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The Remaking of Economics: An Ethical Issue – Putting the Right Questions Today

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Abstract

There is an ethical basis which moves those who provide meaning and goals to the human endeavour. Adam Smith, as a professor of moral philosophy, was challenged (at the end of the 18th century) by the necessity to promote new systems and methods of activity to better fight poverty. In a period in which most were still looking at agriculture as the exclusive way to produce wealth, he perceived in the first and scattered examples of industrialisation, that this was the priority way to promote the Wealth of Nations. In fact he also provided the key references to found what is now called “Economics”. A discipline which is still based on a rationalisation process derived from the traditional (Western) industrial revolution. It is very significant to remind ourselves that even the successful measures promoted by John Maynard Keynes to face the economic crisis of 1929, were closely linked to a deep change in ethical values and attitudes: making debts was then considered a sin both at the individual and at the government level. Under certain conditions (the capacity to control inflation) such a sin became a virtue. The New Deal had started, as well as the mass consumption era of the economy (where unions could play a greater role).

Aurelio Peccei, co-Founder of the Club of Rome, was moved by the first imperative: to promote peace, avoid nuclear war, letting people and leaders to understand that we live in a more and more interdependent world. Linked to this, the great issues put forward by the first report to the Club of Rome on “The Limits to Growth” - the ecological issues and the management of resources (now referred to as the problem of sustainability), the population explosion, the world dimension of economic and social development. In the introduction to another report to the Club of Rome*, he wrote:

“Only by a comprehensive assessment of the ensemble of human needs and demands over a long period – well beyond our generations – will it be possible to ensure the intelligent combination, use and conservation of whatever resources are available.....this concurs with ethical principles whereby the Earth’s natural endowment, the 'common heritage of humankind', is held as something for which each generation is a trustee for those to come and only a pro tempore or income beneficiary.”

This should form the real nucleus of a real “new economics”. The most important point in this report is that a synthesis between economy and ecology is needed; that the two are not separable; that there cannot be wealth in an ecologically unsound world; and that the strategies for wealth production should be centred around this Earth endowment – called “Dowry and Patrimony”; and the whole question of value is refocused around two notions. Value is what humankind can and does produce – which means that value can also be negative and this is indeed the case when destruction is the outcome of human activity, however much it might add to the GNP – production can and does usually take place both inside the “monetarized” system (which is economic’s conventional, if not exclusive, field of enquiry), but as well outside it - the utilisation value, shifting the accent on life cycle of products and services, puts man in the centre of the picture – capital

requirements of the future will be immense, but it is human capital which must first be formed – capital per se is nothing more than a tool to mobilize human action and is productively usable only in so far as it helps to organize human endeavor better....”

* “Dialogue on Wealth and Welfare”, a Report to the Club of Rome, by Orio Giarini, Pergamon Press, Oxford, 1980

Following these premises, there are a number of consequences, partly analyzed in other reports to the Club of Rome ** :

- Conventional “Economics” today, in its macro-economic dimensions, is based on an historical period where the process of industrialization was clearly the quantitative and qualitative priority.
- In this old perspective, for instance, the economic activity is subdivided in three sectors : agriculture, industry and services. But, today, service functions represent about 80% of all economic activity (in particular WITHIN the “manufacturing” industry: R&D, planning, control, storage, distribution, financing, maintenance, waste management, etc.). Good manufacturing depends on first class services; and the two are part of the same “production” process (the one does not exist without the other).
- In this context the notion of productivity must be revised
- The notion of value itself depends on a chain of “production” which starts with R&D (well before any “manufacturing” begins and depends on the ability to manage a portfolio of research possibilities – hence is essentially a form of risk management); manufacturing itself is based on a majority of service functions: distribution, storage, financing, “communications”, etc.; then the product and related services go through a period of utilization (which is the real value-added) based on two key uncertainties: the length of time of utilization, the costs of repairs, accidents and maintenance; at the end, the costs of wastes disposal (with a part – only – of recycling). All this is a process based on variable periods of time, where the notions of uncertainty and risk management are fundamental.
- The traditional notion of value is based on the costs (remuneration) of the factors of (industrial) production: the prize is given in a moment in time, and is assumed as a theoretical basis for systems which aim at defining certainty. Incomplete information of various kinds is referred to as the reason why in practice, there are always margins which make not possible to achieve a “perfect” system. Some economists still believe that with time “scientific” advance will reduce this “incomplete” information. In reality things go the other way because value, real value, has to consider longer and longer periods of time, and anything in the future (especially in the long term) is uncertain. Therefore the notion of value is at the center of the “ management process “ in the modern economy: the game consists in reducing and controlling various level of uncertainty. An interesting reference are the operations of the insurance companies (producing policies): more and more “industries” operate today on similar premises. All this has to do with some (often hidden) forms of philosophy.
- There are many other reasons to examine more closely the real content of the notion of value: an increase of waste and various forms of destruction are today indicative of “value added”. Does it make sense? Quite reasonably the beginning of economics has to do with the fight against scarcity: the point is that today many things which are originally not scarce (freely available, at no cost) sometimes become scarce and therefore acquire value..... It is fundamental for future economists to monitor the crossing of this frontier between free goods and services and scarce ones. This frontier might also be crossed in the other way: technology might in some case become so efficient to make some products-services totally

free. The free “productive” activities (non-remunerated work in particular) require to be acknowledged as part of the creation of the Wealth of Nations.

- It is fundamental today to seriously ask again the old question investigated by Adam Smith (and other “classical economists and philosophers such as John Stuart Mill): What is the Wealth of Nations and how is it produced? The great debate is on “value” and “values”. Any specific (often deterministic) definition of value creates discrimination, disequilibria and imbalances and even “economic” inefficiencies: a case in point is the role of monetarized and monetized “value” in the recent financial (“subprime”) crisis, lacking credible indicators on the increasing vulnerability (cost) of the system. Hence the importance of rebuilding economics around a set of meaningful indicators defining the Wealth of Nations. Sociology and other disciplines should positively inter-react here with “economists”.
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** “The Limits to Certainty: Facing Risks in the New Service Economy”, by Orio Giarini and Walter Stahel, Kluwer Publishers, Dordrecht – Boston, 1993; “The Employment Dilemma and the Future of Work” by Orio Giarini and Patrick Liedtke, The Geneva Association, Geneva, 2006