The ban on usury, by contrast, was inserted into the Books of Moses without invocation of divine approbation. The refinement of the definition unfolded in intermediate stages. In the first stage, Talmudists differentiated between income from usury and income from legitimate sources. They referred to two test cases. In the first, a certain Mar Shmuel had lent out a kettle and charged the borrowers. The Talmudic judges deemed it licit for him to charge for wear and tear of the kettle, i.e. for depreciation, but not for rental of the kettle. In the second case, a certain Hama had lent out both a hoe and some coins. Hama argued he was permitted to charge for lending a hoe, so why not for a coin? The Talmudic judges pointed out to Hama that the value of the hoe was subject to depreciation, but a coin was not. Therefore, it was licit to charge for the former but not for the latter. As these two cases demonstrate, Talmudic economics was inductive, proceeding from observation of specific cases to arrive at general principles.

Another pair of cases, ostensibly analogous but fundamentally dissimilar, helped to distinguish between

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10 Bavli Metzia 75b:7 ([https://www.sefaria.org/Bava\\_Metzia.75b.7?lang=bi](https://www.sefaria.org/Bava_Metzia.75b.7?lang=bi)).

licit and illicit profit from transactions involving land and buildings. The first transaction was a property rental, the second a property sale. In the case of the rental, the landlord offered a prospective tenant a one-year lease and a choice of two payment schemes: a higher price payable at the end of the rental period or a lower price payable at the beginning of the rental period. In the case of the sale, a vendor offered the prospective buyer an analogous choice: a higher price due in a year or a lower price immediately. Both cases involved a discount, but the first discount was judged to be licit while the second was ruled illicit. The ruling was based on the respective allocation of property rights. In the case of a rental, the landlord retains ownership of the property and is therefore entitled to offer a discount. In the case of a sale, ownership of the property would pass from the seller to the buyer, so the seller should not seek to extract a payment from a property that he no longer owns. What was judged to distinguish a landlord renting out a property from a landlord selling his property was the allocation of risk. All risks connected to maintaining a property remained in the former case with the landlord, but in the latter case passed to the buyer. In these two cases, usury was considered as earning a financial return without bearing risk. The Talmudist Nachman bar Jacob (died *c.* 320 AD) defined usury as: 'Any payment for his waiting, meaning any additional sum added in consideration of the fact that the lender delays claiming his money, is forbidden.'<sup>11</sup>

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11 Bava Metzia 63b:10.

Talmudists opposed profit from usury but endorsed profit from taking risk. They approved of firms, so-called *iska*, where investors hired agents to undertake commercial ventures. Investors agreed on profit sharing, while agents were paid salaries. There was a clear delineation between profits, which depended on the outcome of the venture, and salary, which depended on effort expended regardless of the outcome.

The definition of usury in the Talmud did not supersede the Mosaic definition. Rather, it queried and brought to light its underlying rationale. Indeed, it forbade lending at interest but that forbiddance would be applied not by compliance with authority, but by discernment of fair treatment for lenders as well as for borrowers, and for sellers as well as for buyers. The inductive approach of Talmudists, by scrutiny of specific cases, was a template for what would today be considered as consumer protection.

## Conclusion

Long before economics came to be considered a sphere of enquiry with a distinct methodology, let alone as an academic discipline, matters concerning today's economists were considered as part of deliberations over social relations more widely. Economic issues were seen to fall within the purview of religion. This approach continued up to the advent of modernity in the Reformation. Today's understanding of religion and economics has attributed meanings to these terms they did not have when they

came into being. The significance of the Greek *oikonomia*, Latin *religio* and Arabic *rizq* covered a wider sphere of consideration. In antiquity, they denoted material as well as supernatural relations. In modernity, economics refers to the earthly world and religion to heavenly spheres. From Moses to Jesus to Muhammad, economics was predicated on theology.

Once the Enlightenment wrested economics away from theology, the need arose to replace its theological pre-suppositions. In their place, economics has drawn from utilitarianism. The examples of early Islamic fostering of price deregulation, the medieval Christian resolution of the right to private property and the Talmudic definition of usury, as well as other examples, demonstrate the sophistication of pre-Enlightenment economics.

Religious institutions played a significant role in developing economic insights long before utilitarianism came into being.

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## **7 THE ECONOMICS OF POPE FRANCIS**

Philip Booth

### **Introduction**

Anyone considering the morality of markets, or indeed considering the morality of any other activity or phenomenon, often considers the perspective of faith leaders. Therefore, it is no surprise that, during his papacy, there was a great deal of commentary on Pope Francis's views on economic matters. However, it is not easy to write about this subject and come to a definitive conclusion. This would be true of any pope. Popes speak about economic issues for all sorts of reasons and in a variety of styles and contexts. Often what they say or write is drafted for them. It is easy to over-interpret what popes say, allowing both critics and supporters to select the bits they do or do not like.

One approach to understanding the thinking of a pope on economic issues is to research his wider intellectual history, interests and formation. This can be helpful in deducing, firstly, which practical issues might most concern the pope and, secondly, how his understanding of economics relates to his broader philosophical and theological approach.<sup>1</sup>

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1 See Gregg (2017) for some discussion of Pope Francis in this context.

Another approach is to analyse specific proposals that popes make in relation to both behaviour and government policy in the economic domain. The late pope made statements supporting, for example, universal basic income (Booth 2021)<sup>2</sup> and more regulation of labour markets. However, these have generally been in addresses or books rather than in authoritative Church documents. This chapter will focus on Pope Francis's main Church documents that referenced economic matters. These often went through several drafts and would have been signed off by the pope, even if initial drafts were developed by others. They were considered, lengthy and published with a specific purpose in mind.

There will, inevitably, be some superficiality about an analysis such as the one in this chapter. There will be no exposition of the background of how the documents discussed were produced, nor of the philosophical thought processes which led to their development. However, the documents provide enough material to understand Pope Francis's main concerns and important contributions. The analysis in this chapter will, perhaps, provide a springboard for those who wish to delve further into his theology and philosophy.

Many people think of Pope Francis as a man of the left, but his main themes transcend left-leaning and classical liberal economic thinking. One important theme that emerges is that of fraternity. Another is the importance

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2 Though the language in which the proposal was couched led the reader to wonder whether it was intended to be universal and/or provided by the state.

of purposeful economic action at all levels in society. The pope was neither a libertarian nor a statist – he was a Catholic. He was also not an economist.

The theme of fraternity illustrates this well. When it comes to debates around the issue of fraternity in some Catholic social teaching circles, it sometimes seems as if those of a more liberal<sup>3</sup> economic persuasion can be sidelined as irrelevant, or have agendas and views ascribed to them which are simply not accurate. That is a pity because, though liberals and left-leaning economists may have different views about the respective roles of the state, the family and civil society in economic life, many of the former group specialise in the study of how voluntary social cooperation and fraternity solve what might seem like intractable problems. It is therefore hoped that this chapter, co-published by a centre devoted to the promotion of classical liberal economics (the Vinson Centre at the University of Buckingham), can provide a basis for dialogue and further research into issues of concern in Catholic social thought and teaching that were raised by Pope Francis.

## **The dangers of extrapolating from small segments of papal documents and statements**

Papal documents often use hyperbole as a rhetorical device. This does not sit well with the modern trend for

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3 The word liberal here is interpreted in the classical and Scottish Enlightenment tradition. In the US, the word 'conservative' might be used. Some would also use 'neo-liberal', but that tends to be used gratuitously without any clear understanding of its meaning being communicated.

condensing messages into a few hundred characters. It is also easy, in the media, to create easy headlines from sentences – or even parts of sentences – without any context. And the secular media will tend to fit statements made in Church documents into their own framework of thinking, giving the impression that a pope supports this or that approach to economic policy when, in fact, the starting point for a pope is entirely different.

The mistakes that arise from over-interpretation are shown by this quotation on welfare from Pope Francis in *Evangelii Gaudium*, an apostolic exhortation published soon after he became pope. He stated: ‘Welfare projects, which meet certain urgent needs, should be considered merely temporary responses’ (Francis 2013: 202). Even Bartholomew (2004), author of *The Welfare State We’re In*, together with many others on what some might call ‘the right’ would say ‘amen’ to that. However, the following sentence reads (Francis 2013: 202):

As long as the problems of the poor are not radically resolved by rejecting the absolute autonomy of markets and financial speculation and by attacking the structural causes of inequality no solution will be found for the world’s problems or, for that matter, to any problems. Inequality is the root of social ills.

Support for that sentence would come from rather different quarters! And, to confuse matters further, in the critique of markets, in the second half of the sentence

Pope Francis is actually referring to an address by Pope Benedict XVI.<sup>4</sup>

In this paragraph, Pope Francis was calling for moral behaviour within and regulation of the economy, together with well-functioning civil society institutions, which make welfare less necessary. It seems implicit that this also requires individual responsibility. A reading of the fuller context and an understanding of Christian anthropology and of the wider Catholic social teaching tradition would make that clear.

In that spirit, as noted above, this chapter will focus on authoritative documents of the Church that were written by Pope Francis, and will attempt to discern considered and sustained themes rather than over-interpret individual sentences. The documents to be considered are the following:

- An apostolic exhortation, *Evangelii gaudium*, written not long after he became pope (Francis 2013).
- An encyclical on the environment, *Laudato si'* (Francis 2015).
- An encyclical on fraternity, *Fratelli tutti*, which means 'Brothers all' (Francis 2020).

In Catholicism, a papal encyclical has a higher level of authority than an apostolic exhortation and is simply a

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4 Specifically, Benedict XVI Address to the Diplomatic Corps of 8th January, 2007 ([https://www.vatican.va/content/benedict-xvi/en/speeches/2007/january/documents/hf\\_ben-xvi\\_spe\\_20070108\\_diplomatic-corps.html](https://www.vatican.va/content/benedict-xvi/en/speeches/2007/january/documents/hf_ben-xvi_spe_20070108_diplomatic-corps.html)).

letter written by a pope to a specific audience. In recent times, the audience has been ‘all people of goodwill’.<sup>5</sup>

## Inequality, property, poverty and riches

The right to property has been an enduring theme of Catholic social teaching and was strongly defended in the first social encyclical, *Rerum Novarum*, published by Pope Leo XIII in 1891. Pope Francis does not contradict this teaching, but he certainly qualifies his support. In *Fratelli tutti* he writes (Francis 2020: 120):

The right to private property can only be considered a secondary natural right, derived from the principle of the universal destination of created goods.

This perspective can be reconciled with the tradition of Catholic social teaching which has tended to teach that the right to property is the way in which the universal destination of goods is brought to reality. However, the emphasis of Pope Francis is different from that of Pope Leo. Pope Francis continues (Francis 2020: 120):

This has concrete consequences that ought to be reflected in the workings of society. Yet it often happens that secondary rights displace primary and overriding rights, in practice making them irrelevant.

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5 For more on this, see <https://togetherforthecommongood.co.uk/about/catholic-social-thought>.

We can see the difference in emphasis when we consider Pope Leo XIII's statement on private property in *Rerum Novarum*: 'The first and most fundamental principle, therefore, if one would undertake to alleviate the condition of the masses, must be the inviolability of private property' (Leo XIII 1891: 15). Pope Leo then talked about how the extension of private ownership can lead to property being more equitably divided. The right to property was a sustained theme of *Rerum Novarum*.

Pope Leo (as well as Pope Pius XI, Pope Pius XII and Pope John XXIII) all proposed that the extension of private ownership can lead to property being more equitably divided. Invoking the Ten Commandments, Pope Leo's *Rerum Novarum* connects private property with the natural order, peace and prosperity. At the same time, he stated very clearly the grave moral obligations on those with plenty to ensure that others do not go without.

In those countries that do not respect the right to property, economic and social outcomes are catastrophic and the poorest suffer most. It should not be assumed that Pope Francis agreed with (or disagreed with) that perspective. However, it was often Pope Francis's mode of discourse to ask probing questions without necessarily providing answers. There is no doubt that his concern was for the poor. He was also, perhaps, concerned about unjust enrichment without questioning private property as such. That seems to become clear when two other quotations from *Fratelli tutti* are considered. Firstly, quoting Pope Paul VI, Pope Francis writes that private property should not hinder the universal destination of

goods but actively facilitate it. Secondly, he writes in relation to people working the land: 'All this brings out the positive meaning of the right to property: I care for and cultivate something that I possess, in such a way that it can contribute to the good of all' (Francis 2020: 143). As we shall see later, Pope Francis was a ferocious opponent of corruption and would have experienced it in South America. If one comes from a culture that links corruption to unjust enrichment, it might lead one to question the right to property, or the right of people to keep their unjustly acquired riches.

What is not in doubt is that Pope Francis challenged us to demonstrate how private property can better promote the universal destination of goods and reminded us that if we cannot demonstrate this, then we have some hard questions to answer.

Pope Francis's statements on private property were, technically, not inconsistent with the tradition of Catholic social teaching. However, the difference in emphasis is clear. In the case of Popes Leo, Pius and John, there was confidence that the institution of private property would lead to general enrichment, and, in the case of Pope Francis, there was a definite suggestion that the principle might hinder all having just access to the goods of this world.

We can perhaps see the same scepticism of the pillars of what Pope John Paul II described as a 'free economy' or 'business economy' when Pope Francis wrote about enterprise and the market. There are relatively few references to entrepreneurship in Pope Francis's writing. This one

seems to have a negative implication: ‘The right of some to free enterprise or market freedom cannot supersede the rights of peoples and the dignity of the poor’ (Francis 2020: 122). Though, perhaps, there is balance restored in the following paragraph when he referred to the use of our business talents (ibid.: 123):

In God’s plan, each individual is called to promote his or her own development, and this includes finding the best economic and technological means of multiplying goods and increasing wealth.

Pope Francis frequently related business and economic life to inequality. In American parlance he could have been called a ‘pie distributor’ rather than a ‘pie grower’. While he certainly recognised business as being a noble vocation, he rarely referred to either capitalism or wider ownership or better protection of property rights as being at the root of spreading prosperity. The implication often seemed to be the reverse: that people get rich at the expense of the poor or that poverty is caused by inequality. This is a reasonable summary from a recent Vatican document *Dignitas infinita* (Vatican 2024: emphasis added):

With Pope Francis, therefore, one must conclude that ‘wealth has increased, but together with inequality, *with the result* that ‘new forms of poverty are emerging’ ... As a result, poverty ‘can take a variety of forms, such as an obsession with reducing labor costs with no concern for

its grave consequences, since the unemployment that it directly generates leads to the expansion of poverty.<sup>6</sup>

This would appear to be a rejection of the capitalistic process of creative destruction (Schumpeter 1942) through which the loss of particular jobs or firms is necessary to ensure that the economy responds to changing demands and changing technologies. In addition, a clear link is made between inequality and the increase of wealth (or income) with a suggestion that both inequality and wealth have increased, and that the increase in wealth has led to an increase in poverty. This is despite the fact that, in recent decades, there has been a huge reduction in both poverty and inequality globally.

The standard economic explanation for material progress is that a business economy leads to mutual enrichment from voluntary cooperation. In order for the poor to benefit from an enterprise economy, the development of a business does not have to be deliberately oriented towards the relief of poverty. For example, the development of a chain of coffee shops might serve largely middle-class communities but, in doing so, it may offer employment to the less well off, including migrants.<sup>7</sup> In *Fratelli tutti*, it is written (Francis 2020: 123):

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6 The quotations within the quotation are from Francis (2020).

7 In this example, we have richer consumers and poorer employees benefiting together from cooperative economy activity. A different example might be the development of a low-cost airline where richer owners and employees might provide services that make poorer consumers better off (putting aside the environmental costs). Again, this is not 'trickle down' but mutual enrichment.

Business abilities, which are a gift from God, should always be clearly directed to the development of others and to eliminating poverty, especially through the creation of diversified work opportunities.

But the elimination of poverty may arise from a thriving business economy, even when the business is not consciously directed at eliminating poverty. It is important to note that this process is not ‘trickle down’, a phrase used in both *Evangelii gaudium* and *Fratelli tutti*. In the example given here, as with much business activity, the better-off and poorer are simultaneous beneficiaries of business activity.

On the one hand, it could be observed that Pope Francis did not see economic life in this dynamic way, but more in a static sense, focusing on the need for economic activity to be consciously and deliberately directed to address specific needs. And, perhaps, Pope Francis saw a business economy as a zero-sum rather than a positive-sum game. However, Pope Francis’s view and that of the majority of economists, broadly supportive of markets, are not necessarily in contradiction, though there is a paradox to be resolved. As will be discussed below, Pope Francis was hostile to corruption. His observations on economic life included substantial experience of what might be termed ‘crony capitalism’ (see Richards 2024), which often involves corruption, where the rich benefit at the expense of the poor and where the poor are excluded from economic life by cartelistic behaviour, government regulation and the absence of the rule of law.

## Migration

Pope Francis had a very positive view of migration. On this issue, his views were closer to economic liberal<sup>8</sup> writers such as Ilya Somin than the recent anti-immigration rhetoric of UK Prime Minister Kier Starmer, never mind Reform Party leader Nigel Farage or US Vice-President J. D. Vance. His positive perspective on migration was repeatedly articulated, and the points he made were based on both economic and human rights arguments.

To begin with, however, Pope Francis regarded the welcome of migrants as a moral issue – as the Church always has. In *Fratelli tutti* he stated (Francis 2020: 40):

Migrations, more than ever before, will play a pivotal role in the future of our world. At present, however, migration is affected by the loss of that sense of responsibility for our brothers and sisters on which every civil society is based.

Pope Francis also tied the idea of the universal destination of goods to the right to migrate. Again, in *Fratelli tutti*, he wrote: '[E]ach country also belongs to the foreigner, inasmuch as a territory's goods must not be denied to a needy person coming from elsewhere' (Francis 2020: 124). This may have been an innovation in Catholic social teaching and, perhaps, an important one. Pope Francis made the point that, if people cannot prosper in

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<sup>8</sup> The term *liberal* is used in the European sense of the word.

their homeland, we have no right to keep them out of our homeland where they can share in our prosperity, and where we just happen to have landed out of sheer luck and God's providence.

Despite not celebrating enterprise and business to any great degree, he did have an acute understanding of the entrepreneurial spirit that openness promotes. After saying that fear of the outsider is natural, he continued: 'it is also true that an individual and a people are only fruitful and productive if they are able to develop a creative openness to others' (Francis 2020: 41).

Interestingly, in Ronald Reagan's last speech as US President, which is often titled *A Love Letter to Immigrants*, Reagan talked about how migrants to the US found employment and became entrepreneurs and thereby real Americans. He also noted that America's strength came because 'unique among nations we draw our people, our strength from every country, from every corner of the world. And by doing so, we continually renew and enrich our nation' (Reagan 1989). The parallel with Pope Francis is very clear.

## **Globalisation**

Migration is one aspect of globalisation, of course. Pope Francis's view on globalisation more generally was nuanced and balanced, though some of his initial comments suggested he was very critical of the whole idea.

Pope Francis stated in an interview not long after his election (Gagliarducci 2015):

[G]lobalization has helped many people rise out of poverty, but it has also damned many others to starve to death. It is true that global wealth is growing in absolute terms, but inequalities have also grown, and new poverty arisen.

This was a very strong statement, especially given that, during the modern era of globalisation, huge numbers of people have escaped poverty while global inequality has fallen dramatically, in fact more dramatically and meaningfully than at any other time in economic history.

However, Pope Francis was deeply concerned by those who may have been left behind. We can debate whether this is caused by globalisation or, perhaps, caused by poor internal policies within certain countries, but Pope Francis's concern was always for the poor. There were also wider cultural concerns about globalisation in Pope Francis's writing. He criticised what he describes as *neoliberalism* and Western business models and expressed concerns about what he called 'ideological colonisation'. This may be by gender ideologies or in opposition to pro-life beliefs or by materialistic ways of thinking which see the accumulation of riches as an end in itself. In *Fratelli tutti*, for example, he wrote that one model of globalisation 'consciously aims at a one-dimensional uniformity and seeks to eliminate all differences and traditions in a superficial quest for unity' (Francis 2020: 100).

Pope Francis's concerns about the relationship between culture and globalisation should be taken seriously, and he had a subtle reading of the issue. On the

one hand, he warned those who might be tempted to lose their local roots in the quest to be citizens of the world or ‘citizens of nowhere’ that they must take an interest both in their own communities and in the communities in which they do business. At the same time, he told people who have strong local roots that they should be careful not to close themselves off to the world. It is worth noting a quotation from *Fratelli tutti* which, as a piece of pastoral advice, is important. It also resonates with contemporary cultural and economic debates (Francis 2020: 142):

It should be kept in mind that an innate tension exists between globalisation and localisation. We need to pay attention to the global ... Yet we also need to look to the local, which keeps our feet on the ground. Together, the two prevent us from falling into one of two extremes. In the first, people get caught up in an abstract, globalised universe ... In the other, they turn into a museum of local folklore, a world apart, doomed to doing the same things over and over, incapable of being challenged by novelty or appreciating the beauty which God bestows beyond their borders. We need to have a global outlook to save ourselves from petty provincialism.

Such a statement makes it difficult to categorise Pope Francis using conventional secular thinking. This is simply advice on how to build a culture of solidarity, but it is also a warning against developing a public policy agenda that is hostile to economic engagement with the rest of

the world. Here, Pope Francis was making an appeal for genuine fraternity and arguing that globalisation might tempt us away from that. At the same time, he warned that the rejection of globalisation might make us insular and narrow the scope of our fraternity. He challenged us to try to be fraternal and commercial as well as local and global.

### Climate change and the environment

For many people, Pope Francis made his name through his writing on environmental issues. Pope Francis's teaching in this area was not different from that of other popes, though he developed and emphasised certain aspects. The approach of the popes on this issue has always been to argue that environmental crises are crises of our wanting to have more, rather than to be better persons who find our fulfilment in God. Derived from this is the idea that the environmental crisis is a crisis of over-consumption. This is contrary to the standard economist's view of the world but, in Christian thinking, consumption is not an end in itself. It is a means to following one's Christian calling authentically. For example, Pope Francis wrote in *Laudato si'* (Francis 2015: 161):

The pace of consumption, waste and environmental change has so stretched the planet's capacity that our contemporary lifestyle, unsustainable as it is, can only precipitate catastrophes, such as those which even now periodically occur in different areas of the world.

In the same encyclical, Pope Francis also introduced, the idea of distributive justice across generations or inter-generational solidarity.<sup>9</sup> He asserted forcefully that it is wrong that one generation should consume in such a way that prevents future generations from enjoying a reasonable lifestyle.

As is well known, he called for urgent action on climate change. To justify this, he made comments on the empirical evidence regarding climate change. For example, in *Laudato si'*: 'A very solid scientific consensus indicates that we are presently witnessing a disturbing warming of the climatic system' (Francis 2015: 23).

Some people took issue with that statement, but there is a solid scientific consensus, and a pope has to make prudent judgements based on the evidence presented to him. But, again, it is also important to recognise that he was not totally statist in terms of the approaches he believed should be taken to address environmental crises. He certainly believed in coordinated and enforceable international action by governments. At the same time, however, he stressed the importance of individual responsibility and an examination of our own lives (Francis 2015: 231):

Love, overflowing with small gestures of mutual care, is also civic and political, and it makes itself felt in every action that seeks to build a better world. Love for society and commitment to the common good are outstanding

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9 See also Booth et al. (2024) for a discussion of this concept related to government debt.

expressions of a charity which affects not only relationships between individuals but also macro-relationships, social, economic and political ones.

His belief that action should be taken by the state is complemented by a strong communitarian, bottom-up instinct with which supporters of markets would be quite comfortable. Indeed, the first step to addressing environmental problems is conversion, that is, an understanding that respect for God's creation is part of a Christian's calling together with a response to that call.

## **Fraternity**

Many of the complexities of the issues discussed thus far can be resolved by considering Pope Francis's concern for fraternity. The importance of personal responsibility, bottom-up action and civil society were frequently mentioned by Pope Francis. Indeed, perhaps the key to understanding Pope Francis's economics is in this concept of fraternity.

Pope Francis was critical of bureaucratic, impersonal government, and especially corruption. He did not appear to embrace large corporations, nor an economic system that does not restrain them. Pope Francis clearly valued, possibly more than anything else in social and economic life, genuine fraternal relationships. These can be evident in pastoral work, in economic life and in the provision of charitable support. Pope Francis wrote that he wanted his priests to be 'shepherds with the smell of

the sheep' (Francis 2013: 24), and he also wrote about how the virtue of solidarity starts and is authentically promoted in the family. He expressed the paradox, that all Christians face: everybody is our neighbour (as in the parable of the Good Samaritan) and yet genuine solidarity, given our limitations as human persons, requires fraternity and a real understanding of the needs of people we are trying to help.

Pope Francis was critical of individualistic ways of thinking and also of bureaucratic solutions. He wrote of how popular movements could make possible 'an integral human development that goes beyond the idea of social policies being a policy *for* the poor, but never *with* the poor and never *of* the poor, much less part of a project that reunites peoples' (Francis 2020: 169, emphasis added).

Indeed, the title of Pope Francis's second social encyclical was *Fratelli tutti*, which in English means 'Brothers All' and was subtitled *On Fraternity and Social Friendship*. The encyclical was built on the parable of the Good Samaritan about which he wrote (Francis 2020: 67):

The parable shows us how a community can be rebuilt by men and women who identify with the vulnerability of others, who reject the creation of a society of exclusion and act instead as neighbours, lifting up and rehabilitating the fallen for the sake of the common good.

And then, relating the parable to the modern world, he wrote (*ibid.*: 78):

We can start from below and, case by case, act at the most concrete and local levels, and then expand to the farthest reaches of our countries and our world, with the same care and concern that the Samaritan showed for each of the wounded man's injuries.

Pope Francis wrote about the family reaching out in his letter, following the synod on the family, *Amoris laetitia*: 'When a family is welcoming and reaches out to others, especially the poor and the neglected, it is a symbol, witness and participant in the Church's motherhood' (Francis 2016: 324).

Here we see the complementary nature of the Catholic social teaching principles of solidarity and subsidiarity reflected in Pope Francis's writing. The virtue of solidarity is too often turned into a political project, but it involves a deep-seated concern for others. The principle of subsidiarity demands that action takes place in smaller societies which are not necessarily connected to the state. Pope Francis was showing how our human nature requires that our acts of solidarity start at the most basic level in society. They not only involve the family but anybody with whom we have an encounter. But genuine solidarity requires a relationship and not just monetary assistance, whether from charity or from the state. These acts of solidarity can, if engrained in culture, radiate outwards and turn into a great social movement. But they can only take place if we have a political system which promotes the principle of subsidiarity and therefore allows the family to play its proper role.

Indeed, returning to the topic of migration, in *Fratelli tutti*, Pope Francis wrote (Francis 2020: 129):

Our response to the arrival of migrating persons can be summarized by four words: welcome, protect, promote and integrate. For it is not a case of implementing welfare programmes from the top down, but rather of undertaking a journey together, through these four actions, in order to build cities and countries that, while preserving their respective cultural and religious identity, are open to differences and know how to promote them in the spirit of human fraternity.

In other words, we should try to know the people whom we are trying to help intimately. The fact that Pope Francis stressed this point is important, but it is not novel in Catholic social teaching or action.

In *Fratelli tutti*, Pope Francis attacked abstract proclamations of equality (which might be associated with socialism) as well as forms of liberty rooted in secular individualism. He stated that equality '[is not] achieved by an abstract proclamation that *all men and women are equal*. Instead, it is the result of the conscious and careful cultivation of fraternity' (ibid.: 104). At the same time, he added 'individualism does not make us more free, more equal, more fraternal. The mere sum of individual interests is not capable of generating a better world for the whole human family' (ibid.: 105).

There are, of course, Christian proponents of both social democracy and of a free economy. Both approaches

would seem compatible with Pope Francis's major concerns as long as they do not detach themselves from the importance of fraternity and become dominated by bureaucratic ways on the one hand and materialistic ways of thinking on the other hand.

But perhaps we can take this analysis a little further. The French revolutionary mandates of liberty, fraternity and equality are, according to a certain interpretation, perhaps their original interpretation, incompatible with each other. If *equality* means *equality of outcomes*, it will, as Pope Leo wrote in *Rerum novarum*, lead to a 'levelling down of all to a like condition of misery' (Leo XIII 1891: 15) and the loss of liberty. If freedom means a free for all, unconstrained by religious and moral norms, we will not achieve fraternity. But a Catholic interpretation of the slogan can enable us to achieve all three. If equality is equality before the law and before God, and freedom is the freedom to choose what is good, there is no obstacle to the promotion of fraternity. Indeed, our fulfilment, as free human beings, requires us to practise fraternity, which is also necessary for the promotion of the common good and human dignity for all.

## Conclusion

The secular world tends to want to read the words of a pope and relate them to standard secular political or economic theories. *Pope calls for regulation of labour markets to protect employment* or *Pope attacks capitalism and business* make much better headlines than *Pope writes*

*that the promotion of fraternity can help bring liberty and equality to fulfilment.*

There is no doubt that Pope Francis desired what most liberal free-market economists desire: the widespread dispersal of wealth; the elimination of poverty; better environmental outcomes; and so on. Liberal economists might argue that these things are best achieved by capitalism, entrepreneurship, the better protection of property rights and an open economy, complemented by civil society and charitable institutions. This does not describe Pope Francis's view. He indicated that he preferred a bigger role for the state; that he was comfortable with high levels of regulation; and he seemed to applaud South American models of development which involve a strong *guiding hand* for the state. The economist Marianna Mazzucato, who strongly favours such models, was often mentioned by Pope Francis. *Fratelli tutti* contains headings such as: *Globalization and Progress without a Shared Roadmap*.

On the other hand, Pope Francis was not a nationalist, and he was not a welfarist. Indeed, the views of Pope Francis and those of liberal economists on the policies of President Trump are probably aligned.

It should be noted too that he was probably more hostile to corruption than any previous pope. Interestingly, he was critical of the corrupt relationships between business and government, and he was critical of lobbying and rent-seeking (Alves and Booth 2022). These criticisms could have come straight from public choice and institutional economics playbooks.

However, to focus on these issues would be to miss the point of Pope Francis's teaching on economics. One interpretation would be to suggest that Pope Francis absorbed some of the assumptions of Peronism, with which he was very familiar, but reconciled these with an approach to Catholic social teaching that put a grass roots concern for the poor, fraternity and relationships at the centre. However, it is probably best to put aside the political economy labels and focus on the contributions that are based on Christian anthropology.

Pope Francis believed in a world of genuine relationships, of fraternity, of solidarity all brought to fruition through the application of the principle of subsidiarity. But this is not a closed world where these virtues are practised between those in geographical proximity. The parable of the Good Samaritan tells us that everybody is our neighbour. We do not have the same responsibilities towards everybody; to whom we have responsibilities of different types will depend on our circumstances. But all our relationships in economic, social and civil life should be orientated towards creating a culture of fraternity.

A final point is important. Whatever Pope Francis said about economics, politics or business, his concern was for the poor. On the prudential issues, there may be disagreement. However, if Pope Francis expressed a desire for more employment regulation, it was because of concern about the poor and the vulnerable; if he believed that the right to property should be reconsidered, it was because of concern about the poor and vulnerable. His concern about corruption and rent-seeking was a

concern for the poor. His teaching on the environment was also orientated towards the poor and with the virtue of justice in mind. He was concerned for future generations, and he was concerned for those countries who may suffer most from climate change. In summary, it could be argued that Pope Francis's main objective, as far as his thinking on economics is concerned, was the creation of a fraternal society at the service of the poor.

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## **8 PRIVATE PROPERTY AND THE ECONOMIC TEACHINGS OF THE EARLY CHURCH FATHERS**

Billy Christmas

### **Introduction**

The economic teachings of the early Church Fathers unequivocally encourage and command the rich to give their wealth to poor. Their words are rich and edifying; and in the Eastern Orthodox Church, they carry authority. It is tempting, from our modern political context, to take them to imply that Divine justice requires the redistribution of wealth across society, and radical reform of the legal and economic systems we live under to ensure that there be no vast inequality between the economic standing of members of society – perhaps even the abolition of private property. This chapter outlines and contextualises the teachings found in the homilies of St Basil the Great and St John Chrysostom, and argues that they call for no particular political programme of economic reform or revolution. Rather, they take for granted a legal system of property rights, and make commands upon individuals based upon how they fare within that system. There is no case for the abolition of private property to be found in these teachings.

## Background

Before the first Ecumenical Council at Nicaea, the Church was persecuted by the Roman Empire. Her teachings were primarily concerned with the life of the community internally; with how its members conducted themselves with regard to one another. Members of the persecuted Church shared all their property communally and offered labour freely to the community as a whole. Once Christianity began to be tolerated by the empire, and then became the established religion of the empire, the Church was faced with a different set of questions: how to live a life in Christ while being a member of civil society, with a body of laws and a system of economic cooperation. So, in the period following the first Ecumenical Council, the Church became engaged in teaching on more worldly matters. Now that Christians had protection under the law, they had different responsibilities to when they were persecuted (Gordon 1989: 81; Stander 2014: 24).

Two of the most important Fathers' teachings on economic matters that lived during the period following the first Ecumenical Council were those of St Basil the Great, consecrated Bishop of Caesarea 370 AD, and St John Chrysostom, consecrated Archbishop of Constantinople 398 AD. In discussing the teachings of these Fathers it is tempting to see the urgency of their explicit call to give away one's wealth to the poor as a precursor to modern theories of socioeconomic or *distributive justice* that say that society's legal structure ought to make economic inequality impossible, typically through the abolition or

radical reform of private property rights as a legal form.<sup>1</sup> David Bentley Hart is one contemporary commentator to argue just this (Hart 2016a,b). Genealogically, modern socialism and liberal egalitarian ideas can certainly be understood to stem from traditional Christian teachings (Holland 2019, Part III). However, there is no logical deduction of a modern political programme for the redistribution of wealth from the economic teachings of St Basil the Great and St John Chrysostom. Rather, the institution of private property is a background presumption against which they give us action-guiding teaching.

In more recent years, efforts have been made to produce programmes for *social justice* which seek to lay down a set of teachings about the *politics* of the Church. In other words, a set of doctrines about how governments around the world ought to be constituted, what kinds of policies and laws they should have, and what kinds of social institutions they should foster. These respective programmes are *The Basis of the Social Concept of the Russian Orthodox Church* adopted by the Muscovite Patriarchate at the *Jubilee Bishop's Council of the Russian Orthodox Church* in Moscow in 2000 and *For the Life of the World: Toward a Social Ethos of the Orthodox Church*, approved by the Ecumenical Patriarchate in 2020. These programmes are not merely restatements of the Church's traditional teachings on socioeconomic questions, but rather they attempt

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1 From Marxist communism to liberal egalitarianism, a prominent modern political idea is that some being rich while others are poor is something to be politically overturned (see Dworkin 2000; Marx and Engels 1848; Rawls 1971)

to *apply* the Church's traditional teachings to modern questions of political theory and public policy. The bridge between spiritual teachings about salvation and eschatology and the policies of modern democratic states is by no means an uncontroversial one. It is highly affected by the debate over Church–state relations, the nature of the eschatological orientation of the Church, and the possibility of *systemic sin*, among many others.<sup>2</sup> This chapter sidesteps these issues and seeks to lay out the Patristic teachings on how we conduct ourselves in relation to economic issues in society.

St Basil and St John Chrysostom's words on these matters are therefore concerned with how followers of Christ should live in wider society. At the time of their ministry, the way in which the Christian community lived before the imperial conversion became the remit of monastic life.<sup>3</sup>

## The accumulation of wealth

The most important teachings on the accumulation of wealth and one's duty to those in need come from St Basil's homilies on Matthew 19:16–22 and Luke 12:16–21, the texts of which are known respectively as *To the Rich* (St Basil the Great 2009c) and *I Will Tear Down My Barns* (St

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2 For discussion, see, for example, the special issue of *Studies in Christian Ethics* 35(2) (2022).

3 It was always explicitly the case that not all Christians are called to live the monastic life. Marriage, after all, is an image of Christ's relationship with His Church. See, for example, Matthew 9:15, 25:1–13, Mark 9:15, Luke 5:34–35, John 3:29, 2 Corinthians 11:2, Ephesians 5:22–33, Revelation 19:7–9, 21:2–9.

Basil the Great 2009a) as well as his *In Time of Famine and Drought* (St Basil the Great 2009b) and St John Chrysostom's homilies on Luke 16:19–31, the texts of which are known as his *Seven Sermons on Lazarus and the Rich Man* (St John Chrysostom 2020a–g).

Simply put, if your neighbour is in need and you are in a position to help them by giving them what you possess, you must give it to them. St Basil says 'those who love their neighbour as themselves possess nothing more than their neighbour' (*To the Rich* §7, p. 70)<sup>4</sup> and that 'You are thus guilty of injustice towards as many as you might have aided, and did not' (*Tear Down My Barns* §7, p. 70). What it means to love another is to put their needs above ones' own, to serve them and to sacrifice oneself to them. There are two overlapping components to this idea: (1) in as much as our call to love God and to love one another are inseparable from one another (John 4:20–21; Matthew 22:36–40), part of how we give ourselves over to God is by giving ourselves over to others, surrendering our will to theirs. Parting with good things that we possess in order that another might have them is constitutive of being in loving relationship with others. To live a life of sacrifice is to mimic Christ, and therefore to become more like Him and to partake in his divine energies and be deified in Him. (2) The second component is that the good things of the world were given by God 'to assist with life' (*To the Rich* §7, p. 53). That is, they were given *for all* despite not being equally possessed by

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4 I have insisted on citing the texts of St Basil and St John Chrysostom by their shortened name rather than the author–date style.

all. Where someone lacks what another has in abundance, this is an opportunity for the one to give what he or she has for the other. This act of love, although it consists in a good being transferred from one to the other, and is in this regard *one-way*, the communion that arises between the two because of this act of love is *mutually* sanctifying. Here, then, we begin to see the picture the Fathers offer: those good things we have – gifts from God – are given to us for us to *do something with*. They are the means by which we can accept God's grace, by using them to do His ultimate will – that we love one another and flourish in His creation.

St John Chrysostom goes to great lengths to impress upon his congregation that God does not necessarily bestow wealth upon people as a reward for righteousness, but rather as a means for them to become righteous. Our salvation is by God's grace, but we must also cooperate with His will in order to participate in His salvific energies; we cannot be saved by them if we reject them. We are judged, in the end, by what we did with what we were given. More is expected from those to whom more is given, and more mercy will be shown to those to whom little is given. He tells us that while 'poverty is truly a dreadful thing' (*First Sermon*, p. 29), 'wealth does not help the lazy man nor poverty harm the diligent man' (*First Sermon*, p. 69), inasmuch as wealth itself does not save or condemn, but rather what one chooses to do with it (*First Sermon*, p. 60):

Therefore, when you see anyone living in wickedness but suffering no misfortune in this life, do not call him fortunate, but weep and mourn for him, because he will have

to endure all the misfortunates in the next life, just like this rich man. Again, when you see anyone cultivating virtue, but enduring a multitude of trials, call him fortunate, envy him, because all his sins are being dissolved in this life, and a great reward for his endurance is being prepared in the next life; just as it happened for this man Lazarus.

St Basil likewise teaches that when we see those who seem to be given more and more by God, despite doing nothing good with what He gives them, God is doing this to give them more and more opportunities to do right, and in failing to do so they are heaping damnation upon themselves (*Tear Down My Barns* §1, p. 60).

Accumulating wealth, especially when others are in need, can lead to damnation. Holding onto things we do not really need, or at least need less than others, is a form of improper attachment to the world, that means we are improperly prepared for world to come. We cannot enter heaven attached to our possessions, only in an attachment of love to others (*To the Rich* §1, p. 43):

If you had truly loved your neighbour, it would have occurred to you long ago to divest yourself of this wealth. But now your possessions are more a part of you than the members of your own body, and separation from them is as painful as the amputation of one of your limbs [...] Had you determined long ago to give to those in need, how would it be unbearable now to distribute whatever was left?

St Basil also speaks of the affliction of those concerned with the accumulation of wealth, of their hearts being ‘sorely afflicted’ and ‘eaten away with cares’ (*Tear Down My Barns* §1, p. 61) and the ‘incessant toil’ (*Tear Down My Barns* §6, p. 68) it involves. Material goods are not inherently evil, it is what we do with them that determines their spiritual effect on us – how we relate to the rest of creation. But when we take what God has made and choose not to use it for love, not to use it to relieve the suffering of others, we demonstrate that we value our life in this world more than the world to come (John 12:25). As St Basil exhorts: ‘You must leave your money behind in the end whether you will or no, but the honour that proceeds from good works will escort you to the Master’ (*Tear Down My Barns* §3, p. 63). And we must ‘exchange corruptible things for the Kingdom of Heaven’ (*To the Rich* §3, p. 47).<sup>5</sup>

The anxiety of not having enough, for the future, for one’s children, in case of uncertainty, the Fathers advise, is borne of failing to depend upon God (*To the Rich*, §6, p. 68). St Basil says that if God entrusts you with children, he will also provide what is necessary for their care (*To the Rich* §7, p. 54). We should not wait until we are sure that we will never be in want before we help others. Such certainty would be a façade, in any case, since we cannot

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5 St Seraphim of Sarov frequently invoked the notion that every encounter with another person was an opportunity to acquire the Holy Spirit, and that we must regard life as a bit like a marketplace; being alert at all times for opportunities to give ourselves to others, and thereby receive the Holy Spirit. See St Seraphim of Sarov (2014).

predict the future or control all eventualities that might affect our material wellbeing. As the commandment of the Old Covenant was to sacrifice one's *first* fruits to God (Leviticus 23:10), and not one's *surplus* fruits, we must be eager to offer whatever we have to others, and trust wholly in God's will and providence. Waiting until death to give away all one's wealth is also improper: 'It is thus apparent that no one can perform good works after the conclusion of this life' (*To the Rich* §8, p. 55). St Basil goes on, 'Dead offerings are not accepted at the altar; you must rather present a living sacrifice' (*To the Rich* §9, p. 57).

The problem of withholding one's goods from benefiting others is not merely a quantitative one. It is not that there is said to be something unnatural in a quantitative inequality between people's possessions, but rather that when a person has so much wealth they are likely to either *not* be using it, amounting to a waste of that which God has given to support human life, or *misusing it* by having superfluous luxuries. St Basil criticises those who bury their surplus wealth (*To the Rich* §3, p. 45), which was a common way of storing surplus wealth in the ancient world, saying that, in burying gold, 'you entomb with it your own heart' (*To the Rich* §3, p. 46; also see Matthew 6:21). Both note a kind of absurdity with certain kinds of luxuries which do nothing more than offer a way of spending money, giving their possessor no tangible enhancement to their wellbeing, but are rather just ostentatious ways of storing wealth that would be

better spent on food for the poor. St John Chrysostom says (*First Sermon*, p. 25):

For what could be worst that this frivolity, this sleeping on beds of ivory? The other sins, such as drunkenness, greed, and profligacy, provide some pleasure, however small; but sleeping on beds of ivory, what pleasure is there? What comfort? The beauty of the bed does not make our sleep sweeter or more pleasant, does it? For when you consider that, while you sleep on a bed of ivory, someone else does not even enjoy sufficient bread, will your conscience not condemn you, and rise up against you to denounce this inequity?<sup>6</sup>

This is in reference to what we nowadays would call ‘conspicuous consumption’. That is, buying goods to signal your wealth rather than in order to get some practical satisfaction from them. Adam Smith referred to this as the consumption of ‘baubles’ and ‘trinkets of frivolous utility’ (Smith 1759, Part IV, ch. 1).

St Basil the Great similarly warns (*To the Rich* §4, p. 47):

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6 Also see *To the Rich* (§4, p. 49). This is what we would now refer to as ‘conspicuous consumption’; spending money purely to signal that you have it, rather than exchanging it for goods and services that are useful to you. Adam Smith would call this pursuit of ‘baubles’ and ‘trinkets of frivolous utility’ (see Smith 1759, VI.I 4–6). This is the sort of thing that St John Chrysostom has in mind when he says that there ‘is nothing more grievous than luxury’ (*First Sermon*, p. 27). Not that enjoyment or comfort are inherently evil, but that luxuries *for their own sake* are an abuse of God’s purpose in providing you with them.

You gorgeously array your walls, but do not clothe your fellow human being; you adorn horses, but turn away from the shameful plight of your brother and sister; you allow grain to rot in your barns, but do not feed those who are starving.

(*To the Rich* §6, p. 68):

If you want storehouses, you have them in the stomachs of the poor. Lay up for yourself treasures in heaven.

It is not merely that in accumulating wealth they are putting their own needs before that of their neighbours, but that they are not even using this wealth to satisfy their needs at all: 'Truly, this is the worst kind of avarice: not even to share perishable goods with those in need' (*Tear Down My Barns* §6, p. 69).

St John Chrysostom indicates further that the harm that is done by withholding things from others that could alleviate their suffering, is not just about uneven quantities, but about our relationship with one another (*First Sermon*, p. 30):

[F]or Lazarus the lack of protectors made his two misfortunes more grievous. And this lack itself was made to seem more grievous by his position at the gate of the rich man. For if he had endured such sufferings and been neglected while lying in a desert and uninhabited place, he would not have felt so much distress.

(*First Sermon*, p. 47):

[T]he poor man's torment was made harsher by the fact that he lay at the gate of the rich man and saw others' prosperity.

This distress and torment are not the psychic discomfort of experiencing envy. Rather, it is that he is relationally severed from his neighbours in their disregard for his welfare. Lack of communion with others is a greater injury to the human soul than simply being without food and water.

A final thing to note is that both Fathers are critical of the accumulation of wealth for its own sake, beyond the attachment to the material world and disregard for others it instantiates. It also exhibits a sort of demonic passivity. There is something contrary to nature involved in using money only to make more money (*To the Rich* §5, pp. 50, 65; *Time of Famine* §4, p. 78; *Those Who Lend* §5, p. 99). This is a subtle idea, and it is important to clarify the precise meaning. Aristotle – whose work St John Chrysostom at least would have been a student of – argued that there were natural and unnatural ways of acquiring things in exchange. To enter an exchange in order to obtain something more useful to you, in exchange for something less useful to you, is natural and rational. It is a means to an end which contributes to your flourishing by fulfilling some valuable goal. To enter an exchange purely to obtain something which you can use to enter into more exchanges, is unnatural and irrational. It deploys a means (money) purely to

obtain more means (more money). Money, as a means of exchange, is by definition not valuable in and of itself, only as a means to some end which itself is inherently valuable, like buying a good that you want or need. Entering an exchange in order to come away with greater means to exchange is an activity with no *end* (Aristotle 1981, Bk 1, §1257a). End, in this sense, means both a purpose or *telos*, and a point of completion and therefore cessation. When you deploy a means to obtain some end and you get that end, you have succeeded and cease the activity. There is no end to simply seeking greater means, it is by definition never satisfied because it is not satisfiable. What Aristotle would see as a practical irrationality (and, by extension according to his ethical system, immoral), St Basil sees it as a lack of self-directedness and self-control. If you are not pursuing action to obtain some end you have set, then you are not possessed of yourself but rather you are in the possession of something or someone else – enslaved to sin and the passions. This sort of irrationally, incessant pursuit with no rational goal is an image of the demonic. The devil can never actually achieve his goal of defeating God, yet he continues to try to drag people down to Hades in vain pursuit of destroying what God loves. As St Basil says in relation to this, ‘Hades never says *enough*’ (*To the Rich* §5, p. 50).

### **Application to contemporary debates**

That God calls us to use our wealth in service of one another, often meaning giving it away, many take

to underwrite a political programme of centralised wealth redistribution. However, taking God's justice to straightforwardly apply to contemporary theories of socioeconomic or distributive justice is problematic. In contemporary political philosophy, to call something a requirement of justice does not mean that it is God's will, but typically that it is *legitimately enforceable by the state*. Justice is that area of morality that is political, the purview of the state, and can be compelled by force. Therefore, if we have a duty to give our wealth for the benefit of others, this becomes a duty to be enshrined under law. If you are legally compelled to transfer your property, then it isn't really *your property* at all. It is true that the Fathers do from time to time use the language of *theft* and *robbery* to describe those who unjustly accumulate wealth and keep it from the poor (*First Sermon*, pp. 36, 40, 53), as if the poor have a moral claim, akin to a property right, on the plenty of the rich. However, they do not preach that the laws of property and contracts should be amended or revolutionised so as to make inequality of wealth impossible. They do not say who ought to have what, but rather, what we must do with what we in fact have. As Aristotle had it, we cannot be held morally responsible for what we do with wealth if that wealth is not *ours* to do with as we choose (Aristotle 1981, Bk 2, §1263a). Private property is a prerequisite of charity and generosity; it is a relational good, not a distributive one. Indeed, Christ approves of Zacchaeus not only giving his wealth away to the poor, but also of his returning what he stole to those whom he stole it from (Luke 19:8–9).

Giving one's own wealth to others is good, using the coercive power of the state to make others give their wealth away is questionable at best. Indeed, that a person has a choice over what to do with some stock of wealth is a prerequisite to their being held responsible for what they chose to do with it (Matthew 20:15). So that the wealthy have a legal or customary right over their possessions is presupposed by their being held responsible for whether they give it away or not (*Tear Down My Barns* §7, p. 69):

But if you acknowledge that they were given to you by God, then tell me, for what purpose did you receive them? Is God unjust, when He distributes to us unequally the things that are necessary for life?

If the state were to impersonally do all the distributing for us, this would foreclose any place for imminent human communion to take place in relationships of assistance, giving, care and love. And it would not be an act of generosity or charity on the part of the state, since it is other people's wealth they are handing out.

Moreover, the Fathers tend to address themselves to the rich; exhorting them to part with what they have, rather than addressing themselves to the poor, exhorting them to take what they need. While there is a moral duty on the part of the fortunate, they do not indicate any correlative right on the part of the unfortunate. St Basil invites the poor to remain grateful for all that God has given them, materially destitute though they are, and to

give a care for those even worse off than themselves (*Tear Down My Barns* §6, p. 83), and to avoid '[t]oo much sorrow' as it can become a 'source of sin' (*Tear Down My Barns* §5, p. 81). In *The Didache*, an early catechetical document of the Church authored by one or more of the Apostles, we find the following: 'Woe to him who receives. If a needy man receives charity, he is blameless, but anyone not in need will be called to account for why he accepted it' (see Roberts et al. 1886, ch. 1). The Church does not invite us to make claims on our own behalf, but be highly sensitive and alert to the greater needs of others.

The Fathers address themselves to their congregations. They are silent on how political institutions and the civil law should be ordered, though St. Paul very clearly teaches that the civil authorities should be obeyed, including even the pagan Roman regime of his day, which was flagrantly unjust by modern standards (Romans 13:1–6). It is the development of modern rationalism in a world of powerful, centralised, bureaucratic states that saw the central task of moral philosophy to be the ordering and reordering of society from above, arranging our social relationships through its coercively backed laws (Byas and Christmas 2021). Whatever political system we live in, we will have possessory rights over certain physical objects – pieces of wealth under our de facto control – and we will be judged on how we use them.

It is also important to note that the Fathers' invocation of the concept of *the poor* as a class of persons in society may be quite different to the one often invoked in contemporary political discourse. The Fathers were referring to

a class of people who may have been at risk of starvation, who were so desperate they would consider selling their own children into slavery just so that they don't die from a lack of food (*Tear Down My Barns* §4, p. 64; *Time of Famine* §2, p. 76). This should also give us pause before drawing too strong a conclusion regarding the state's role in redistributing wealth from Patristic teachings. Contemporary theories of socioeconomic justice that call for state redistribution usually do so because of some pattern of wealth holdings they argue to be mandated by justice, rather than simply as an efficient way of ensuring essential goods and services are delivered to those in dire straits. There are many different theories of distributive justice, some merely require everyone have 'enough', while others say we all must have an equal share, on some understanding of what 'equal' means.<sup>7</sup>

A final consideration is the contrasting socioeconomic conditions of the ancient and modern worlds. The world of the Fathers was primarily agricultural. Land was the main means of production (capital), and the main commodity it produced was food. Ownership of capital was therefore more of a zero-sum game than ownership of property is now. For one person to own a particular piece of land was for everyone else to have to pay tribute or rent to him. The main determinant of how much wealth an acre of land can generate in a given geographical location is the weather. In our modern world, ownership of capital

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7 On this debate, see Anderson (1999), Frankfurt (2015), Parfit (1997), Sen (1979) and Shields (2016).

does not have this zero-sum character. The ceiling of how much wealth can be produced from a given stock of capital is not imposed by the weather but rather the success of the entrepreneurship undertaken. The working out of how to satisfy unsatisfied human needs most efficiently with a given stock of resources depends upon the extent of the entrepreneur's insight (Kirzner 1997, 2016). The entrepreneur is hugely responsible for how much value is or is not produced by the capital they own. This does not mean they morally 'deserve' to enjoy the fruits of their labour however they choose. It just means that it makes a difference to the rest of who owns capital and how they determine its disposition. Whereas a landowner in an ancient feudal economy had almost no impact on their harvest at all.

The relevance of this is that the Fathers teach that those who were fortunate had 'received wealth as a *stewardship*' (*To the Rich* §3, p. 46). They recognised that the way to use wealth in the service of others, while sometimes requiring directly giving it away, also required putting it to pro-social use. A huge part of their critique of the accumulation of wealth was that wealth accumulated in the ancient world did not always *do* anything. In today's world, what we often think of as accumulated wealth is not sitting in a safe being passive, but is often invested in productive enterprise. St Basil says that 'wealth left idle is of no use to anyone, but put to use and exchanged it becomes fruitful and beneficial for the public' (*Tear Down My Barns* §5, p. 66).

Even the most stringent critic of capitalism, Karl Marx, understood that the capitalist is neither merely indulgent nor a hoarding miser. Marx viewed the capitalist more as an obsessive compulsive, fixated on creating more and more value for the purpose of simply producing more and more value; that his social existence was predicated on his continuing to do so made it an existential imperative to be profitable (Marx 1867). This is of course the danger of modern commercial proliferation, and one that the Fathers sternly warn against. But it is possible to be a producer of more and more value not for one's own sake, but for the sake of society. If you command a large stock of capital, liquidating it into cash has an impact on how much further value it creates for society. Giving away wealth that is tied up in productive activities is not always or necessarily the best way of helping others: 'Thus wealth left idle is of no use to anyone, but put to use and exchanged it becomes fruitful and beneficial for the public' (*Tear Down My Barns* §5, p. 66). In an economic context where ownership is a zero-sum game, simply owning vast wealth is often indistinguishable from hoarding vast wealth; where almost all wealth is either perishable, or a superfluous luxury. In a modern, complex market economy, this is not necessarily so.

Being a 'minister of God's goodness' can come in many forms and is by no means incompatible with commanding vast amounts of wealth. The question is in how one commands them, since 'afterwards [...] a strict accounting will be demanded from you' (*Tear Down My Barns* §2, p. 61; also see *First Sermon*, p. 49).

## Conclusion

In terms of the contemporary discourse in political philosophy and public policy, the Church Fathers are silent on any particular political programme of socioeconomic justice. Instead, they speak directly to individuals about what they must do as members of the community in order to be saved and live in holiness. Christians do not need any particular legal code or set of socioeconomic institutions to be laid down in order for Christ to save us. While it is vividly clear in the teachings of the Fathers that we must help those who need help, this does not straightforwardly imply any particular institutional means of distributing or redistributing wealth.

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## 9 **CATALLAXY AND THE PROBLEM OF VALUE PLURALISM AND SOCIAL HETEROGENEITY**

Paul Dragos Aligica

### **Introduction**

The concept of *catallaxy* plays a major role in Hayek's work. By *catallaxy* Hayek designates a decentralised, spontaneous social order where individual exchanges, governed by a common set of rules, lead to a mutually beneficial allocation of resources without requiring agreement on ultimate purposes. Its most particular feature is that it is a system that facilitates interaction and exchange to achieve individual goals, not one specific collective goal (Hayek 2022). For easy-to-understand reasons (some of them theoretical, others historical), there is a tendency to read the concept of *catallaxy* in connection to the mainstream developments of modern economics (Hayek 2014, 2022; White 2012). The concept emerged in the context of the economic calculation debate (Lavoie 1981) and remained anchored in the ensuing comparative economic systems literature (Aligica and Boettke 2018).

This economics-oriented interpretation has in fact two facets. One uses as reference points the mainstream theories of market equilibrium, prices as signals for

coordination and allocation of resources, efficiency, and information and incentive systems. At the same time, the concept is central to an approach advanced as an alternative to mainstream general equilibrium and welfare economics. The works of Kirzner (2002), Lavoie (1981) and Boettke (1997, 2018) are exemplary in this respect for this second facet. The bottom line is that, whether seen in the light of the mainstream neoclassical economics perspective or of the mainline, heterodox Austrian market process theory, the concept is used mainly to illuminate and analyse economic phenomena.

However, *catallaxy* can also be considered as a solution to one of the most profound challenges of political philosophy and governance theory: the problem of pluralism and of the heterogeneity of social preferences and belief systems. This challenge takes as a starting point the reality of value pluralism and social heterogeneity, and its implications, which involves creating and maintaining a political and social order that can accommodate diverse and often conflicting values, preferences and belief systems within a society. It requires developing doctrines and institutional arrangements that aim to manage this diversity, ensuring that different groups can coexist peacefully and productively without conflict or by imposing a single overriding value or set of social goals on everybody. To presume the existence by definition of an overlapping consensus or overarching value is simple. But how are social stability and social order attainable when people do not share the same values and final ends in their social lives? By asking that question we move in the direction of realism and feasibility concerns

and leave behind ideal theory and the philosophies of the desirable (Gaus 2019).

This chapter is an attempt to explore this question and demonstrate why Hayek's concept of *catallaxy* could be seen as a solution to the problem and challenges of value pluralism. With this end in view, the chapter will start by presenting the problem of pluralism of values as a foundational problem of political philosophy and governance and then, on that basis, will proceed by demonstrating how Hayekian *catallaxy* operates as the solution that alleviates that problem. The argument will show that while a system based on *catallaxy* principles may be a second-best solution, it is by far superior, in most cases, to all other alternatives advanced so far in the literature. From the perspective of political philosophy and governance theory, Hayek's observations on the existence and features of *catallaxy* are a major contribution. The issue of value pluralism is foundational in political and administrative sciences, comparable in importance to the problem of collective action. It is both intriguing and paradoxical that this contribution has not been widely recognised in the relevant literature. Hayek's insights into the structure of order and patterns of social coordination articulated via the notion of *catallaxy* are, without exaggeration, among the most profound and far-reaching in the history of social and political sciences.

## The problem of value pluralism

The problem of value pluralism revolves around the fundamental recognition of the social reality of diversity in

values, beliefs and ways of life. Recognising the ultimate and basic fact of pluralism is crucial for understanding the nature of the challenge of creating a political order of coexistence. The greater the diversity, the greater the challenge of creating a system of order. In modern societies defined by global pluralism and complex social stratification, the magnitude of the challenge is immense.

The problem is not only the big numbers defining diversity. There is something deeper: the irreducible nature of diversity. This signifies that the various values, lifestyles, perspectives and principles present in society cannot be reduced to a single standard or could be unified under one ultimate motive or goal. Each value system holds its own unique significance and cannot be entirely replaced or subsumed by another. A critical aspect of value pluralism is thus the irreducibility and incommensurability of these diverse options. Incommensurability means that different values and ways of life cannot be reasonably compared on a single scale or measured against one another using a common metric. This incommensurability is an inherent characteristic of the world. It is not merely a reflection of our limited understanding but a fundamental feature of the world we live in.

In order to get a better sense of the magnitude of the challenge, it might be helpful to briefly chart the complexity of values. Kekes (1996) created a classification of the domain of values, and in doing so illustrated how complex and multifaceted the problem is in reality. He started by identifying the source of the plurality of values: on the one hand, humanly caused values, and,

on the other hand, naturally occurring values. Humanly caused values are primarily moral values. These are benefits and harms that chiefly affect us or others, but their moral significance often arises from their impact on others. For example, acts of kindness, justice and fairness are considered moral because they benefit others, while actions that cause harm, injustice or unfairness are morally significant because they negatively impact others. Then there are naturally occurring values, which are mainly non-moral values. These are benefits and harms that arise without direct human intervention, stemming from the natural world or inherent characteristics of existence. They are not the result of human actions but still significantly impact our well-being and quality of life. The distinction between humanly and naturally occurring values thus helps clarify the difference between moral and non-moral values. Moral values are concerned with humanly caused benefits and harms that primarily affect others. They are the foundation of ethical behaviour and social norms, guiding how we interact with and treat other people. Non-moral values are naturally occurring benefits and harms as well as humanly caused values that primarily affect us. They encompass a broad range of personal and environmental factors that contribute to our well-being and quality of life but do not necessarily have moral implications.

The second source of the plurality of values comes from distinguishing between primary and secondary values. Primary values are those that, under normal circumstances, are universally human. According to Kekes

(1996), 'some benefits and harms are under normal circumstances universally human.' Primary values encompass basic human needs and rights that are essential for survival and well-being, such as health, security and freedom. These values are universally acknowledged as important because they address fundamental aspects of human life. However, even among primary values, there exists a plurality, as the associated benefits and harms may vary depending on specific contexts and situations. Despite their universality, primary values can manifest differently in various cultural and societal contexts. For instance, the value of justice is universal, but the legal systems and procedures to achieve justice can vary widely across different cultures.

Secondary values, on the other hand, vary substantially with persons, societies, traditions and other contextual factors. These values are shaped by individual and collective conceptions of a good life and the specific cultural, social and historical contexts in which people live. Different societies, cultures and individuals have varying beliefs about what constitutes a fulfilling and meaningful life. As a result, what is rightly valued in one kind of life may be regarded as a matter of indifference or negativity in another.

Understanding the distinctions introduced above is crucial for political philosophy and governance systems. The complexity and multifaceted nature of value pluralism and the diversity and complexity induced by it highlights the immense challenges it presents. This plurality underscores the profound difficulty in establishing simple and

universally applicable approaches and presenting general formulas for addressing the diverse and often conflicting values within human societies.

Pluralism implies that no single value is universally supreme, and the importance of any given value can change depending on the context. That means that values are not absolute or hierarchically fixed but are context-dependent and can be overridden by other values in specific situations. That also means that, seen from a pluralist perspective, values are conditional. There is no overriding value that always takes precedence over others.<sup>1</sup>

A major implication of the conditionality of values is the inherent conflicts among different values. Conditionality means that the realisation of one set of values or one conception of a good life often excludes the realisation of others, presenting a classic example of opportunity cost. When we choose to prioritise certain values, we inevitably forgo the benefits that might have been derived from other contradictory values, making it impossible to satisfy all values simultaneously. Therefore, due to the plurality and

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1 A value is considered overriding if it meets two conditions: (a) precedence (it takes precedence over the value it is conflicting with) and (b) self-realisation (the only justification for acting in violation of the overriding value is that such action would generally serve its own realisation). Therefore, overriding values are opposed to conditional values, which may be justifiably deposed by other conflicting values. Pluralism implies that values should yield to one another based on their suitability or stronger claim in a particular situation. In brief, pluralism has thus two key principles: (a) no universal overriding value and (b) all values are conditional, every value is subject to being overridden by another value that is more important in a given context.

conditionality of values, conflict among competing values is unavoidable.<sup>2</sup>

All of the above points up the unavoidability of conflicts in conditions of value pluralism and the difficulty of generating a governance framework that is fully and enthusiastically embraced by all participants in a social system. By acknowledging these conflicts and these complexities, one needs to consider the second-best options, recognising that there is no one-size-fits-all solution to balancing the diverse values that guide human life. That is, in a nutshell, the challenge of value pluralism. For political and governance systems, this may be seen to be on a par with the problem of collective action.

## **Pluralism as a means–ends problem**

Once the concept of pluralism is outlined as a foundational philosophical problem pertaining to the realm of theoretical reason, one notices immediately that the same problem of pluralism can also be framed as a means–ends problem, closer to the realm of practical reason. The basic point is that the ultimate objectives that people strive for as final ends, such as personal happiness, social justice,

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2 More precisely, there are two features of values that produce conflict. The first is incompatibility, which arises from factors intrinsic to the competing values themselves. It reflects the reality that one cannot realise two competing ends at the same time. The second is incommensurability, which refers to the absence of common criteria for evaluating competing values. It signifies that there is no rational or coherent way to compare certain values against each other because they belong to fundamentally different categories.

economic prosperity, environmental sustainability or spiritual fulfilment, can vary widely. Each of these ends reflects different underlying values and priorities. Given the diversity of final ends, conflicts are inevitable. These conflicts can occur both around (a) the ends themselves (disagreements on what goals are worth pursuing) and (b) the means to achieve them (disagreements on the methods or actions to be taken). In brief, the means–ends problem in pluralism highlights the challenge of navigating and managing these tensions.

As discussed above, these incompatibilities arise because the realisation of one end often excludes or undermines the realisation of another. For example, the pursuit of economic growth might conflict with environmental sustainability, or individual freedom might clash with collective security. The absence of a common criterion for evaluating and comparing different ends further complicates the means–ends problem. Moreover, even when there is some agreement on the ends, there can be significant divergence in the means chosen to achieve them.

Different cultural, social and individual contexts lead to varied approaches and methods. The effectiveness and appropriateness of means are often conditional on specific contexts. What works in one context might not work in another, leading to further disagreements and conflicts.

The problem of pluralism as a means–ends problem underscores thus the practical, operational complexity and challenges of a pluralist, heterogeneous society.

Creating a functional governance structure is not as simple as implied by theories based on assumptions of an existing ‘overriding value’ or an ‘overlapping consensus’ around these types of values. Once the monist and mono-centric illusions are set aside, the real magnitude of the problem of value pluralism becomes clear.

While the contemporary literature dealing with the issue has usually been good at diagnosing the problems of pluralism and value heterogeneity, it has been far from precise when it comes to solutions (Gray 2001; Horton 2010; Galstone 2002; Kukathas 2003; McCabe 2010; Williams 2005). *Modus vivendi*, tolerance or ‘archipelagos’ – such as loose confederative systems – have been advocated to reduce the conflict to manageable dimensions. But not much has been said regarding conflict prevention and management, or the coordination and matching aspects in such circumstances.

This is where Hayek enters the stage. In fact, Hayek is the pioneer in not just diagnosing but also in articulating a solution space for the problem. It may sound surprising, but Hayek was writing long before the modern political philosophy of pluralism identified the technical problems of value diversity and social heterogeneity. Even more impressive, he has provided a solution based on his own account of the problem, as seen through the lenses of economic theory. Therefore, it is worth taking a closer look at the way Hayek approached the problem of value pluralism and means–ends coordination mechanisms, and how he articulated the concept of *catallaxy* as the solution.

## Hayek's solution: catallaxy

In *Law, Legislation and Liberty*, Hayek (1978) offers a solution to the problem of pluralism by proposing the concept of *catallaxy*. Broadly defined, Hayek's *catallaxy* is an order that allows for the coordination between social actors in pursuit of diverse values and objectives through decentralised decision-making and voluntary exchanges. An overview of the main features of this type of order charted by Hayek will reveal that it fits rather closely with the description of a technical solution to the core problem of value pluralism.

Before that, however, it should be noted that Hayek not only recognised in his work the primacy of values, the crucial role of values and the conflict of values in social order and social analysis, but also identified some of the problems values raised at the interface between epistemology and normative analysis. In that he again heralded and anticipated the contemporary developments in the relevant literature on pluralism and *modus vivendi*.

Probably one of the best and most concise ways of presenting his position is by considering his article *The Errors of Constructivism* (Hayek 2014), which makes the crucial point that our understanding of causal connections between facts offers no basis for drawing the right conclusions about the validity of values. However, argues Hayek, to derive from this observation the conclusion that science has nothing to do with values is a huge error. In fact, the very existence of order in society is the result of people accepting certain values. The reality that norms

exist and that people embrace values is the foundation of social order. There is a strong relationship between, on the one hand, the structure and functioning of social systems and, on the other hand, values, in the sense that one could identify compatibility or incompatibility between a certain type of ordering and specific sets of values. One may discover that some values are simply not compatible with a certain type of system, and vice versa. The practical implications are momentous.

Hayek goes on to criticise the scientists who, in the name of the value-free nature of science, criticise the prevailing values in a society or social system as being just irrational emotions or rationalisations of interest. He explains that this attitude is the result of a defective understanding of the connection between accepted values and the prevailing factual order. Values are part and parcel of both the social order and our analytical efforts. All we can do, Hayek further explains, is 'question each and every value about which doubts are raised by the standards of other values.' The issue of values is therefore unavoidable: 'At present, the postulate that we should avoid all value judgment seems to me often to have become a mere excuse of the timid who do not wish to offend anyone and thus conceal their preferences.' The scientific attitude actually requires us not to avoid and deflect the problem of values but to confront it since '[o]ne of the noblest tasks of social science [is] to show up clearly this conflict of values' (Hayek 2014: 356).

In other words, for Hayek, pluralism and conflict of values are a given; they are a feature of the social reality that the social scientist and the decision maker must work

with. Values are a constant of social ordering, but values are not uniform or universally accepted; rather, they are diverse and often in conflict with one another. This diversity and conflict are not anomalies but rather intrinsic characteristics of human societies. Recognising and confronting this conflict and pluralism of values as ends and means are essential tasks for both social scientists and decision-makers, as they seek to understand and shape the complex dynamics of human societies.

Returning to the proposition that *catallaxy*, as identified by Hayek, represents an effective solution to the core problem of value pluralism, Hayek's first step was to distinguish between a proper *economy* and a *catallaxy*. An *economy* is a set of activities with a given set of means allocated towards a unitary plan of ends, ranked by their comparative importance. In an economy, there is typically a central authority or guiding principle that determines the allocation of resources based on a prioritised list of goals. This hierarchical structure allows for a coordinated effort to maximise efficiency and achieve the most important ends within the constraints of available resources. In contrast, a *catallaxy* does not serve a single plan or order of ends. Instead, it resembles a complex network structure of many interrelated economies, each with its own goals and priorities: 'A catallaxy is thus the special kind of spontaneous order produced by the market through people acting within the rules of the law of property, tort and contract' (Hayek 1978: 109).

Thus, Friedrich Hayek introduces a profoundly important typology. He draws our attention to the fact that

these are two fundamentally different concepts that should represent distinct social phenomena. Typically, we use the same label to describe both phenomena, but this conflation overlooks their unique properties and functions. Disentangling these two concepts is a significant step in understanding the nature of social order and the processes that shape our societies. By clarifying the differences between an *economy* and a *catallaxy*, Hayek helps us to recognise the diverse mechanisms through which human activities and resources are coordinated. Moreover, this distinction allows us to appreciate the unique ways in which decentralised, spontaneous market orders (catallaxies) enable cooperation and coexistence in pluralistic societies, without requiring consensus on specific ends.

The next step in Hayek's argument is to further explain how *catallaxy* is the foundation of complex social systems defined by pluralism without a particular hierarchy of ends. Very importantly, he makes it clear that a free society must, by its foundational logic and definition, possess properties of a catallactic nature. By implication, a system that lacks an agreed ranking of ends is a system with the potential to generate conflict, but at the same time become a system of freedom. Obviously, such a system could collapse into anarchy. However, if a framework of legal rules is in place and those rules are followed by social actors, patterns of order start to emerge.

Hayek points out that in the evolutionary history of humankind, humans have stumbled upon the discovery that people can live peacefully without consensus on a

common hierarchy of ends. This discovery, mostly an evolutionary outcome, has huge consequences. The key is substituting concrete ends with abstract rules of conduct. Instead of organising the system around final ends, the system gets organised around general rules. That breakthrough allowed for a society where individuals pursue their diverse goals within a framework of abstract principles, maintaining order and cooperation without the need for a singular guiding purpose.

In this historical and evolutionary process, the decisive step was the adoption of barter, or exchange. More often than not, different people have different uses for the same thing, and two people can benefit from obtaining in exchange something the other has. All that was needed for the process of exchange to take place was that 'rules be recognized that determined what belonged to each, and how such property could be transferred by consent' (Hayek 1978: 109). There was no need for consensus among the ends. As long as collaboration presupposes common ends, people with different ends are, by necessity, potential rivals. Barter and exchange are paradigmatic social situations in which individuals are of use to each other without agreeing on their ultimate ends. In brief, a system built around the exchange nexus does not adhere to a single, overarching order of ends but instead supports a multitude of individual ends, all within a common structure of rules of interaction.

Hayek goes on to explain that the system is fundamentally 'means-connected' rather than 'ends-connected', meaning that it emphasises the methods and

processes through which individuals pursue their goals rather than dictating specific outcomes. That signifies that the tools, resources and methods employed by individuals are harmonised through their shared use within the economy. As he puts it, 'They are determined by the fact that the use of all means is affected by the striving for those many different purposes' (Hayek 1978: 112). A structure of interdependence is spontaneously created. This implies that, while people may have different objectives, their actions are interdependent because they utilise the same set of means within the economic system.

This resonates with the classical tradition of social theory, particularly with the Smith's notion of the 'invisible hand' (Smith 1759) and the famous observation by Ferguson (1782) that society is the result of 'human action, but not the execution of any human design.' Like Hayek, both Smith and Ferguson describe the emergence of complex social orders that arise not from deliberate coordination, but from the interplay of individual actions guided by distinct purposes. The idea is that the pursuit of diverse and often self-interested goals produces an unintended but coherent system of interdependence. Hayek's 'means-connected' system provides a description of this same principle. He is reframing the approach focusing it on the natural consequence of individuals adjusting their use of shared means in response to dispersed information and evolving circumstances.

This shared use of means creates what Hayek calls 'means-correlated interdependence'. One of the corollaries of these structures of interdependence is that in a

catallactic system, individuals must explicitly and consciously consider how their use of resources and methods impacts others. For instance, a farmer and a baker both rely on wheat; the farmer's cultivation methods and the baker's demand for flour create an interdependent relationship where both parties must agree on the availability and use of wheat. This interdependence ensures that resources are allocated efficiently and that diverse goals can be pursued without direct conflict over the means.

This brings us to the core of the problem, the challenge of value pluralism. Thus far, a series of arguments have been presented to suggest that the principle of consensus among means facilitates economic coordination by aligning individuals' actions through a dynamic understanding and agreement on the diverse use of resources and methods. This agreement is not about the ultimate ends; it is about how to achieve various ends using the available shared means. It ensures that while the purposes (ends) may differ, the strategies (means) do not conflict, enabling a peaceful and productive economic environment.

In other words, a solution to the very problem of pluralism has been considered. By focusing on the shared use of means, this structure of interactions alleviates the pressure put on the concentration on ends. By providing a legal and institutional framework that facilitates voluntary interactions and exchanges, creating and maintaining interdependence among participants, a catallactic system allows diverse individuals to coexist and collaborate without the need for uniformity in their ultimate objectives.

In addition to this structural explanation of how *catal-*  
*laxy* emerges as a solution to the problem of value plu-  
ralism and heterogeneity, Hayek further specifies some  
additional positive properties of catalactic systems. First,  
Hayek emphasises that the possibility of disagreement  
and the absence of compulsion to agree on certain ends  
are crucial for the advancement of the human mind and  
societal progress. In a catalactic system, the freedom to  
pursue different goals and the lack of enforced consen-  
sus encourage creativity, innovation and the exchange  
of ideas. Disagreements and diverse perspectives drive  
individuals to question assumptions, explore new possi-  
bilities and develop novel solutions to problems. Therefore,  
it should be no surprise that this environment of intellec-  
tual and practical experimentation creates the conditions  
for continuous improvement and progress.

Second, Hayek insists that the game of *catalaxy* is  
fundamentally a wealth-creating process. With that, he  
is going back to the economic roots of the discussion. In  
this system, the returns on the efforts of each player act  
as signals, providing other players with valuable infor-  
mation regarding the needs and demands of actors, un-  
known to them. Each visible gain achieved by one player  
indirectly satisfies some invisible need of another. This  
interconnected process of mutual benefit is facilitated  
through the price system, which communicates infor-  
mation about supply, demand and the relative scarcity  
of resources.

The price system, a product of free and unhampered  
competition, plays a crucial role in this wealth-creating

process. Prices convey essential information about the needs and preferences of other economic actors, as well as the most profitable means of production. Thus, prices have a major role in solving or alleviating the problem of value pluralism. They are an instrument for coordinating the activities of countless individuals, without necessarily aligning them under an overarching, centralising social end. They are both contributing to the allocation of resources and the stabilisation and conversion of potential social conflict into economic competition and economic cooperation.

To sum up, interpreting a *catallaxy* as an *economy* can lead to misconceptions about its function. In an *economy*, we might evaluate the benefits derived from it based on the degree of satisfaction of a given order of ends. However, *catallaxy* does not have a predetermined set of ends. Instead, it is characterised by a multiplicity of individual goals pursued by different actors within a common framework of rules. The *catallaxy* facilitates these diverse pursuits by providing a structure within which individuals can coordinate their actions and interact productively.

The implications for governance systems and public policy are evident. The more a system is infused with elements of *catallaxy*, the less pressure will be created when it comes to the diversity of various values, preferences and worldviews of the participants in the system. A large part of the potential conflict, which otherwise would arise naturally regarding the contradictory ends, would be diffused, and the conflict prevention and conflict

management mechanisms would be able to operate in a much more effective way on the remaining tensions. In the context of a *catallaxy*, the problem of public policy becomes one of securing an abstract order rather than achieving specific ends (Hayek 1978; Salter and Wagner 2019). Public policy should not aim to fulfil specific objectives for the entire society but instead create a framework that maximises the opportunities for all individuals to achieve their own unique goals within that society. This means ensuring that the rules and institutions governing society are fair, transparent and adaptable, providing a stable environment in which individuals can operate freely.

## Conclusion

Hayek's concept of *catallaxy* is not just an elaboration of the idea of the market process above and beyond the standard neoclassical mainstream approach based on general equilibrium theory and welfare theorems. It also offers a robust solution to the problem of value pluralism by promoting decentralised decision-making, focusing on shared means rather than specific ends, utilising the price system for information flow, and securing an abstract order, thus accommodating the diversity of values and goals in modern societies.

That said, it is important to note that a governance or institutional system defined by a strong presence of *catallaxy* within its structures will not eliminate all tensions, pressures, and conflicts created intrinsically by the pluralism of values and social heterogeneity. Nonetheless,

such a system will create a foundation for a *modus vivendi* order in which freedom and prosperity are possible. It is a 'second best' or suboptimal solution for every individual who may see some of their own top preferences or priorities denied, but it is the best solution achievable at the societal, aggregated level.

Thus, seen in the light of political philosophy and governance theory, Hayek's astute observations regarding the existence and features of *catallaxy* are a major contribution. It is intriguing and paradoxical that, so far, that contribution has not been recognised by the relevant literature for its magnitude and value. Given the foundational nature of the problem of pluralism of values, which stands in political sciences and administrative sciences on a par with major problems such as collective action in terms of its importance, the structure of order and the patterns of social coordination discovered and described by Hayek are, without any exaggeration, one of the most profound and far-reaching insights made in the history of the social and political sciences.

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## 10 WHY WE'VE LOST FAITH IN CAPITALISM

Martin Vander Weyer

### Introduction

Capitalism works best when it enables, through ownership, citizens to have a stake in the nation. It fails when it adulterates the making of money without a social or moral purpose.<sup>1</sup>

This quote, from British entrepreneur and philanthropist Lord (Nigel) Vinson, sums up why many have lost faith in capitalism. But what does that really mean? *Faith*, in a broad sense, means ‘complete trust or confidence in someone or something’. It also means ‘strong belief in the doctrines of a religion, based on spiritual conviction’. Did we ever subscribe to capitalism as a quasi-religion? Or do we merely tolerate it and live with it, as a powerful force, a fount of material goods, but one which does not always seem to act for the best?

In this chapter, capitalism refers specifically to the activities of larger companies and their interaction with

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1 This quote is from Vander Weyer (2021), and this chapter is based on the opening chapters of this book.

public debt and equity markets, and nowadays with private equity investors. A distinction should be made between this larger-scale capitalism and the activities – which are easier wholeheartedly to admire – of start-up entrepreneurs, family businesses and the self-employed.

But who is ‘we’ in the title and the paragraphs above? ‘We’ refers largely to British public opinion over a time-span of the past 200 years. It might be called ‘Anglo-Saxon opinion’, but that would invite confusion because the – partly but obviously not wholly – ‘Anglo-Saxon’ American public clearly has far more faith in capitalism than the British do.

While capitalism has been the most powerful engine of prosperity and social progress ever invented by humankind, its faults have caused the wider British public to lose a faith or adherence that arguably was never very strong in the first place. So let us trot through capitalism’s history to find out what happened.

## **A brief history of capitalism**

Since the Middle Ages, Britain has been one of the world’s greatest entrepôts of mercantile activity and finance. In the eighteenth century we became a world leader in the new technologies of the Age of Enlightenment. In the nineteenth century we led the world’s industrialisation and the development of railways and steamships. Yet we – the majority voice of British public opinion, that is – never learned to regard business, or at least big business, as a truly worthy human activity.

Why not? There is no straight-line narrative to follow here. The earliest forms of capitalism that would now be regarded as brutal, rapacious and plain racist – especially those involving extracting the spoils of subjugated foreign lands – might once have been regarded as God’s work, and therefore ‘good’. By contrast, medieval moneylending conducted by Jews and labelled ‘usury’ was seen as the Devil’s work. The great banking dynasties of the Victorian City of London, Jewish or German in origin, were ushered into the British Establishment, while the entrepreneurs of the industrial revolution on the whole were not.

In a smaller example of this historical confusion or double standard, many of England’s most successful breweries and chocolate factories were owned by Quakers, whose brethren took a stern view of the demon drink and of over-indulgence in sweet confectionery. Thus, it was possible to create entirely respectable businesses yet be scorned and looked down upon by social superiors, but also to own what might be regarded as ‘sin’ businesses, yet to do so from a position of austere religious belief. An early conclusion might be that attitudes to capitalism have always been muddled by differing codes of morality and pecking orders.

It is possible, though not particularly useful, to characterise almost all early capitalism as ‘bad’ in the sense that it was built if not on slavery then certainly on an absence of any recognition of workers’ rights, or minimum standards of health and safety at work, or regulatory oversight, or awareness (beyond the first mid-nineteenth-century ‘smoke abatement’ campaigns) of industry’s capacity to

damage to the planet. But for now, let us take a more pragmatic view of good and bad business history, allowing the eighteenth century to lead us towards a major focus on the twentieth.

The stories of James Watt (1736–1819) and his business partner Matthew Boulton (1728–1809), and Boulton's ground-breaking Soho Manufactory in Birmingham, speak of truly progressive entrepreneurship. These were the pioneers of the steam-powered manufacturing processes that superseded craft-based industry and created the possibility of mass production. These were individuals who saw opportunities in new technologies which they developed to meet the consumer needs of the day.

But the dreadfulness of working conditions in the great mass of steam-driven mills and factories that flourished after Watt and Boulton was not their fault. The users of their inventions often were the sinners or are judged to have been so by succeeding generations. That distinction is one of the significant threads of this narrative.

In a similar vein, the rapid growth of the British railway network in the 1830s and 40s was a towering achievement of Victorian private enterprise, with economic consequences that were overwhelmingly positive. The engineering feats of Isambard Kingdom Brunel and George Stephenson were emulated throughout the developing world. But an absence of oversight or planning allowed railway developments to sprawl – competing inefficiently, despoiling landscapes and encouraging rogues. Dozens of railway companies were floated on the stock exchange, but almost none ever paid a dividend. Speculative 'railway

mania' in the 1840s led to a stock-market boom which inevitably burst. All of which gave shareholder capitalism, suddenly drawn to wider public attention, a raffish reputation as a milieu where insiders prospered and outsiders had their fingers burned.

Meanwhile, among the new centres of industry were Birmingham and Manchester, respectively offering contemporary vistas of better and worse forms of evolving capitalism.

Manchester, expanding rapidly with the growth of the cotton industry in the 1830s, offers Britain's most vivid panorama of the Industrial Revolution: in essence, appalling working conditions alongside ballooning wealth. But that spectacle led, over 50 years, not to the collapse of the capitalist system that one of Manchester's visitors, Karl Marx, predicted but to the gradual development of a more civilised urban society. The city's new mercantile class eventually recognised the concept of civic and charitable duty, turning their largesse to the promotion of universities, parks, galleries and concert halls.

Birmingham, a centre for metal working and jewellery making, offers an interesting contrast. At much the same time, it was developing a more enlightened capitalist model, in which the historian Asa Briggs identified four key strands (Briggs 1990) and of which the Cadbury model at Bourneville was the apotheosis.

First, Birmingham had a greater diversity of trades rather than a concentration on mill work. Second, much of Birmingham's industry was still carried on in smaller workshops, which meant that relations between 'masters'

and workers were closer and more cooperative than in the larger factories of Manchester. Third, a higher proportion of Birmingham's workers were well-skilled in their crafts – so able to earn a better living than mere factory fodder and less threatened by the advance of machinery. Fourth, Birmingham had social mobility: successful small masters and skilled artisans moved up in the world. Birmingham's education and housing were better too, and there was a sense in which the 'improvements' of the age were being more widely shared.

An essential aspect of any analysis of what was good and bad business in the nineteenth and twentieth centuries is the British class prejudice against 'trade'. Despite all its contributions to progress, business was for centuries, and perhaps still today, looked down upon by an educated elite – and part of that looking-down involved imputing bad motives on all manner of businessmen, whether the taint was deserved or not.

The high watermark of Victorian enthusiasm for industrial capitalism was *The Great Exhibition of the Works of Industry of All Nations*, held in the Crystal Palace in Hyde Park in 1851. It was devised by Prince Albert, with his associate Henry Cole, as a celebration of British enterprise and the beneficent impact of commerce and manufacturing in the advancement of civilisation. For Albert himself it was an expression of personal passion for the modern and mechanical. The Crystal Palace was intended as the first milepost in a progression that would stretch into the future, not as the end of an era as, in some ways, it turned out to be.

For the fact is that the Exhibition marked the beginning of a reaction against industrialisation. Many influential voices found it soulless or disturbing, among them aesthetes such as William Morris, John Ruskin and the architect Augustus Pugin. Charles Dickens conveyed the exploitative nature of Victorian industry in *Hard Times* (Dickens 1854). Anthony Trollope captured the rising contempt for trade in *Doctor Thorne* (Trollope 1858): ‘Buying and selling ... cannot be the noblest work of man’.

The third quarter of the nineteenth century, far from advancing Albert’s cause, saw British culture largely looking back towards an age of quasi-medieval craftsmanship and pastoral idyll. Society’s admiration for engineers was lost as fast as it had been acquired. The deaths in 1859 of both Brunel and Stephenson marked another watershed, followed in 1861 by the death of Prince Albert himself.

Victorians who were able to live off property rents and the interest on holdings of government stock looked down upon those who earned a living running factories, trading houses or banks – unless or until they became enormously rich. John Galsworthy’s *rentier* Forsyte family<sup>2</sup> offered a vivid example in fiction: the prejudices they exemplified carried throughout their social world and in the educational structures systems that produced them. The ancient public schools and universities remained dedicated to classical learning as a preparation for careers in the learned professions, the church or the civil and Imperial service.

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2 John Galsworthy wrote a trilogy of books, referred to as the *Forsyte Saga*. These were *The Man of Property* (1906), *Indian Summer of a Forsyte* (1918) and *In Chancery* (1920).

Likewise, as larger, shareholder-owned businesses began to emerge after the Companies Act of 1862 introduced limited liability, the organisational models for such companies were regiments or landed estates – hierarchical, based on the relationship of master and servant, or of officer and private soldier. They allowed little scope for meritocratic advance and even less for maverick entrepreneurialism. Little wonder that the US and Germany – relatively free of such social prejudices – were gaining the industrial and mercantile strength that would enable them to overtake Britain in the twentieth century.

In the second half of the nineteenth century, imperialism dominated British public life. Empire displaced enterprise as a focus of public admiration. Making money abroad by risking life and limb, riding roughshod over native peoples, sometimes actually by fighting, was seen as socially acceptable in a way that employing people in mines or mills at home was not.

In rare cases, men of humble origins built great business empires. Charles Cayzer, son of a schoolmaster, became a great shipowner as creator of the Clan Line from England to Bombay. William Keswick and others flourished in the China Trade. William Knox D'Arcy opened up Persian oil fields at the end of the century. John Boyd Dunlop's invention of the pneumatic tyre led to the birth of the great company that bore his surname.

But entrepreneurs did not have statues raised to them. The heroes of the day were soldiers such as Gordon of Khartoum, explorers such as Livingstone and Stanley. America had Carnegie and Rockefeller, Germany had Thyssen and

Krupp, but it's hard to think of a single industrialist who might have been inducted into any Victorian hall of fame. British merchants and manufacturers dominated world trade, but their achievements were treated with suspicion by the wider British public.

Then the lights went out across Europe; and the British economy in the decades after the first world war was shaped by the traumas of the war itself. Besides the enormous number of men killed, hundreds of thousands returned with undiagnosed mental problems – only to find disappointment and disadvantage in what was supposed to be 'A Land Fit For Heroes'. For those returning to industrial work, there was no effective health and safety legislation to protect them from accidents and abuse by employees – a factor which gave great stimulus to the growth of the trade unions. For the business-owning class, the loss of able sons who might have taken over their fathers' businesses impaired the quality of the new generation of management.

As a brief post-war economic surge rapidly evaporated, the picture was one of complacency in management and pay differentials between owners and workers that were at least as wide as today. The bitterness of the 1926 General Strike reinforced 'them and us' attitudes. Then came the Great Crash of 1929, driven by the delusional greed of investors and the cynical opportunism of company promoters and stock market operators. Its effects at large included widespread unemployment, and social resentment, while the economic response was a retreat to protectionism and a decline in the cross-border trade which we now see as the lifeblood of global economic growth.

Gradual recovery came in the 1930s, but less from the creativity of entrepreneurs or the re-opening of trade, more from Franklin Roosevelt's interventionist New Deal in the US and the stimulus of rearmament in the UK and Europe. It wasn't the fault of businessmen and bankers that the world went to war again in 1939. But it would be hard to argue that they had made the world a better place in the decade before hostilities recommenced.

The inter-war years saw the emergence of the first modern multinational companies: the likes of Royal Dutch Shell, which took over the Mexican Eagle petroleum company in 1919; the chemical giant ICI, created by a four-way merger in 1926; and Unilever, an Anglo-Dutch merger of 1930. Refinement of mass-production techniques – led by Henry Ford in the US – and developments of the internal combustion engine led to growth in the automotive and aviation industries, in major British companies such as Morris and de Havilland. Management in such companies was hierarchical and slow-moving, akin to the civil service, rarely encouraging individual initiative or a competitive edge. Employment was usually for life.

The way these new corporations were managed was much in tune with the way the nation was managed. World War II was 'a damn close-run thing' – to misquote Wellington – and to get through it, Churchill established a command economy at least as complete as that established by the German Reich. When at the end of the war the Labour Party achieved a landslide victory it was not so much as ideological socialists but as advocates of central planning based on the success of the wartime model.

Prime Minister Clement Attlee's cabinet believed that by retaining and extending the levers of power, they could plan their way to a fairer society – and they were supported by popular consensus.

This led to the nationalisation of vital industries such as coal and rail and pervasive government intervention through measures such as rent controls and 'prices and incomes' policies. All this was strongly influenced by the power of trade union leaders combined with the willingness of the wartime generation to accept post-war austerity, hierarchy and national discipline.

The intellectual underpinning of the era was the work of John Maynard Keynes, the world's most influential economist of the mid twentieth century. The liberal free-market alternatives – first propounded by the likes of F. A. Hayek at the London School of Economics and developed by Milton Friedman in Chicago in the 1960s – were still an eccentric fringe.

Meanwhile, the post-war years saw the end of the Empire as our marketplace. It also saw the beginnings of the European community in coal and steel, and long arguments over the merits of British membership. Social change – an end to post-war conformity and a beginning of sexual freedom – gathered momentum from the mid 1960s onwards. But the corporate milieu remained stuck in its conventional ways, dominated by middle-aged men of the wartime generation. Anyone who did business in a more original and exciting way was regarded with the deepest of suspicion.

Against that background, entrepreneurship in the 25 years after World War II was never quite respectable. Rather, it was seen as an activity for outsiders and mavericks, often Jewish, most often in real estate and retail. The likes of Jack Cotton, Charles Clore and Isaac Wolfson were big names in the 1950s, but well outside the Establishment.

In the 1960s came John Bloom, who sold the ordinary housewife her first washing machine at a modest price but was never recognised as what would nowadays be called, with positive connotations, a disruptor. The press was more inclined to depict him as a successor to the wartime spiv personified in the character of the black-marketeer Private Walker in the UK television comedy series *Dad's Army*.

The late 60s was perhaps most notoriously the era of Slater Walker, the investment group in which Jim Slater built an empire based on 'asset stripping', though behind that technique was a talent on the part of Slater himself for spotting potential value in companies that other investors had overlooked. Slater Walker's demise in the stock-market and property collapse of November 1973, along with other 'fringe banks' and real estate wheeler-dealers, was seen by the Establishment and the public as justice for a widespread outburst of spivery.

But the damage was limited, and the recovery well handled by the major commercial banks working together under the auspices of the Bank of England's *Lifeboat* operation. Their response was a victory for established capitalism in its most cautious and centrally directed form.

Meanwhile in 1971, a government report on Small Firms had been authored by the banker Sir George Bolton, who saw the disappearance of small firms as a significant factor in the economy within a matter of years, largely because economies of scale would force consolidation (Bolton 1971). The number of firms in the country was indeed declining and public discourse was concerned hardly at all with the benefits of entrepreneurship but far more with 'industrial democracy', which pointed towards trade union representation on boards of directors, following German and Scandinavian models, as a route to reducing the incidence of industrial disputes.

Meanwhile, the pre-1980s tax system encouraged family owners to sell their businesses to conglomerates, rather than go on running and investing in them. This led to rapid consolidation of industries such as brewing and textiles, creating another clutch of large hierarchical companies, but in most cases without bringing vital modernisation.

The emergence of Arnold Weinstock's GEC and Donald Stokes's British Leyland Motor Corporation provided role models of powerful conglomerates that were adopted as 'national champions'. Harold Wilson's Labour government developed an obsession with interventionism through the Industrial Reorganisation Corporation and the National Economic Development Council (much influenced by trade union leaders) with its panoply of sectoral councils. Edward Heath's Conservative government tried briefly to shift to a more free-market stance but was drawn back to interventionism in the case of 'lame duck' Rolls-Royce,

the aero engine manufacturer that was brought to bankruptcy in 1971.

The defeat of Heath in 1974 and the emergence of Margaret Thatcher as his successor prompted a deep rethink, at least within one segment of the Conservative Party. Thatcher and her intellectual guru Sir Keith Joseph established the Centre for Policy Studies as a hotbed of ideas opposed to central planning and prevailing corporatism. Joseph gathered a coterie of radical thinkers much taken with the doctrines of Friedman and Hayek.

By the time of the 1979 election, the Conservative Party had begun its transition to what became known as *Thatcherism*: the rejection of state intervention and the adoption of enterprise and personal financial independence of pillars of economic development. Alongside the roll-out of privatisation, the aspiration for a 'shareholding democracy' and the first sales of council houses to their tenants, came the beginnings of government policies to help small firms and start-ups.

In Margaret Thatcher's second term, buoyed by victory in the Falklands War (1982), she took the battle to the trade unions: not so much to destroy the movement as to topple left-wing leaders, such as Arthur Scargill of the National Union of Miners, whose undisguised aim was to topple her. She also wanted to restore democracy to union members who were generally less politically motivated than their leaders.

The mid 1980s also saw the emergence of a generation of Thatcherite industrialists such as Lords King and Hanson, the latter particularly admired by the prime minister

for offering a bold demonstration of British entrepreneurial skills in the US. Thatcher's Britain also became increasingly attractive to inward investors, such as the Japanese carmakers Honda and Nissan, as a gateway to Europe facilitated by specific tax incentives coupled with international admiration for Thatcher herself.

But there were also things that went wrong. The Big Bang financial revolution in the City led to the excesses, misdemeanours and crises of the following decades. The property sector moved into a boom phase which could only end in bust. 'Right to buy' sales of council houses led to a critical shortage of social housing in later decades, because sold-off housing stock was never replaced. *Loadsamoney*, a character created by the comedian Harry Enfield in 1988, became a convenient label for a culture associated with the peak Thatcher years that was undoubtedly vulgar and divisive, and gave the succeeding generation more reason to look back on those years in a negative light.

More recently, we have seen the emergence of the Internet, an epoch-making transformational force in business and personal communication, with many implications for business morality, particularly in the use of personal data. It coincided with, and helped to facilitate, the flourishing of globalisation, in which goods (many of them the electronic products that were key tools of the new digital age) could be sourced from distant nations with ultra-low manufacturing costs and transported swiftly into the affluent markets where consumers came to expect a cornucopia of low-cost choice.

Some said globalisation exploited the poor of the emerging world as slave labour; others, including the *Financial Times* columnist Martin Wolf, argued that its effect was positive because by taking millions of people, especially women, out of abject subsistence into waged (even if low-waged) factory work it was reducing poverty, conferring skills and improving life chances (Wolf 2004). What is certain is that it opened another broad field of debate about the morality of capitalism, in which public opinion in Britain and elsewhere was, as ever, confused: in favour of abundant, cheap goods, yet offended by the reported conditions in which those goods were produced.

In the Internet's second phase, social media came to the fore, raising more moral issues largely to do with impacts on the mental health of young people who were exposed to trolling, grooming and other unsavoury uses of a highly personalised and unpoliced form of communication.

Patterns of business risk changed. Markets became more volatile as information and false rumour circulated faster. The development of 'high-frequency trading' to take advantage of second-to-second movements in share prices created the possibility of the stock market 'flash crash'. The invention of bitcoin and other cryptocurrencies offered online gamblers an unregulated virtual casino, complete with its own cult mythology.

The speed at which successful players in all these arenas could make giant fortunes accelerated. On the positive side, more capital was available for promising start-ups. On the negative, the way in which risk was assessed became looser and less analytical. Digital companies

floated on crazy valuations long before they were capable of making a profit. A new breed of younger investors looked at crowdfunding equity proposals or *special purpose acquisition companies* – which harvested funds for unspecified future acquisitions – or cryptocurrencies as a kind of lottery-ticket play that had little to do with older notions of investment judgement.

The skills that made for success in the digital world also evolved, creating an elite who were capable of mastering the new technologies and a ‘left-behind’ stratum whom state education systems had failed to equip.

## Contemporary views of capitalism

In the twenty-first century, there is a totally new ecology of business. There is also, in the younger generation, a greater interest in and admiration for entrepreneurship, not least as a replacement for conventional career paths followed by previous generations. And many of those not fascinated by the possibilities of the digital universe are likely to be obsessed with ‘green’ business ideas that will help save the planet.

But has the age-old British prejudice against trade and profit gone away at last? At the micro level and in the younger urban population, there is a new respect for the start-up entrepreneur and the reliable local business: the artisan, the craftsman, the plumber. But at the macro level, nothing much has changed. Our large banks are forever tainted by risk-taking follies that brought them to the brink in 2008. Leading pension providers

disgraced themselves by mis-selling personal pensions. A dangerous new sector of *payday lending* flourished, offering easy-access loans at outrageous rates of interest. And self-declared *victimhood* – rather than responsible choice-making based on the notion of *caveat emptor* – is to be observed everywhere in the milieu of the financial consumer.

The ‘shareholder democracy’ that seemed to burgeon with the great privatisation shares sales of British Telecom and British Gas in the 1980s has faded away; while the interests of small retail investors are far less well served in the stock market than those of powerful institutional investors.

Digital giants are accused of cynical misuse of data and of avoiding the tax obligations that fall on any responsible corporate citizen. Supermarkets are seen as price gouging exploiters of small suppliers. The executives who run large companies are boardroom fat cats, paid vastly more than they deserve. Our billionaires are sources of fascination but rarely objects of admiration, even when they give chunks of their fortunes to charitable causes.

Britain’s anti-business prejudice, embedded and reinforced over the centuries, has not gone away. Faith in capitalism has never been strong in this country, and has if anything been replaced by faith in technology and the mysterious power of the Internet, which carries new sets of fears and perils.

But we should never lose sight of the beneficial impacts of ‘good capitalism’ as encapsulated by Nigel Vinson, in his speech at the opening of The Vinson Centre at the

University of Buckingham, in words which the author once suggested should be carved in stone above the entrance (Vander Weyer 2018):

Free market capitalism is not perfect. Casino capitalism is a damaging aberration. Markets need to be conducted within a strong social and moral ethos and a well-regulated framework. They then produce widespread wealth which makes a better world. By that I do not mean making money out of money: I mean the creation of wealth through worthwhile activities in a free society.

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# 11 IN PRAISE OF BUSINESS

Matthew Elliott

## Introduction

For those who look to philosophy for moral guidance, an array of thinkers have espoused free enterprise, not just as a means of wealth creation but also because it fosters relationships, fulfilment and the good life. Adam Smith's *Theory of Moral Sentiments* recognises that economic relationships can lead to deep and meaningful personal relationships (Smith 1761). This is why Smith predicted that when countries trade together, conflict becomes less likely. Smith led to Ricardo (1817), who leads on to the more contemporary work of Hayek, whose *Road to Serfdom* argued against the excessive encroachment of government into both markets and our everyday lives (Hayek 1944). Keynes, the father of progressive economic thinking, was glowing in his praise for Hayek's work saying, 'Morally and philosophically I find myself in agreement with virtually the whole of it' (Worstall 2011). While the view that business is a force for good has never been universal, it has certainly been widespread, and arguably the majority opinion in economics and philosophy.

In recent times, however, it has become ever clearer that the case for business needs to be made afresh for our current age, particularly in the UK. This was evident in both Conservative and Labour governments. For instance, Boris Johnson was quoted as saying ‘F\*\*k business’, when Foreign Secretary in 2018 (Crisp et al. 2018). Meanwhile, Labour’s first budget under Keir Starmer, in the autumn of 2024, imposed one of the biggest increases in business taxation of all time.

Upon entering the phrase ‘In Praise of Business’ into a search engine to identify literature on the positive contribution of businesses to society, the top result was an Amazon link for a book entitled *In Praise of Good Business: How Optimizing Risk Rewards Both Your Bottom Line and Your People* (Bardwick 1998). Other contenders for the top search option included ‘In praise of business magazines’ (Smith 1991) and *In Praise of Middle Managers* (Huy 2001). This anecdotal experience reveals that woefully little has been written or said *in praise of business* even though businesses are critical to the economic prosperity of all countries.

This chapter examines the positive case for business; reviews how business is currently viewed; discusses why business is not praised; explains how this negative sentiment has affected the UK’s prosperity; and, finally, suggests how a positive case for business can be developed.

## What has business done for us?

In the film *Monty Python’s Life of Brian*, there is a scene where Judean revolutionaries lament the Romans, asking

each other, 'What have the Romans ever done for us?' Slowly they realise the Roman Empire had introduced the great innovations of the day including the aqueduct, sewerage, roads, irrigation, medicine, education and public order (Jones 1979). The serious point of this humorous exchange is that we can sometimes overlook the obvious. Likewise, business has had an under-recognised but profoundly positive impact on modern society.

### *Entrepreneurs*

Since the earliest joint-stock companies were formed at the turn of the sixteenth century, business has driven the development of seaborne trade, the Industrial Revolution and mass production. More recently, we can thank business for the development of the telephone, the megaphone, the iPhone, the combustion engine, the search engine, a thousand lifesaving medical breakthroughs, the 'to-go' cappuccino, and the ability to watch 24-hour news and Premier League football anywhere around the world.

It is the innovators and disrupters leading a business, delivering great products and services, that drive economic and social progress. It was an entrepreneur, Richard Arkwright, who spurred the Industrial Revolution in Britain, when he patented the Spinning Frame in 1769, which mechanised cotton manufacturing (Hammond and Hammond 1919: 51). Seventy years later, another Lancashire-born businessman, Richard Hornsby, developed the first steam engines that went on to be used in tractors and trains (Hills 1989).

In the US, Thomas Edison, with financial support from John Pierpoint Morgan, set up the Edison Electric Light Company, which patented and commercialised lighting systems. One of Edison's closest friends, Henry Ford, designed and manufactured the first mass-produced affordable motor vehicle.

Air travel was pioneered by a group of visionary US entrepreneurs, including William Boeing. Half a century later, Freddie Laker took on the established airlines and turned air travel from a business luxury to an affordable option for tourists. Twenty years later, Martha Lane Fox then made international travel even more affordable with [LastMinute.com](https://www.lastminute.com).

In the tech space, Bill Gates and Paul Allen changed the world by building software products that still dominate our PCs today. And in the UK, Sir Demis Hassabis founded Deep Mind in 2010, which was bought by Google in 2014, and is leading the way on AI.

Where would we be had these individuals not had the bravery, tenacity and drive to create products and services that have had such a positive impact on humanity? Today's entrepreneurs are developing products to address current concerns. For example, JCB is developing a hydrogen engine for their excavators to massively reduce the carbon footprint on building sites. Starlink, a satellite communication company, provided the technology for the Ukrainian military to share data on expected attacks from Russia and to communicate with its fighter drones. The same company provided the network for South Carolina residents to stay connected after Hurricane Helene.

And Nvidia is providing the chips needed for our AI economy transformation. These three examples of technology, developed by entrepreneurs to revolutionise our lives, is what people find most attractive about business: great products and services, at reasonable prices.

### *Lessons from history*

The positive contribution of business is not to be found simply in these products. It is much more profound in that business has been the biggest driver of global prosperity and social progress across history. In fact, countries that liberalised their economies in the twentieth century, creating the conditions for entrepreneurs to set up businesses and trade freely, prospered immeasurably more than the countries that did not.

At the end of World War II, global economic power lay in the US and Western Europe. In per capita terms, East Asian countries were a fraction as wealthy as European countries. They were even poorer than South American, Caribbean and some African countries. By the year 2000, the Japanese economy was larger than that of France and Germany. Data from the World Bank show that, between 1960 and 2000, China's GDP per capita grew by 821 per cent, and South Korea's by a whopping 1,554 per cent.<sup>1</sup> According to the International Monetary Fund, by 2015 the average East Asian economy was one-third richer than

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1 <https://ourworldindata.org/grapher/gdp-per-capita-worldbank-constant-usd?tab=table&time=earliest..2000&country=USA~DEU~GBR~KOR~FRA~JPN~CHN~IND~AUS~CAN~SGP>

the economies of South America and six times richer than the economies of sub-Saharan Africa.<sup>2</sup>

What explains this massive divergence in fortunes? What explains the explosion of growth in East and South-East Asian economies, allowing them to catch up with their Western competitors? It was not linked to direct foreign assistance or foreign aid. Nor was it a result of government interventions, the creation of a welfare state or the proliferation of trade unions. It was down to a set of basic economic and political conditions that allowed economies to grow. These conditions were: stable government; control of the money supply; responsible public financial management; the elimination of monopolies; and (most importantly) a rules-based system that leaves economic decision-making to private individuals and enterprises, free to engage in trade with each other and the rest of the world.

In short, as the economic historian David Henderson puts it, ‘the primary direct impulse of economic progress comes from profit related activities and initiatives on the part of business enterprises’ (Henderson 2004: 50). The key to prosperity is therefore a conducive business environment.

## **How is business viewed today?**

Despite the clear and overwhelming empirical evidence that businesses are essential to our prosperity and progress, they are counterintuitively unpopular.

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2 <https://www.imf.org/external/datamapper/NGDPDPC@WEO/OEMDC/ADVEC/WEOWORLD/EAQ/SMQ/SSQ/SSA>

Market research on how business is perceived in the UK shows just how negatively Britain views business. For instance, polling in March 2025 revealed that just 28 per cent of the British public think that large businesses have a positive impact on the country,<sup>3</sup> compared to 52 per cent of Americans; 47 per cent of Brits believe that entrepreneurs deserve to be rich, compared to 53 per cent of Americans and perhaps surprisingly 66 per cent of people in France. Brits are also less likely to trust business leaders than the Australians, Germans, Swedes and Spanish.

Brits are also less friendly towards the business community than in previous decades. Forty years ago, in 1986, only 36 per cent of respondents felt corporate profits were too high. By 2000, well before the global financial crisis, 60 per cent of people thought profits were too high. In 1985, 39 per cent of people felt that the amount of tax that business paid was too high, compared to 7 per cent who thought it was too low. Fast forward 40 years, the numbers have basically inverted, with 10 per cent now saying that business taxes are too high, and 49 per cent believing they are too low. Perhaps most concerningly, in 1986 80 per cent of British voters wanted to live in a *free-market* system, whereas today polling by Forefront Market Research revealed that a massive 67 per cent of people are open to the idea of living in a *socialist* economic system (Niemietz 2021).

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3 <https://yougov.co.uk/topics/economy/trackers/do-large-businesses-have-a-positive-or-negative-impact-on-britain>

## Why is business viewed so poorly?

How has this change in public opinion come about? While more research is needed, a convincing case can be made that these negative perceptions have been shaped by how business is presented in our educational, cultural and political institutions.

### *Schools*

Anti-business influences begin with school-aged children. Television often portrays businesses and those who work in them in a very negative way. Take Dilys Price for example, the shop owner in *Fireman Sam*, portrayed as a disciplinarian and a harsh character. This one example illustrates how children are exposed to negative portrayals of business from a young age and this continues when they begin school.

Our schools are not teaching our children to be entrepreneurs or to embrace the jobs of the future. Most books introducing children to the world at work either suggest careers most at-risk due to developments in AI and automation or encourage children to pursue immensely niche careers. For example, Labarre (2020) discusses careers such as sloth nanny, professional sleeper and golf ball diver. With this type of career education, it is rare that children are encouraged to start a business. This is one of a few children's books focused on careers and when more general books reference careers, they are not focused on careers of the future.

## *Universities*

The blog of the London School of Economics (the author's alma mater) has published articles by academics on zero-hours contracts being a form of slavery (Cammaerts 2015) and on how the British state has been captured by business interests (Innes 2021). Bristol University Press recently published a series of pamphlets on *Alternatives to Capitalism in the 21st Century* (Monticelli and Geelan 2024).

One might argue that this is not a problem, after all, there are plenty of books in support of business as well as plenty studying Business Studies. However, at a formative time for students, they are often presented with arguments which are skewed against business. It is well known, for instance, that university lecturers lean to the left. Research for the Adam Smith Institute in 2017 showed that only 12 per cent of lecturers supported right-wing or conservative parties (Carl 2017). If Business Studies lecturers are more anti-business than the public, the popularity of Business Studies will not be reflected in improvements in the view of business from young people.

## *The media*

Cynicism towards business is palpably evident in the media, even in the business sections, and it appears to be more evident in the UK than elsewhere. Over the course of a week in March 2025, the BBC ran the following stories in their business section: 'Worst train companies to be named and shamed' (Dilley and Stazicker 2025) and

‘Co-op admits unlawfully blocking rival store openings’ (Meierhans 2025) while the *New York Times* celebrated how US restaurants were still having a booming winter despite high inflation (Krishna 2025).

The BBC also produces a podcast series called *Good Bad Billionaires* which ‘finds out how the richest people on the planet made their billions, and then judges them for it’ (BBC Sounds 2025) – rather than judging them on their products or the jobs they created. The series was not designed to encourage budding entrepreneurs to follow their dreams, but instead seemed to question whether it was right for these entrepreneurs to have as much money as they have.

While it is absolutely right that dishonest businessmen such as Sam Bankman-Fried – who co-founded crypto exchange FTX and was jailed for defrauding customers and investors – receive proper scrutiny, if people only hear about the bad apples, they will soon conclude that the entire crop is rotten.

### ***Popular culture***

Perhaps the British news media are just reflecting the wider scepticism and cynicism in popular culture. From the relatively innocuous *Dragons Den* to Alan Sugar’s *The Apprentice*, business leaders are conventionally portrayed as cut-throat, money obsessed and amoral. The format of the shows entrenches this image as they can reject the business ideas brutally, with the interviewers on *The Apprentice* known for their brutal takedowns. In so many of our favourite blockbuster movies and series, the villain is

often big business. From Lexcorp in *Superman* to Logan Roy in *Succession*, corporate figures are so often seen as the bad guy. There is also, of course, Mr Burns in *The Simpsons* – the ultimate corporate baddie.

In fact, a 2001 study on how business is presented on US television found that 40 per cent of the fictional murders in films and dramas are committed by businessmen (Lavoie and Chamlee-Wight 2001). With drug dealers and mafia bosses likely not counted among them, the proportion is wildly different from the reality. Cultural staples being anti-business shapes how people perceive them.

Sometimes, the negative characterisation of business in popular culture is justified. All this is not to defend the corporate super-polluter PG&E in *Erin Brockovich*, but simply to highlight that for all these tales, where are the films *in praise of business*? Of course, television and film production companies will select subjects that they believe will appeal to viewers, so perhaps a key moral of the story is that anti-business sentiment sells.

## *Parliament*

Two groups we *can* criticise, though, are our politicians in Parliament<sup>4</sup> and officials in Whitehall. They are not chasing a profit; they are guardians of the economy and our prosperity. We are all familiar with politicians wooing the business community. We saw a concerted effort to woo business by the Labour Party in 2024, particularly in the

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4 The author is a member of the House of Lords.

run-up to the general election. Rachel Reeves conducted a ‘Smoked salmon and scrambled eggs’ offensive, while New Labour, before the 1997 general election, specialised in the ‘Prawn cocktail circuit’ (Frank-Keyes 2023). The attempts to cosy up to business leaders also included going to Davos and other significant international conferences to try and demonstrate that business could trust Labour.

By all accounts, this charm offensive worked. In May 2024, 120 business leaders signed a joint letter backing Labour to be the party of business, arguing that Labour ‘wants to work with business to achieve the UK’s full economic potential.’ The letter was signed by, among others, celebrity chef Tom Kerridge and Andrew Higginson, Chair of JD Sports Fashion (Labour Party 2024a).

However, it appears that since taking office, Labour have been accused of abandoning the interests of business. After the 2024 Autumn Budget, the Federation of Small Businesses, warned that ‘larger small, and medium-sized, businesses will struggle with the rises on employer national insurance’ (McKenzie 2024). Toby Dicker of the Salon Employers Association said ‘I am angry and sad and shell-shocked. Our industry is totally done. We can’t afford it’ (Leeson 2024). Tom Kerridge, who had signed the May 2024 letter backing Labour, predicted that the rises in Employers’ National Insurance Contributions would lead to ‘a huge amount of closures’ (Dorrell 2024).

In the last years of the Conservative government, there were entrepreneur-related debates: on government support for female entrepreneurs in October 2020; on female entrepreneurs in July 2022; and on entrepreneurs from

minority ethnic backgrounds in December 2022. While these are important issues worthy of discussion, there was no big picture examination of the overall health of British business.

While the Conservatives, in government, did not spend much time encouraging business, they have been keener to promote the interests of business in opposition. Their calls against raising taxes on business, and numerous debates asking for government support for small businesses, stand in contrast to their record in government.

### *Whitehall*

Moving across the road from Parliament to Whitehall, the overall relationship between government and business can be described as chaotic and dysfunctional at best. For example, there have been seven incarnations of the Prime Minister's Business Council over the past eight years.

The Department for Business and Trade itself has also been through several incarnations in recent decades. Until 2023, it was two entities: the Department for International Trade and the Department for Business, Energy, and Industrial Strategy (BEIS). BEIS itself was created in 2016 from the Department for Business, Innovation and Skills (BIS) and the Department for Energy and Climate Change. BIS was formed in 2009 from the Department for Business, Enterprise and Regulatory Reform (BERR) and the Department for Innovation, Universities and Skills. BERR was established in 2007 out of what had been the Department for Trade and Industry since 1970, which before that had been

the Board of Trade. So, when it comes to dealing with government, business leaders could be forgiven for mixing up their DBTs, BEISs, BISs, BERRs, DTIs, and BOTs. It is highly unlikely that serious business in the UK has gone through as many organisational changes in the same period of time.

Between 2010 and 2024, there were ten Business Secretaries, twelve Ministers for Enterprise, Markets and Small Business, and the equivalent of a different Minister for Trade every year for the past thirteen years. As a result, many business leaders have understandably concluded that Whitehall doesn't take its relationship with business particularly seriously. As Rain Newton-Smith, Director General of the CBI, told the *Financial Times* in the aftermath of the current government's first budget, 'There's ... a strong feeling amongst the business leaders I speak with that policy is being done to business rather than designed with them' (O'Dwyer 2024).

This may be due to the lack of business experience of those in government. No current Labour cabinet minister has ever been involved in running a business. The same is true for some previous Conservative ministers, so it can be difficult to get ministers to understand the joys and challenges that business owners face.

The small size of the Number 10<sup>5</sup> business team surely does not help, a problem that has worsened in recent years. In 2010, there were government-endorsed business initiatives such as StartUp Britain, but the UK now lags international competitors. A Centre for Policy Studies report

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5 10 Downing Street, the office and home of UK prime ministers.

*Why Choose Britain?* noted that the French government is far better at rolling out the red carpet for business leaders from around the world (Clougherty et al. 2022).

While the current government's global investment summit in 2024 may have been a pro-business initiative, it took place only two weeks before the Budget, which was too late to have any meaningful impact on what turned out to be a very anti-business Budget. Indeed, had they held the event after the Budget, it might well have had significantly fewer business representatives, given that the Budget was described 'as a bitter pill to swallow for UK businesses' – especially for SMEs (Cowling and Lupson-Darnell 2024) which keep the economy going.

Also, the allocation of civil servants is telling when it comes to taking business seriously. To take one example, while the Foreign Office has roughly 120 personnel in the British High Commission in Pretoria, South Africa, it is unclear whether the UK's tech envoy to the US – a position created under the last government – still exists. With Google's market cap alone being about five times the size of South Africa's economy, it is surely worth considering whether our country's diplomats are being appointed with a more nineteenth-century view of global power and influence, rather than our needs as a country and economy in the twenty-first century.

## **Why does this matter?**

The reader may well ask, so what? Why does an anti-business attitude in our educational, cultural and political

institutions matter? How does it affect families up and down the country?

In *The Goose That Laid the Golden Eggs*, the reader may recall the impatient and greedy countryman attempted to get all the golden eggs at once by killing the goose and cutting it open: ‘But when the deed was done, not a single golden egg did he find, and his precious Goose was dead.’ There is a danger that, as a society, we are at risk of killing the goose that lays the golden eggs. Our elected representatives, as close followers of public opinion, are not just clipping the wings of business but may be moving to damage it permanently.

### ***Taxation***<sup>6</sup>

The total tax burden in the UK is the highest since records began. As a percentage of GDP, it has been on an upward trajectory since 1993, when it stood at 28 per cent of GDP. The Office for Budget Responsibility forecasts it will reach 39 per cent by 2030 (Institute for Fiscal Studies 2024). Unsurprisingly, the latest *International Tax Competitiveness Index*, which ranks the 38 OECD countries on how pro-growth their tax systems are, showed the UK as 30th out of 38 in the rankings (Mengden 2024: 3). As a society, we are clearly getting greedy about the number of golden eggs we wish to extract from the private sector.

Both Conservative and Labour governments have employed an inconsistent logic. In recent budgets, governments

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6 The author was a co-founder of the UK’s TaxPayers Alliance.

have raised taxes on alcohol to reduce alcohol consumption, raised taxes on smoking to reduce smoking but also raised taxes on employment, apparently not expecting this to have an impact on the number of jobs.

### ***Regulation***

When it comes to regulation, one will often hear how competitive Britain is as a place to do business. This ignores the huge burdens successive governments have placed on business. A small business owner, for example, will probably have to appoint and pay for a lawyer, an accountant, a pensions administrator, an occupational health lead, a Health and Safety Officer, and a bereavement counselor (Knox 2020: 16–17). A small business with just one employee may have to have an HR policy; disciplinary procedures and grievance procedures; and be required to file with: the Information Commissioner; the local council for business rates; Companies House and His Majesty's Revenue and Customs. They will also have to set up a workplace pension scheme; take out employers' insurance; keep a record of invoices, statements, expenses and staff contracts; write a Health and Safety Policy, display health and safety notices; and, finally, keep accident and incident reports. While some of these regulations may be necessary, we should recognise the burden they place on smaller businesses.

According to the World Bank's *Doing Business Index*, the UK was the 5th easiest place in the world to do business in 2010 (International Finance Corporation and

World Bank 2010) but slipped to 8th place in 2019. In 2019, the UK was the 18th best place for starting a business and 27th best for paying taxes (World Bank 2020). Unfortunately, more recent figures are not available since the report was discontinued due to data irregularities in the 2018 and 2020 reports.

### *The exodus of wealth creators*

Perhaps the starkest indicator of the increasing burdens on business is the exodus of wealth creators. The latest UBS global wealth report suggested that the UK will lose 17 per cent of its millionaires by 2028 (Agyemang and Martin 2024). Forbes Billionaires list shows that between 2010 and 2020, Britain saw a slower rate in growth in the number of billionaires than most of our competitors. By 2020 there were twice as many billionaires in Germany than Britain, nearly nine times as many in China, and fourteen times as many in America. This is not about the number of millionaires or billionaires, what is important is how this has affected ordinary people.

This is not a recent phenomenon. Under Conservative governments, there was a fall of around 50,000 millionaires in the UK between 2013 and 2023, representing a nearly 8 per cent fall in millionaires while the population of England rose by 6.5 per cent between 2011 and 2021.

Both Conservative and Labour governments supported removing non-domicile tax relief, making it more likely that entrepreneurs and high net worth individuals would leave the UK. Given this group are far more

geographically mobile than most, raising the taxes that richer entrepreneurs pay is likely to cause them to move elsewhere.

### *Lower GDP per capita*

Between 2010 and 2020, British GDP per capita declined, meaning that the average British citizen ended the last decade poorer than they began it. In contrast, Canadians were 3 per cent wealthier, the Dutch 5 per cent, Australia 8 per cent, Danes 9 per cent and New Zealanders 12 per cent wealthier.<sup>7</sup> In 2021, UK GDP per capita was roughly (in dollar terms) \$45,000.<sup>8</sup> The poorest state in the US was Mississippi, with a GDP per capita of approximately \$46,000.<sup>9</sup> It is quite shocking to consider that, were Britain a State of America, it would be the poorest. This was not always the case, but it got dramatically worse under Conservative governments of 2010–24.

The current Labour government claim to be pro-growth in approving new airport runways and its intention to relax planning regulations. At the same time, the government has raised Employers' National Insurance Contributions and remains committed to measures stifling business in the employment rights bill, making it harder to increase GDP per capita.

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7 Our World in Data (2025) GDP per capita, 2010–2020. World Bank.

8 Our World in Data (2025) GDP per capita, 2021 World Bank.

9 Federal Reserve Economic Data (2021) Release tables: per capita personal income by state, Annual. Federal Reserve Bank of St. Louis.

Given that the UK's poor economic growth is due to a less attractive business environment, which, in turn, is a product of the political environment, shaped by the public's attitude to business, how can we turn the tide of public opinion and make a better case for business?

## **How to make the case for business**

This chapter suggests several ways to make the case for business.

### *The theological case*

There are theological and cultural reasons to appreciate the role of business and enterprise. Judaism dictates that all wealth is held by God, and our role on earth is to safeguard it through decent work and innovation. The late Chief Rabbi Jonathan Sacks said that 'business and the market economy generally play a moral role in society' by virtue of the jobs they provide (Sacks 2013). Catholicism sees business as one of the pillars that upholds society, alongside the Church, the state and the family. While Islam is perhaps better known for forbidding economic practices – from charging interest to selling pork – it too has a strong foundational belief in the role of business. The Prophet Mohammed was, after all, a merchant. And the Hadith<sup>10</sup> says, 'the honest and trustworthy merchant will be with the prophets' (Zaheer 2022).

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<sup>10</sup> Hadith are said to be sayings of the Prophet Mohammed for which there were witnesses.

The last Methodist prime minister, Margaret Thatcher, reminded her audience of the virtue of making money when she reflected that: ‘No one would remember the Good Samaritan if he’d only had good intentions – he had money as well’ (Margaret Thatcher Foundation 1980).

### *The practical case*

However persuasive (or not) the reader finds references to enterprise in the works of Smith or Hayek or the Torah, New Testament or Qur’an, these philosophical and moral arguments are unlikely to easily persuade the UK electorate. The Jobs Foundation – the charity of which the author is President – has spent a lot of time asking the public deeper questions about their views on business: what they like, what they dislike, and what value they see in businesses contributing to society?

For much of the last decade, while businesses promoted their role in society, this was not a priority for the public. A survey found only 4 per cent want companies to concentrate on their social purpose and just 1 per cent want them to campaign on social issues (Elsom 2023). In recent months, businesses (particularly in the US) have begun to shy away from promoting their social initiatives. However, they should not simply replace a bad story for what they do with no story.

Helpfully, the public already know what they want from business: 31 per cent value the role business plays in creating jobs; 30 per cent value the tax they pay; and 22 per cent value the training they provide for their staff

(Jobs Foundation 2023). Therefore, those wanting to promote business should champion the role that businesses play in creating jobs, providing training and funding public services. Promoting this practical case for business, using emotionally resonant ideas and memories, could reconnect business to people and demonstrate business as a force for good. To take each of these in turn.

### *Jobs*

Businesses provide so many of our jobs. Since 2010, they have directly employed 87 per cent of those in the economy. The taxes that the companies and their employees pay have created much of the other 13 per cent. That means that they have created more than 3.4 million additional jobs in the economy. This is not merely abstract: it means 3.4 million more people who have an income, purpose, structure, a place to go, and a sense of self-worth and 3.4 million people who are now better placed to put food on the table for their families, heat their homes, pay rent, water and electricity.

This is something which the government needs to understand. In the run up to the 2024 general election, the Labour Party's stated ambition was to get two million more people into work (Labour Party 2024b). In May 2025, ONS figures revealed there were 761,000 job vacancies in the UK.<sup>11</sup> In order to reach the two million jobs ambition,

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<sup>11</sup> <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/jobsandvacanciesintheuk/may2025>.

the government needs 1.2 million jobs to be created. Given that businesses create most jobs in the UK, especially newer and smaller businesses, to reach its ambition the government must create the conditions for businesses to create more jobs.

### *Training*

We also rely on businesses for training, for boosting meritocracy and social mobility. Consider the careers of former M&S boss Stuart Rose and Mary Barra, the American CEO of General Motors – they both started their careers at the company they went on to run. Pret A Manger CEO, Pano Christou started on the shop floor at McDonald's at 16 and became a store manager at Pret at 21. From this, he was trained and rose up the ranks to become CEO before the age of 45. According to the Sutton Trust, in 2015, the proportion of CEOs who were educated in the comprehensive system matched the percentage who were educated in the private system for the first time. Businesses therefore recognise that talent is not confined to private schools and Oxbridge.

Businesses help provide the vast majority of training too. The private sector supports almost two-thirds of all apprenticeships in the UK (Gov.uk 2023), a fact often ignored by policymakers. There are also 736,500 people in England on apprenticeships according to the latest statistics (Murray 2025). Businesses clearly play a crucial role in vocational training, which is just another example of the positive role of business.

## *Tax*

As well creating jobs and training people, businesses pay taxes that fund public services. Last year, businesses paid some £80 billion in corporation tax. Companies also pay VAT, National Insurance Contributions, business rates, and an array of other duties, levies and tariffs charged in different parts of their supply chains.<sup>12</sup> In fact, PWC calculate that, in 2022, corporation tax was just one-third of the total taxes borne by businesses, meaning their total tax burden was closer to £225 billion in 2021.<sup>13</sup>

But it doesn't end there. Businesses pay their employees' salaries, upon which income tax is paid. With roughly 3-in-4 jobs being in the private sector, approximately three-quarters of total income tax is generated by businesses, some £187 billion. And as for the £63 billion of income tax receipts coming from state sector employees, don't forget that these jobs would not exist were it not for the tax receipts from the private sector. In reality – aside from inheritance tax receipts on assets acquired by ancestors – every pound of tax paid to the Exchequer is due to the hard work and enterprise of businesses. A healthy public sector depends on a healthy private sector.

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12 His Majesty's Revenue and Customs (2024) Corporation tax statistics commentary 2024, 26 September.

13 IFB Research Foundation & PwC (2023) Total tax contribution of UK family businesses.

On the priorities for business that matter to people – creating jobs, providing training, and funding public services – the business community has an extremely good story to tell. But they just need to tell that story in a way that resonates with voters. This is what the Jobs Foundation aims to do.

## Conclusion

During his career, the author has been privileged to meet amazing business people: entrepreneurs who have built incredible companies that employ thousands of people in Britain and across the globe; industrialists who have climbed the corporate ladder and now shepherd some of Britain's blue-chip companies; third-generation descendants who first worked on the shop floor and then took the reins of their family business; and small-business owners who are as much the cornerstone of their local community as the parish priest or the policeman.

To end, it is worth considering a quote from Sir Winston Churchill, who highlighted the lack of appreciation for business as being the engine which motors our economy, or the goose that lays the golden eggs, when he said (Langworth 2008: 392):

Some ... regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Only a handful see it for what it really is – the strong and willing horse that pulls the whole cart along.

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## **12 THE CLASSICAL LIBERAL CASE FOR A LIMITED WELFARE STATE**

Chris O'Leary

Oh yes, we believe in the welfare state. But we don't stop there. We believe also in voluntary effort and family support. They march hand in hand to achieve the best possible life for the needy and the disadvantaged.

Margaret Thatcher

Speech to Wembley Youth Rally, 1983

### **Introduction**

One way to judge morality is how we treat the poorest in our society. In the last century, there was a massive growth in the UK welfare state, especially after World War II. This is often referred to as the Golden Age of the Welfare State.

We live in a second Golden Age of the Welfare State. Contrary to claims of retrenchment and austerity, over the past few decades, welfare states have continued to grow – in size, scope and spend. This growth is as predicted by classical liberals, and has significant unintended consequences, both for individuals receiving welfare benefits and for the relationship between citizen and state.

This chapter explores the current and predicted size and scope of the UK welfare state, focusing on the welfare state as a system of cash transfers intended to alleviate poverty and redistribute income, rather than a wider definition that would include education, health and social care. Repeated programmes of welfare reform, by Labour, Conservative and Coalition governments over the past fifty years have failed to stem the tide of an ever-growing welfare state because they have failed to address the fundamental flaws in the welfare state.

While this chapter views the welfare state from a classical liberal perspective, this critique does not adopt a minimalist argument nor argue for the welfare state to be abolished. Rather, the author suggests that a limited welfare state is consistent with classical liberal principles. A philosophical justification for a classical liberal limited welfare state is not set out in detail, since the focus is on what a limited welfare state might look like, and the kinds of welfare provision that would make it practical and acceptable.

## **The welfare state we're in**

Most academic literature on welfare states distinguishes between a Golden Age – a period from the end of World War II to the oil crises of the 1970s – and a period of retrenchment (Nullmeier and Kaufman 2012). It is ‘golden’ because it is associated with the triumph of a particular collectivist view of the role of the state as being an expansive, interventionist, transfer state focused on abolishing

poverty through large-scale income redistribution. It was followed by a period of retrenchment, of restructuring, of austerity and sometimes of resilience, in which the welfare state survived despite a supposed neo-liberal onslaught.

There are some serious problems with this periodisation view of the UK's welfare state. The creation of the modern welfare state was not an epoch-changing revolution of the post-war period, but rather a continuation – albeit it at a much faster pace and on a much greater scale – of reforms that started before World War I (Pierson 1991). Starting from the 1960s, serious questions were raised about the effects of welfare state provision, with the ‘rediscovery of poverty’ by Brian Abel-Smith and Peter Townsend despite its alleged abolition by Labour’s welfare state expansion (Lowe 1995). Nor has the period since 1973 been one of so-called ‘retrenchment’. The UK’s welfare state has continued to grow, in size and scope. Each government since 1979 has championed programmes of welfare reform and lower welfare spending, yet welfare spending has continued to rise both in real terms and as a percentage of GDP. The story of this Second Golden Age in the UK is mirrored in many other OECD countries, where welfare provision and economic inactivity continue to flourish.

In the UK today, around a third of the adult population is in receipt of some form of welfare benefit. Welfare spending accounts for around a quarter of all government spending, and over a tenth of Gross Domestic Product (GDP). Just over half of all welfare benefits go to the retired, with around equal amounts spent on the state pension (£137.5 billion in 2024/25) and working-age benefits

(£137.4 billion in 2024/25). It is estimated that around a fifth of the working-age population are economically inactive, an area of significant growth since the Covid lockdowns between 2020 and 2022. While lower than both the European Union and Organisation of Economic Cooperation and Development (OECD) average, the UK is one of only two G7 countries where the economic inactivity rate has grown since the pandemic.

The welfare state is a complex array of different benefit regimes, with different eligibility criteria and differing objectives. Take, for example, working-age disability benefits. There are two main benefits, both with their own eligibility criteria and assessment processes. Universal Credit, introduced from 2013 to help simplify the working-age benefit system, provides a means-tested payment for those whose disability or health conditions limit their ability to work. There is also the Personal Independence Payment (PIP). This comes in two parts: a daily living allowance for everyday tasks and a mobility allowance. It is not means tested and is not related to ability to work. There are some 600,000 people who claim the health part of Universal Credit but are not eligible to claim PIP, illustrating the differences in eligibility criteria and assessment.

Since the first state pension was introduced,<sup>1</sup> the proportion of the UK's economy dedicated to the welfare state has grown continually. In 1945, at the dawn of the 'Golden Age', state spending of working-age and retirement

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1 The UK state pension began in January 1909, following the Old Age Pensions Act 1908.

benefits accounted for around 2 per cent of GDP. By 1973, this had nearly quadrupled. But despite narratives of retrenchment and austerity, the welfare state continued to grow steadily through its post-1973 crises, albeit the annualised growth has been lower. Given the never-ending series of ‘once in a generation’ programmes of welfare reform introduced by each government since the 1970s, all intended to reduce welfare spending, we can only assume that this actual growth in spending is unintended.

This massive state intervention and social spending have moral, economic and social consequences. It is widely recognised, from most people on both the political Left and Right, that the continued growth of the welfare state is unsustainable. The challenge is how to shrink the size and cost of the welfare state without reducing welfare provision. Classical liberals need to be clear about the moral case for rebalancing the welfare state, as well as lay out a classical liberal vision of a limited welfare state that would provide this rebalancing.

### **The moral and political case for rebalancing the welfare state**

Perhaps the strongest argument for rebalancing and refocusing the welfare state is a practical rather than moral one. As we have seen, over the past seventy years the amount spent on welfare benefits has more than doubled as a percentage of GDP and is predicted to carry on growing. As the population ages and as fertility falls, a greater proportion of the population will be retired. The

old age dependency ratio – a measure of the proportion of the retirement age population relative to the working-age population – is predicted to increase from 277 per thousand to 345 per thousand by 2062 (ONS 2025). As the UK state pension provision is ‘pay as you go’, i.e. paid out of general current taxation, increasingly fewer people will be working to pay taxes to fund an ever-increasing state pension provision. The UK faces an impending pensions’ crisis which is simply not sustainable.

It is not just pensions. The cost and scope of working-age benefits are also on the rise. The share of GDP spent on working-age benefits has more than doubled since 1979, and there has been a significant acceleration of this growth since the Covid lockdowns. These increases are almost entirely explained by changes in health-related inactivity, now accounting for around one in ten of the working-age population (Latimer et al. 2024). This number is projected to continue growing. By 2028/29 some 5.8 million people are expected to be claiming health-related working-age benefits. This projected growth prompted the UK government to propose yet another ‘once in a generation’ programme of welfare reform in March 2025, with changes to both of the main health-related working-age benefit regimes. It follows on from other ‘once in a generation’ programmes of welfare reform instigated by every UK government since the 1970s.<sup>2</sup>

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2 Since the paper on which this chapter is based was written (in 2024), the UK government has abandoned its proposed welfare reforms, and in the 2025 Budget increased welfare spending by removing the limit that allowed parents to claim child benefit for up to two children.

In 2019, the UK spent slightly below the OECD average on working-age health-related benefits, and about the average on all working-age benefits (OBR 2023). Post-Covid, the UK is spending above the OECD average, and is predicted to be one of the highest spending OECD members in this area (Latimer et al. 2024). Indeed, in 2028/29 some 1.2 million more people are predicted to claim these benefits than was expected before Covid. This is an age-related increase. The rise in number of claimants has been greatest in younger age groups. It is not known what is driving this increase, but it is telling that the UK is an obvious outlier here, suggesting that the explanation is something specific to the UK.

Is it possible that the UK's Covid Job Retention Scheme, also known as furlough, is to blame? That a scheme that paid people at 80 per cent of their previous wage levels for not working may somehow have incentivised people to carry on not working? This has certainly been suggested (Hoffman 2023). While most developed countries adopted some form of employment protection during the lockdowns, the UK's was one of the more generous and had some unique features. The UK saw the largest reduction in hours worked, reflecting one of the unique features of the UK scheme, that furlough workers were initially not allowed to work at all while on the scheme. There is also some (albeit weak) evidence that post-lockdowns, labour market participation has grown slowest in those countries with highest fiscal support packages in place, and the UK's was one of the largest (see, for example, analysis by Disney (2024)). However, there are also those who call

into question this link between furlough and post-lock-down economic inactivity. The UK government's own evaluation of the furlough scheme would suggest no clear link, finding that those who were on the furlough programme did not contribute to the number of people who were employed before Covid and unemployed following Covid (HMT/HMRC 2023). Others suggest that underlying issues around ill health and obesity may be explanatory factors (O'Halloran and Thomas 2024).

This increase in cost and scope of welfare states may not have been intended, but it did not just happen. The 'welfare state escalator', an ever-upwards growth in the size and scope of the welfare state, the inevitable and unavoidable 'triumph of collectivism over individualism' (Lewis 1999), is as predicted by many classical liberals. Milton Friedman in his 'Fallacy of the Welfare State' lecture suggested that, whatever the good intentions and however targeted welfare benefits are at the outset, eventually the welfare state will be all encompassing, that '100 percent of the people are being taxed supposedly to give benefits to 100 percent' (Friedman 1977: 4). He went on to suggest that this does not benefit those experiencing poverty, but rather that the system is captured by middle-class interests, to the detriment of the very rich and the very poor. This is a theme he had previously developed in much greater detail in *Capitalism and Freedom* (1962), in which observed that 'if the objective is to alleviate poverty, we should have a program directed at helping the poor' (Friedman 1962: 191).

In *Political Economy of the Welfare State*, Buchanan (1988) states that 'the welfare state, in practice, will

always be larger and more inclusive than the welfare state in principle' (Buchanan 1988: 14), suggesting that whatever the intent of welfare programmes, there is always a tendency to overextension. Like Friedman, Buchanan also recognised the potential for middle-class capture in the welfare system, with an extensive discussion on how welfare programmes incentivise rent-seeking behaviours.

But this increase in the costs of the working-age benefits bill is not just one of affordability. There are moral arguments too. *Welfare dependency* is a politically loaded and contested concept. Generally linked with Conservatives and classical liberals, those who are critical of the term often claim that it is used to denigrate individuals in receipt of welfare benefits as being 'idle thieving bastards' (Bagguley and Mann 1992), members of an underclass of irresponsible, work-shy scroungers, and usually citing Charles Murray as a prime example of these types of arguments. While Murray's use of Harold and Phyllis of Pennsylvania in *Losing Ground* (Murray 1984) and Ross and Stacey of Merseyside (Lister 1996) is certainly less than complimentary, Murray's critics miss the point. For Murray, welfare recipients Ross and Stacey are responding perfectly rationally to the incentive structures they face, a choice between low-paid and unrewarding jobs on the one hand and equally low welfare benefits on the other. But in doing so, like all rational actors would, they privilege short-term decisions over longer ones and ignore negative externalities. They become 'institutionalised' as non-workers, losing work-based skills and work-related habits. The result is that their worklessness has long-term

consequences for their physical and mental health, with the knock-on additional costs to the state of the resulting extra health and social care. This welfare dependency has even wider impacts, because this transfer of power from the individual to the state also destroys civil society. Ashford (2003: 6) argues that it ‘tears up the bonds that connect us to each other because it collects and centralises power and resources, and undermines our civil loyalties.’

The dangers of welfare dependency have been a constant warning of classical liberalism going back to the works of John Stuart Mill. While rejecting the idea that poverty relief should be carried out by charities and not the state, Mill nevertheless warned against excessive state intervention and assistance for the poor (Nathanson 2012). There is therefore a moral case for rebalancing the welfare state, to change the incentive structures faced by welfare recipients so that work pays and thereby reduce the risk and consequences of this welfare dependency. This moral case is rooted in the classical liberal belief that self-reliance and individual responsibility – as well as being core facets of individualism – are important building blocks of civil society.

A ballooning welfare state does not just increase welfare dependency. It also increases state coercion – through ever higher taxes – incentivises rent seeking and fosters an ever-growing client state. A welfare state risks creating a moral hazard, by increasing the size of those groups that welfare policies are intended to support (Barry 1988). It creates a system that concentrates power because it is captured by more powerful groups. These groups

manipulate welfare reform to benefit themselves, often trapping in poverty those who need real support (Lehto and Meadowcroft 2021). It also has economic and social crowding-out effects.

Economists have long argued about the crowding-out effect, whether it exists and how it works. For classical liberals, higher public spending – particularly public debt – adversely affects economic growth: by increasing interest rates and thereby the cost of private investment; by requiring higher taxes which distort consumption and switch private choices to state choices; and by reducing capital available to private enterprise. Higher welfare state spending inevitably leads to lower economic growth and is less likely to lead to a good society. This crowding-out effect has social consequences too, since the welfare state ends up replacing or preventing voluntary mutual associations from delivering welfare services. Such associations are built on social trust and reciprocity, which are foundational to a liberal civil society.

Rebalancing the welfare state is not about cutting welfare provision. It is about changing how welfare is provided, about the mix between state and civil society and about limiting the role that the state plays in that provision. It means recognising the role for voluntary associations, family and personal responsibility in providing welfare, rebalancing the provision of welfare between the state, civil society and the individual. Nor does this rebalancing involve anything novel, untested or radically different to the mixed economy of welfare provision that we have seen over the past century or so. The state, the

voluntary and private sectors and families have always, albeit it in different ways and to varying extents, played complementary roles in the provision of welfare (Lewis 1999). However, there needs to be a rebalancing of these roles so that the state provides less, and the voluntary and private sectors and families provide more. Without this rebalancing, the state will continue to grow and further crowd out family, voluntary and non-state provision.

For classical liberals, there remains an elephant in the room: is a welfare state compatible with classical liberalism? The answer is a contested 'maybe'. Just as there are many different strands of liberalism, which have developed and changed over time, there are different strands of classical liberalism, i.e. not a single or unchanging doctrine (Karlson 2024). Classical liberals have a complex and contested relationship with the welfare state (Schnellenbach 2019). There is no single view of whether, and to what extent, a welfare state as a principle is consistent with classical liberal doctrine. Some argue that provision of a social safety net is a fundamental part of classical liberalism (Tomasi 2012). The classical liberal debate becomes even more hotly contested when specific forms or features of a welfare state are considered. State-required and provided education or state-provided universal healthcare, like a system of welfare benefits, are areas where there are fundamental disagreements among classical liberals. While classical liberals agree that there should be limits to private and public coercion and thus limited government, the exact nature of those limits and where they lie in relation to the welfare state are matters of much debate (Butler 2015).

Several authors have recently made the case for a limited welfare provision as part of a classical liberal theory of the state. Lehto (2015) draws on the works of Locke, Hayek, Smith and many others to justify such a limited welfare state, while recognising the distinction between different forms of liberalism. Even though Friedman and Buchanan, cited previously, warned about the potential for ever-expanding and all-encompassing welfare provision, of rent seeking and middle-class capture and state coercion on an unprecedented scale, they both believed that some form of state social protection is warranted. Friedman (1962) made clear the case against redistribution as an objective of the welfare state for both ethical and scientific reasons, demonstrating that redistribution policies had failed to achieve their aims. He subsequently dismantled the case for welfare programmes by examining both their moral underpinnings and the real-world effects. But he then went on to make clear that a legitimate aim of limited government is to alleviate poverty, for the state to provide ‘a floor under the standard of life of every person in the community’ (Friedman 1962: 191) and proposed a negative income tax as a mechanism by which this could be achieved.

Equally, Buchanan believed that ‘we cannot, and *perhaps should not*, dismantle this state in any total sense’ (Buchanan 1988: 20, emphasis added) and then goes on to challenge classical liberals to make the case for self-reliance, limited government, and for enabling individuals and communities to secure their own welfare. Like Friedman, Buchanan set out proposals for welfare intervention

that would ensure basic security and be consistent with classical liberal principles. In several of his works he proposed a *demogrant*, which was a unique form of Universal Basic Income (UBI) coupled with a single flat rate income tax (Lehto and Meadowcroft 2021).

These debates continue today around policy proposals to introduce a UBI, an unconditional, regular, standard cash payment that everyone receives, with classical liberal arguments both for and against this kind of state welfare intervention (Zwolinski 2018). Those against UBI do so on the basis that it requires a level of state intervention that goes beyond what is needed for limited government. They also argue that the best way of alleviating poverty is through economic growth (Pennington 2011), which necessitates free markets and a small state, achieved by reducing large-scale state spending. Those who argue for some form of UBI do so because of its universality, and because it helps alleviate poverty. Both, however, agree that such a scheme is about providing a basic minimum safety net and not about the state being an engine of large-scale income distribution.

Classical liberal visions of a limited welfare state are different in form and function to the welfare states we face today. Their objectives are not income redistribution, but rather addressing economic insecurity, not reducing inequality, but rather providing a safety net. Such systems focus not on transferring resources from one group to another, but on ensuring no one falls below a basic income level that society deems necessary. They assume that there is a legitimate reason for the state to prevent poverty, to

ensure a safety net and, significantly, in maintaining this safety net without doing more harm than good (Green 1993). This is grounded in a belief that a welfare state that seeks to transfer income from rich to poor only ends up transferring power from citizens to the state and from voluntary cooperation to state coercion. Most importantly, classical liberals recognise and champion the role of voluntary associations in the delivery of welfare services and more widely in liberal civil society.

### **Voluntary association and classical liberalism**

Critics often accuse classical liberals as believing in everyone for themselves, hyper-individualism and ultra-selfishness. They view classical liberalism as an amoral – or even immoral – philosophy, where family, community and civil society do not and should not matter. These critics often conflate society and state, believing that any common action in support of others necessitates state coercion and that an individual's independence is a rejection of community interdependence. They view classical liberals' scepticism of state power and state intervention as a rejection of community, society and common solidarity.

However, the limits on coercion that are central to classical liberalism are not a rejection of community, society or common purpose. Quite the opposite. Civil society is a foundational concept in classical liberal thought. It acts as a bulwark against an expansive state, thereby protecting against public coercion. It also provides a safe space in which individuals can flourish, where humans as social

animals choose to cooperate, work together, support each other and contribute to society. Indeed, such cooperation and reciprocity are fundamental to a good society, driving up both human and social capital. Classical liberals recognise that choice and coercion are two very different means by which cooperation can be achieved. Coercion – either by the state or by one person over another – is the antithesis of liberty. Cooperation by choice, on the other hand, is core to it. Voluntary associations, where people come together to further some common interest or goal, are the very core of civil society and of classical liberal thought, going back to Alexis de Tocqueville. Voluntary association is a very broad concept, encompassing any group organisation that is not state enforced. While voluntary associations are not unique to classical liberal thought or uniquely found in liberal societies, they – especially voluntary mutual aid associations – are central to a programme of a limited welfare state.

### **Voluntary mutual aid associations**

Voluntary mutual aid associations are groups and formal organisations whose members cooperate, support and assist each other, providing resources, services and enabling collective action. These associations come in many different forms and provide a range of social and welfare services. Such organisations closely align with many classical liberal values. For classical liberals, voluntary association is preferable to state intervention, because state provision usually involves coercion. The welfare state

results in a growing concentration (and inevitable abuse) of political power, with a state monopoly in political decision-making if not in welfare provision. For classical liberals, the concentration of political power is the antithesis of freedom and the enemy of liberty. Voluntary association inevitably means welfare pluralism, a fragmentation of power and thus provides important checks on rent seeking, monopolistic social waste, elite capture and political abuse. Indeed, a healthy network of voluntary mutual aid associations can provide a buffer between the state and citizens, a constant constraint on government.

As a core part of civil society, voluntary mutual aid associations enable individuals to flourish, to pursue their own goals and to better their own lives. They provide opportunities for individuals to develop good qualities and strength of character, to be their better selves. But classical liberals have no set idea on what those good qualities or better selves should be, nor do they believe that the state should promote specific qualities or specific ideas, of what it means to be a better self, over others. Voluntary mutual aid associations allow for complementary and for contradictory visions of these better lives, without any prescription or state diktat. Mutual aid also means mutual respect, enabling toleration of different good qualities and better selves, and toleration is again a core classical liberal value.

Such voluntary associations also foster individual responsibility, both for us and for others. Individual responsibility is fundamental to individual freedom. The support provided by voluntary mutual aid associations may come

in the form of cash transfers, payments made at challenging times in members' lives, or may be provided by volunteers, who spend time and effort helping fellow members. Volunteering has significant human and social capital benefits (O'Leary et al. 2018; O'Leary and Fox 2020). It can be transformational for individuals and their communities. Evidence suggests that not all communities have equal opportunities to volunteer. Less affluent areas tend to have fewer opportunities for volunteering. It is an irony of history that the expansion of the welfare state and the resulting demise of voluntary mutual aid associations has disadvantaged the poorer members of society.

Before the massive expansion of the UK welfare state in the 1940s, voluntary mutual associations were flourishing (Green 1993; Harris 2018; Kidd 2002; Lewis 1999). Friendly societies, alms houses, cooperatives, trades unions, mutual insurance organisations, savings societies and credit unions all played a part in providing sickness benefits, housing, medical care, support during times of economic insecurity, pensions, and funeral grants. There was a rich mosaic of provision, much of it locally focused, democratically organised (albeit largely male), and run by and for the working classes (Harris 2018). Lewis (1999) estimates that by the end of the nineteenth century, this network of voluntary mutual aid associations and the state, through the poor laws, were equally balanced financially. These mutual aid associations were part of a wider network of individuals and communities coming together to support each other, through good times and bad.

By the end of the Victorian era, most working-class households were covered by some form of voluntary mutual aid provision. Many families were members of more than one such organisation. Indeed, so successful were the friendly societies that the early welfare state was based on their approach to medical care and social insurance (Green 1993). But rather than extend these friendly society benefits, as was the original intention of the Liberal Government welfare reforms of 1906 to 1918, the introduction of National Insurance in 1911 resulted in the crowding out and eventual destruction of these voluntary mutual aid associations. The growth of the welfare state in the first half of the twentieth century was at the expense of voluntary mutual aid associations, which shrank in numbers and membership, in size and scope. For classical liberals, this resulted in a number of unintended and unhelpful consequences, not least because it marked a shift from voluntary cooperation to state coercion.

Reforms for a limited welfare state, so that its primary objective is not redistribution but rather ensuring a safety net and basic income to prevent hardship, would allow a crowding-in of such voluntary mutual aid associations. This would have a positive effect on voluntarism, reciprocity and mutual aid.

### **Forms of voluntary mutual aid associations**

Such a programme of reform for a limited welfare state would involve a regrowth of voluntary mutual aid associations. In the past, these types of organisations existed in

much greater numbers and in much larger sizes than they do now, but they were not novel or untested. They enabled welfare pluralism, not least because they came in different forms. It is beyond the remit of this chapter to provide a detailed analysis of this mosaic of associations, but it is worth outlining three particular types of organisations that would exist where there is a limited welfare state.

### *Friendly societies*

Friendly societies are self-governing organisations, mutual benefit associations whose members pledge to support each other through hard times. Friendly society members make regular contributions to a common fund, to which they are entitled to call on during tough times. They are thus not charitable organisations but rather mutual aid associations. Historically, they were formed by, ran by and gave economic security to workers through mutual insurance during times of unemployment and sickness. These organisations were first defined in statute in 1793, by which time there was already a rich tapestry of friendly societies across the UK. The number of such organisations, and their combined memberships, grew steadily over the eighteenth and nineteenth centuries, reaching around half of the working population by the Edwardian period. Friendly societies developed as very local in nature, although in the nineteenth century they increasingly organised in national and then international federations. They were working-class organisations, and in the nineteenth century were the largest social

movement in the UK (Ismav 2018). While predominantly their members were men, there were a few societies specifically for women. They were the largest and most organised providers of social welfare before World War I (Green 1993). They were also politically active, lobbying governments both to fend off repeated attempts at state control and co-option, but also to defend the principle of voluntarism and to make the case for individual responsibility and self-reliance (Cordery 2003).

Friendly societies still exist today, although in diminished strength and membership numbers. For example, Oddfellows, Foresters and Shepherds Friendly continue to operate to this day, with many thousands of members, including the author.

### *Cooperatives*

Cooperatives are self-governing associations where individuals come together, voluntarily, to meet common goals and needs (Jamaluddin et al. 2023). They are commonly owned and controlled. They focus on a range of different areas: food, health, housing and social care being key types of cooperatives operating today.

Like friendly societies, cooperatives also developed as democratic, working-class organisations. And like friendly societies, cooperatives were associated with the industrial northwest of England. The Rochdale Society of Equitable Pioneers was founded in 1844 by twenty-eight cotton weavers. This was not the first cooperative, even in Rochdale, which already had a vibrant cooperative

moment. The Pioneers are important in cooperative history since they established a set of principles which are foundational for the cooperative movement around the globe. They pooled their resources to enable access to basic foods at affordable prices, opening a shop at 31 Toad Lane in Rochdale, where there is now a museum and headquarters for the UK cooperative movement. The Pioneers were part of a network of cooperatives across the UK and internationally, celebrated in 2025 by the United Nations International Year of the Cooperatives.

### *Time banks*

Unlike friendly societies and cooperatives, time banks are a relatively modern invention. Dating from the 1970s, with major developments in the 1990s, time banks are community-based organisations that provide individuals with usable credits for the voluntary work they provide to local communities. These credits can then be exchanged for goods and services provided by other time bank members.

The world's first time bank was the Volunteer Labour Bank, established by Teruko Mizushima in Osaka, Japan. By the end of the 1970s, it had developed into a national network of around 3,000 people, mostly women, and had initiated the development of other time banking networks in both Japan and globally. Today, there is a growing network of time banks around the world, and a developing research literature. Most of this literature views time banks as a form of community-based social innovation, rather than as a form of voluntary mutual aid associations.

It is worth noting that the three types of voluntary mutual aid associations outlined are not generally associated with classical liberal thought, but usually with more left and collectivist approaches. It is difficult to find much written from a classical liberal perspective on these types of organisations, and most of the published research focuses on the eighteenth and nineteenth centuries. But in form and function, voluntary mutual aid associations are entirely consistent with classical liberal values and a classical liberal approach to civil society. They enable choice and toleration and provide a bulwark against coercion. They should form a core part of a classical liberal vision of a limited welfare state.

### **A classical liberal vision for a limited welfare state**

Having set out why, on both practical and moral grounds, the modern welfare state is unsustainable and having argued for repurposing the welfare state as a limited function of government, supported by a reinvigorated network of voluntary mutual aid associations, the challenge for classical liberals is to set out what such a limited welfare state would look like. In addition, given that we do not start from a state of nature, classical liberals would need to consider a number of key policy questions in the transition from the welfare state we're in to a limited welfare state.

There are not many classical liberals who today would argue against legal protections from child labour exploitation. The personal and social harm caused to children far outweighs any economic freedom case that could

be made against such legal restraints. Equally, while the current approach to providing compulsory education may be up for debate, that children are legally required to be educated is generally not. The state coercion involved in compulsory education is deemed acceptable, not least because it provides equality of opportunity to enjoy economic freedoms in adulthood. Yet both these forms of state intervention could once have been considered unacceptable intrusions of the state into the freedoms and liberties of individuals. Where the line is drawn, particularly in practical policy terms, as to what constitutes limited government changes and evolves.

These limits of government are not just philosophical questions. In deciding whether specific policy proposals are consistent with a limited welfare state, classical liberals need to consider the moral hazards and unintended consequences that might flow from such proposals, and the extent to which any reforms disperse power and limit rent seeking.

There are also practical, political considerations. The existing welfare state has continued to grow and has resisted substantive change because it has incentivised vested interests and created concentrated monopolistic power structures. These interests have frustrated, diluted and captured previous welfare reforms proposed by successive governments over the past fifty years, and most of those reforms have been minor tinkering with the system rather than wholesale reform. Hall (1993) refers to these types of policy change as first- and second-order change, but the level of reform proposed in this chapter is of the

third-order or paradigm-shifting change. Such a reform programme would need to be cognisant of the voices of opposition and resistance that would likely be met. Even if a minimal or non-existent welfare state was desirable – which the author would suggest is not for most classical liberals – such a proposal would likely be unacceptable.

Therefore, any policy proposal for a limited welfare state would need to be universal in design to prevent rent seeking. It would need to be simple in design and in administration to prevent capture. It should alleviate poverty, which many people believe is the purpose of a welfare state, and by doing so would counter collectivist and equalitarian arguments for a larger welfare state. It should enable and foster voluntary mutual aid associations, to ensure individuals can choose whether and how their wider welfare needs are met.

Over the past fifty years debate around guaranteed incomes has involved classical liberals and others. Different schemes such as UBIs, demogrants and negative income taxes have been proposed and debated, with support both for and against from within and outside the family of liberalism. That two of these three proposals were originally conceived by classical liberals – James Buchanan and Milton Friedman respectively – demonstrates the long-standing interest in the welfare state and poverty alleviation by classical liberals.

The negative income tax, proposed by Friedman (1962), would seem ideally suited to the task of practical policy proposals for a limited welfare state, and one that in design addresses the issues raised above. It would allow

the state to meet the basic needs of all citizens, without distorting work incentives or incentivising rent seeking, as the current welfare state does. It is simple and inexpensive to administer, as it combines the personal tax system with the public welfare system.

Negative income tax is simple in design. A minimum income level is set, above which income tax is paid and below which an income – the negative income tax – is provided. This income is proportional and is paid above any income earned, up to the point at which the minimum income level is reached. Decisions about what the minimum income level should be, and the rates at which tax is paid or income provided, are substantive, though likely would be made with some reference to measures of poverty. To be consistent with a limited welfare state, this minimum income level should not involve income redistribution but should be set at a level to alleviate poverty and provide a basic safety net. Friedman designed negative income tax as a simple theoretical model (Pérez and Fernández 2018), without any consideration of whether regional differences, in say housing costs, or arising from disabilities and family circumstances, should be taken into account.

## Conclusion

Despite talk of welfare state crises and of retrenchment, we are in a second ‘Golden Age’ of the welfare state. While successive UK and other governments have proposed programmes of welfare reform aimed at reducing the cost of welfare benefits, the UK’s benefits bill continues to grow

and is increasingly unsustainable. There are also moral questions about the current system, how it incentivises rent seeking, damages the physical and mental health of recipients, and traps some in poverty.

We need a paradigm shift in welfare state policy. Classical liberalism provides the vision for such a paradigm shift, towards a limited welfare state based on a negative income tax and a vibrant network of voluntary mutual aid associations. This chapter has set out how such an approach would be consistent with classical liberal principles. However, it also sets out why such reform would be far from easy.

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